

HIGH-LEVEL SEMINAR ON LABOUR MARKET EXPERIENCES

TOWARDS MORE EFFICIENT LABOUR MARKETS

Madrid, 11 May, 2010

SESSION III
LABOUR MARKET POLICIES

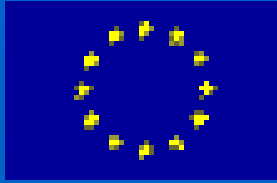
A COUPLE OF COMMENTS



Karl Pichelmann

**Economic
and Financial Affairs**

DIRECTORATE • GENERAL

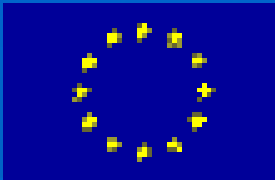


Tales of adjustment

- Deviations from Okun's law
- Employment smoothing – "labour hoarding"
- Different adjustment patterns across countries
- Unexplained heterogeneity

Policy responses and the way forward

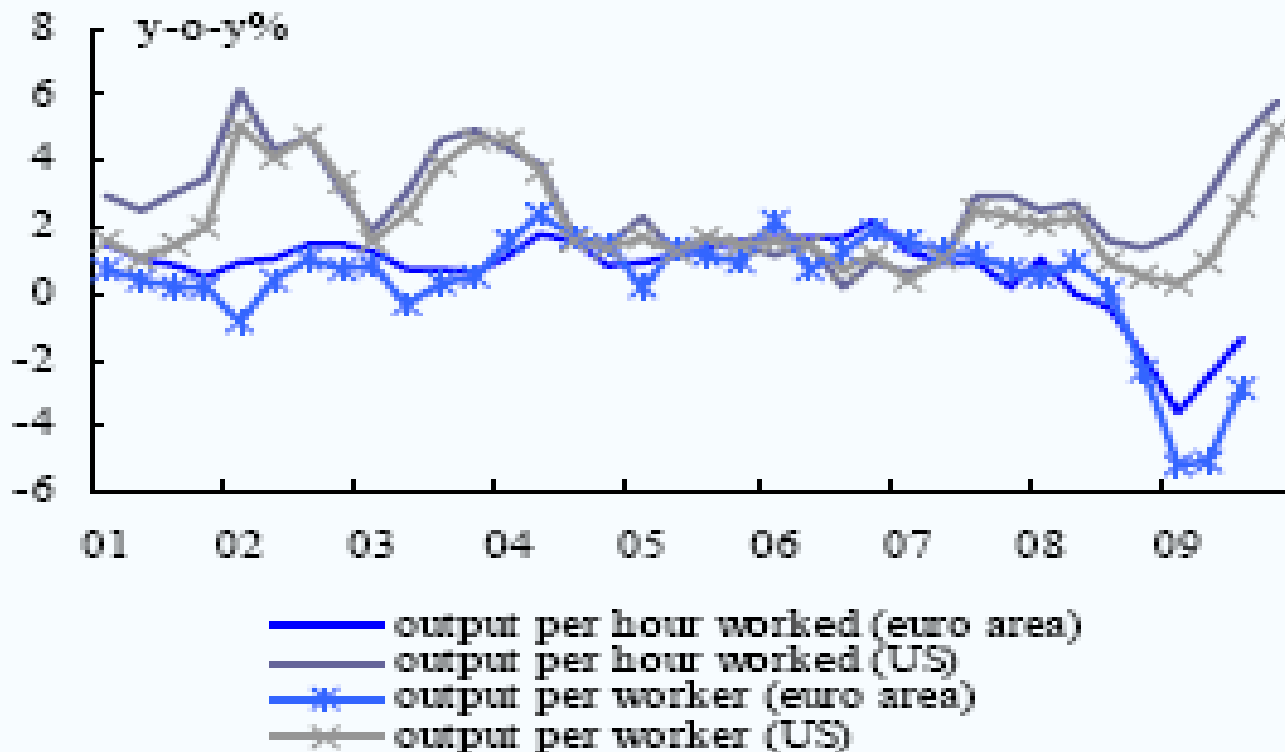
- A jobless recovery ahead of us?
- Exiting from temporary support measures
- Hysteresis and potential output growth



