

## CHAPTER 2

# DETERMINANTS OF UNEMPLOYMENT IN WESTERN EUROPE AND POSSIBLE POLICY RESPONSES

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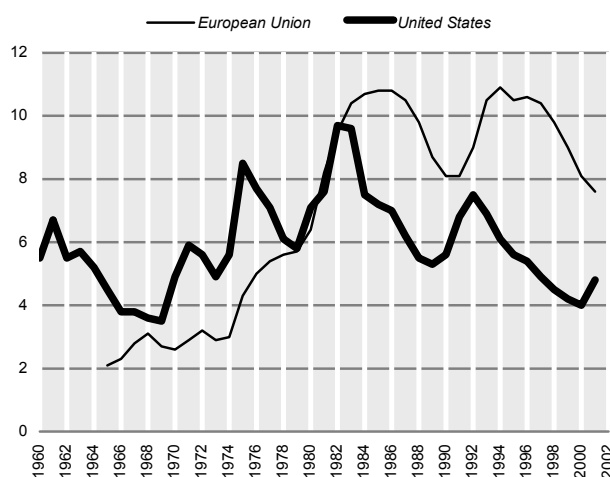
### 2.1 Introduction

There can be no doubt that the experience of persistent mass unemployment in much of western Europe (and in some countries outside Europe) since the mid-1970s has been one of the most conspicuous and costly failures of macroeconomic management in the postwar era. It has been at root a failure of economic understanding, in that the problem had not been foreseen and could not be solved by the policies suggested by the then prevailing (neo-Keynesian) orthodoxy. Subsequently the amount of economic analysis of this problem has been absolutely enormous, in part because of the linked need to reorientate macroeconomic policy, so that for much of the period policies were introduced in something of a theoretical vacuum. More recently, though, more of a consensus has developed around the idea that sustainable low unemployment can be achieved only through a well-functioning labour market, though this of course leaves room for debate over the types of policy which might work best.

This paper first summarizes the key facts, both of unemployment in western Europe relative to the rest of the developed world, and of the different experiences of individual European countries. It then outlines the main explanations which have been offered, and attempts, with the benefit of hindsight, to evaluate their relative importance. It then proceeds to a brief examination of the various policies attempted by governments, and of the literature evaluating their impact and efficacy. Of course, the literature on all these subjects is vast and this account is necessarily selective. Rather than attempt to cover everything, the paper endeavours to look at some key issues and offer some new interpretations in particular of the relationship between unemployment and labour market participation. The paper concludes by linking together these various strands, in an attempt to relate the major causes of persistent unemployment to policy recommendations.

CHART 2.2.1

Standardized unemployment rates in the European Union and United States, 1960-2002  
(Per cent)

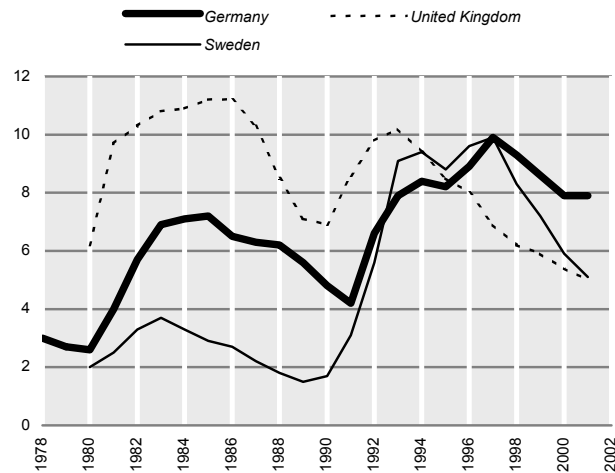


Source: OECD, *Economic Outlook 1990* and *Employment Outlook* (various issues) (Paris); author's calculations.

Note: For 1965-1988 the European Union consists of Belgium, France, Germany, Italy, Netherlands, Portugal, Spain and the United Kingdom only.

CHART 2.2.2

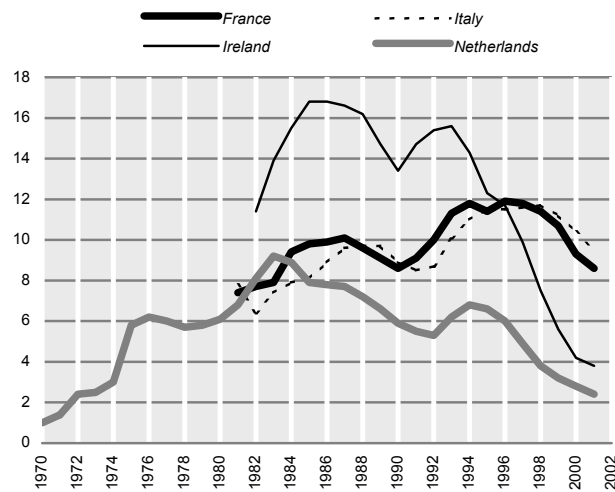
Standardized unemployment rates in Germany, Sweden and the United Kingdom, 1978-2002  
(Per cent)



Source: As for chart 2.2.1.

