

The Political Economy of Labor Market Policy Reform: Challenges for Adjustment in the United States and Europe

By

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Labour Activation in a Time of High Unemployment

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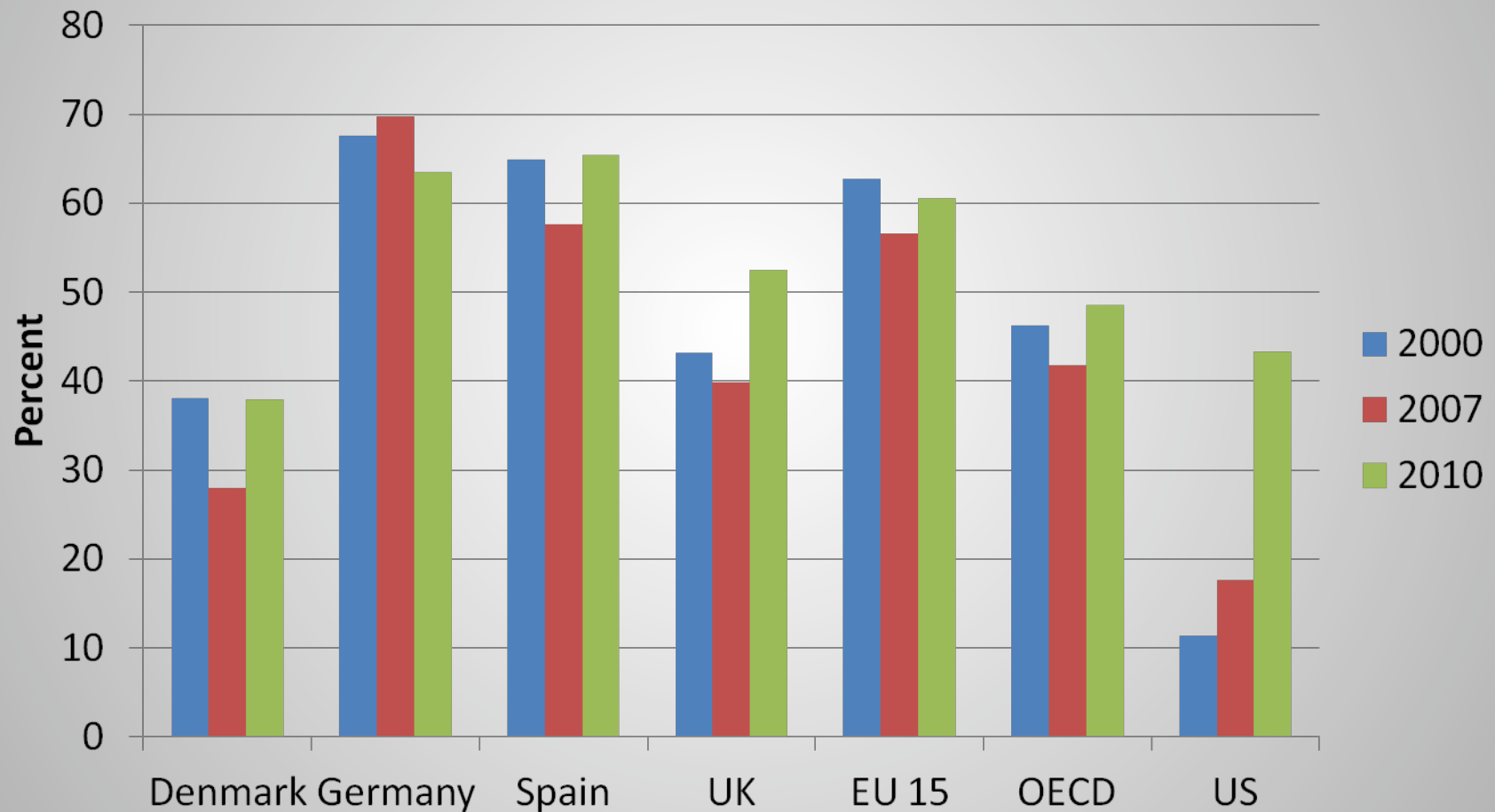
The Western Economies went off a cliff in Great Recession



What did we see?

- Unemployment surged to record levels
- It is not all business cycle though-employment growth is anemic and
- Number of long term unemployed has become acute
- Insider-Outsider concerns grow even for those employed as jobs in primary sector shrink and temps and contractors growing
- Labor Supply can be influenced by domestic programs and institutions

Long term Unemployment



Share of unemployed 6 months or longer
OECD Statistics

	United States	Germany	Spain	Ireland	OECD avg.
Share of Temporary Employment 2010	8.5 % (2005)	59.8 %	58.7 %	30.1 %	26.4 %
Percent Unemployed 6 months or more in 2010	43%	63%	65%	69%	49%
Labor productivity growth 2009	3.0%	-2.3	-2.5	3.9%	0.1%
Average Annual Hours Worked 2007	1798	1430	1636	1634	1773
Inequality 90/10 ratio in 2007	4.85	3.34	3.28	3.92	n/a

Sources: OECD.StatsExtract: Decile ratios of gross earnings; Unemployment by duration; Annual hours worked per worker; Incidence of permanent employment; Labor productivity growth in total economy

So What Do We Do Now?



	United States	Germany	Denmark	Spain	Ireland	France	OECD avg.
Share of GDP spent on public old age pensions 2007	5.3 %	8.6 %	5.6%	6.1 %	2.8 %	10.7%	6.0 %
Government health expenditures as a share of GDP 2007	7.2 %	7.8%	6.5%	6.1 %	5.8%	7.5%	5.8%
Active Labor Market Program Expenditures /GDP 2007	0.1 %	0.7%	0.3%	0.7 %	0.6 %	0.9%	0.5 %
Central Government debt/GDP 2010	61.3 %	44.4%	39.6%	51.7 %	60.7 %	67.4%	n/a

Sources: OECD.StatsExtract:
Public expenditures on old-age cash benefits as % of GDP; Public and Private Social Expenditures by country; Total Central Government Debt (%GDP)

Lessons Learned

- No substitute for economic growth and US needs to think more about before tax outcomes
- Be wary of unintended consequences- labor market segmentation (two tier labor contracts)
- Promoting short-time hours can be helpful during a downturn (Germany)
- Enhancing training and job search requirement for non-employed- consider tying benefits to intensity of effort
- Reform Employment Service to give municipal control and link funding to outcomes not the provision of services. Structure rewards to minimize cream skimming
- Disability Reform requires thinking of employer and worker incentives embedded in program