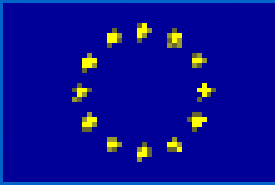
Tales of adjustment



Graph 1: Labour productivity in the euro area and the US (excl. GR, ES, LU, ML, SI)



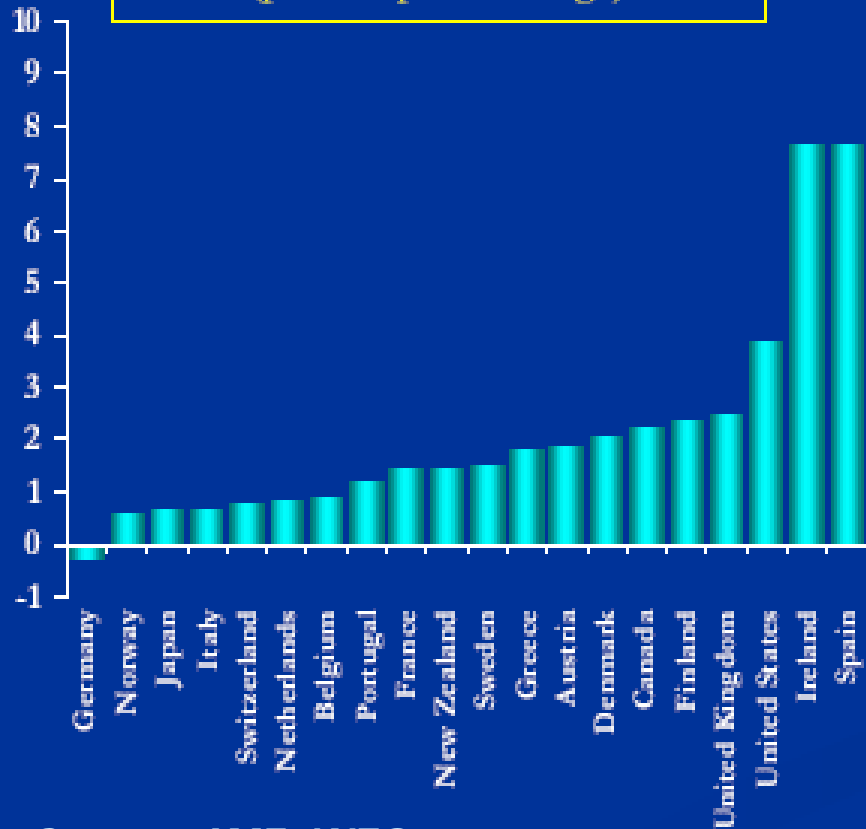
Source: Commission services



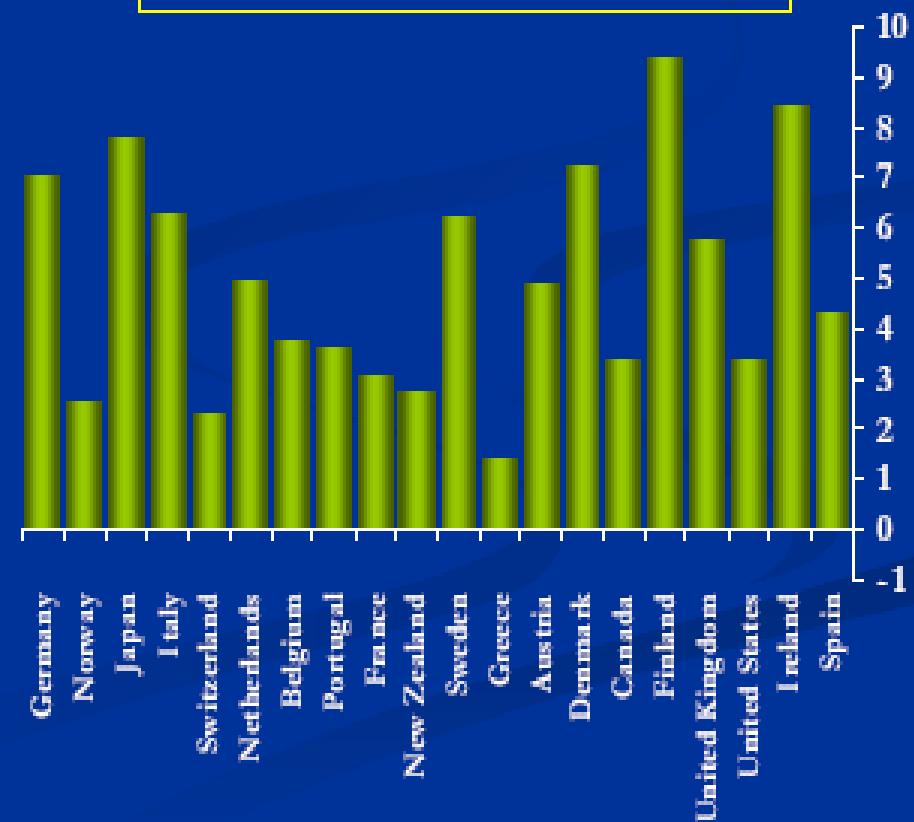
Differing unemployment response patterns



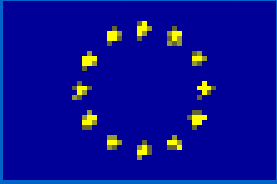
Peak-to-Trough Change in Unemployment Rate (percent point change)



Peak-to-Trough Decline in Output (percent, absolute value)



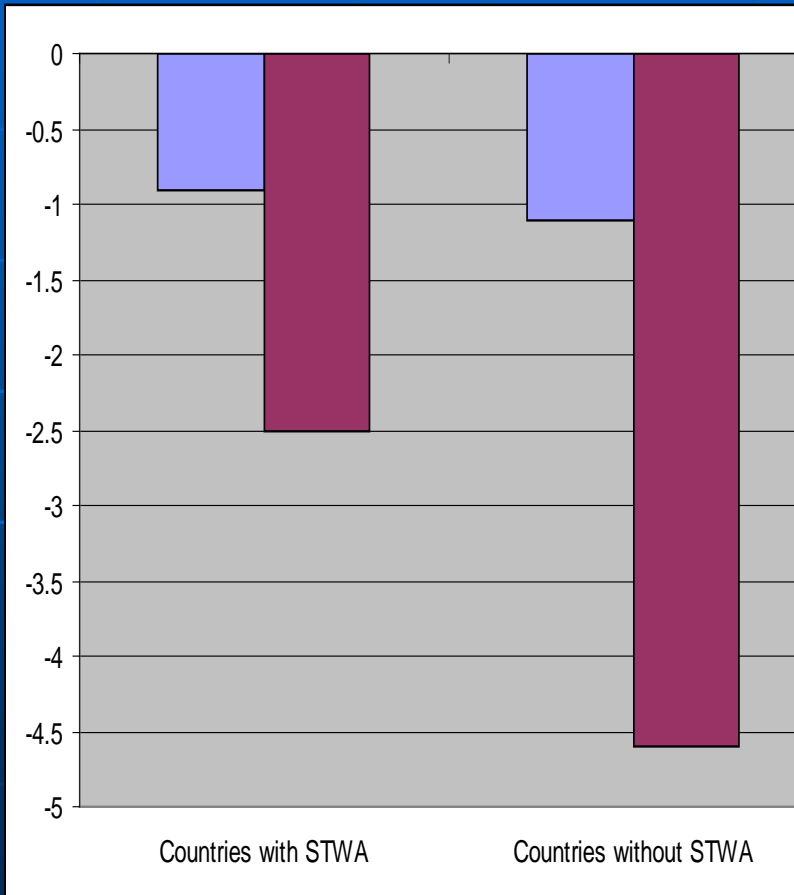
Source: IMF, WEO



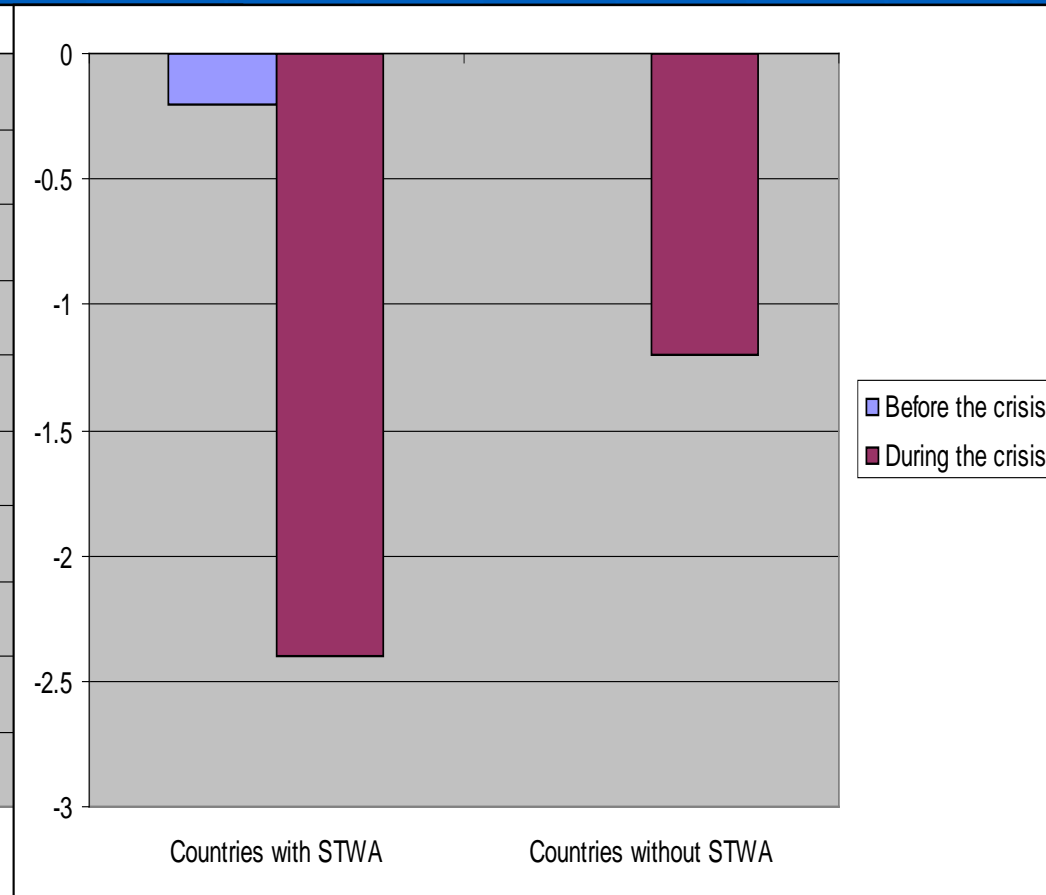
Decomposing the change in labour input

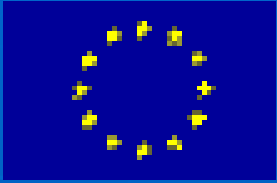


Headcount employment

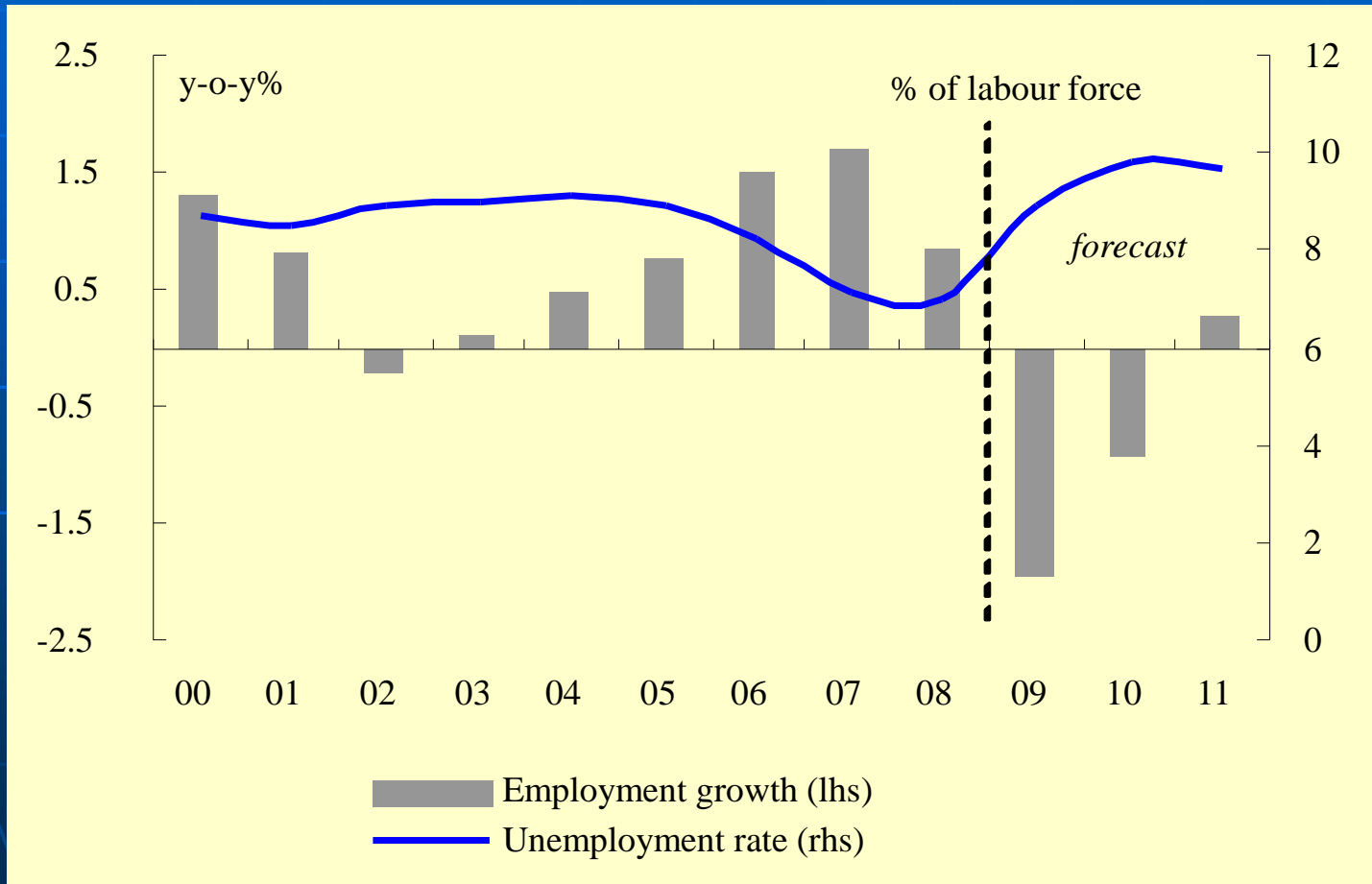


Hours worked

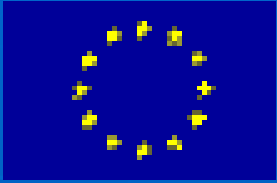




Risks of a jobless recovery



Source: Commission services



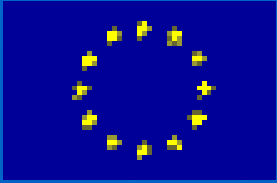
Labour market policy challenges



Strengthening flexicurity in difficult times
Exiting from temporary support measures
Limiting hysteresis effects

How to

- invest in LM institutions at low fiscal costs?
- avoid permafrost in labour market segments?
- link to education systems and skill formation?
- *rebalance intra-euro area competitive positions??*

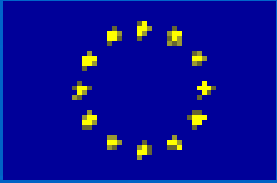


Limiting hysteresis effects



Transmission mechanisms

- Insider-outsider wage setting
- Long-term unemployment
- Interaction with LM dualism

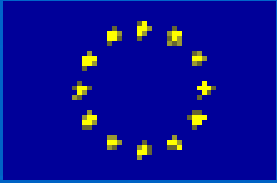


Output gaps and potential growth in the euro area



	Output Gaps (Production Function)		Potential Growth	Contributions to Potential Growth			NAWRU
	Total Gap	Employment Gap		Labour (Hours)	Capital	TFP	
2007	2.5	1.1	1.5	0.3	0.8	0.4	8.4
2008	1.8	1.3	1.3	0.2	0.8	0.4	8.5
2009	-3.1	-0.9	0.8	-0.1	0.5	0.4	8.8
2010	-3.1	-1.5	0.8	-0.1	0.4	0.5	9.0
2011	-2.6	-1.5	1.0	0.0	0.4	0.6	9.2

Source: Commission services



Limiting hysteresis effects

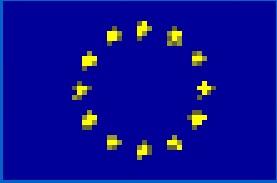


Transmission mechanisms

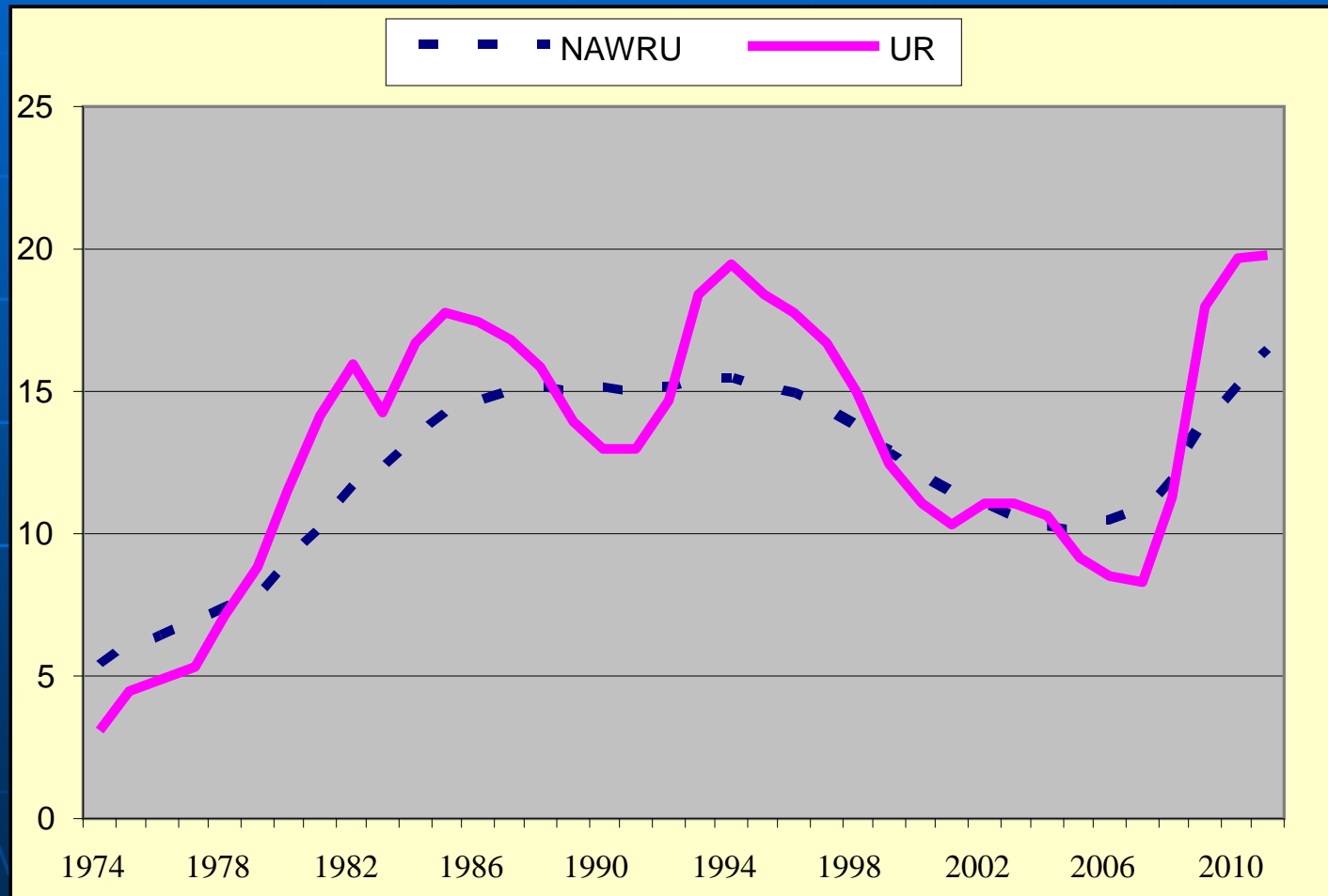
- Insider-outsider wage setting
- Long-term unemployment
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The Spanish case

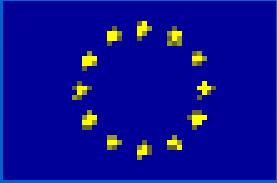
- IMF-paper: no path dependency by design
- OECD-paper: high vulnerability
- Commission: significant persistence



The risk of hysteresis Spain



Source: Commission services



*Thank you very
much for your
attention*