CHART 2.2.3

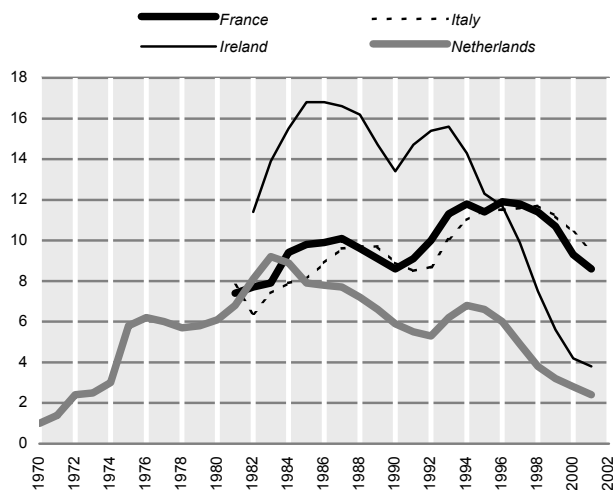
Standardized unemployment rates in France, Ireland, Italy and the Netherlands, 1970-2002  
(Per cent)



Source: As for chart 2.2.1.

CHART 2.2.3

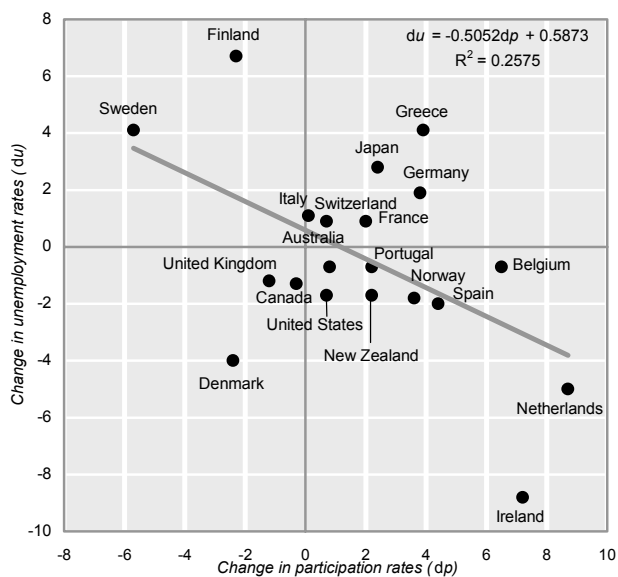
Standardized unemployment rates in France, Ireland, Italy and the Netherlands, 1970-2002  
(Per cent)



Source: As for chart 2.2.1.

CHART 2.2.5

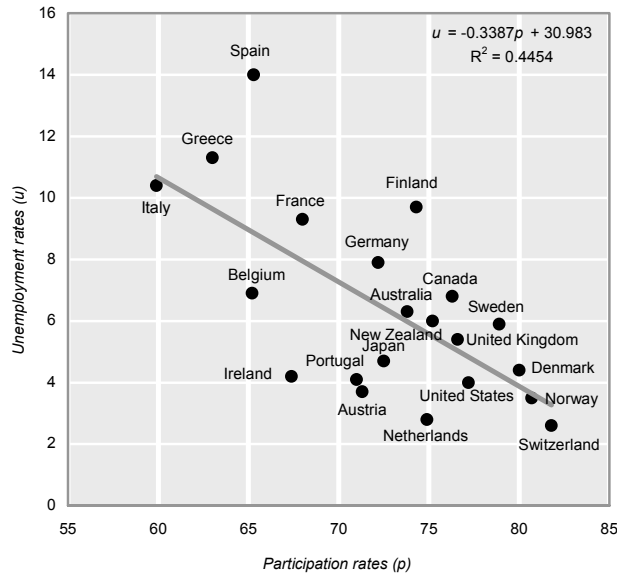
Unemployment versus participation rates across OECD economies, 1990-2000  
(Percentage points)



Source: As for chart 2.2.4.

CHART 2.2.4

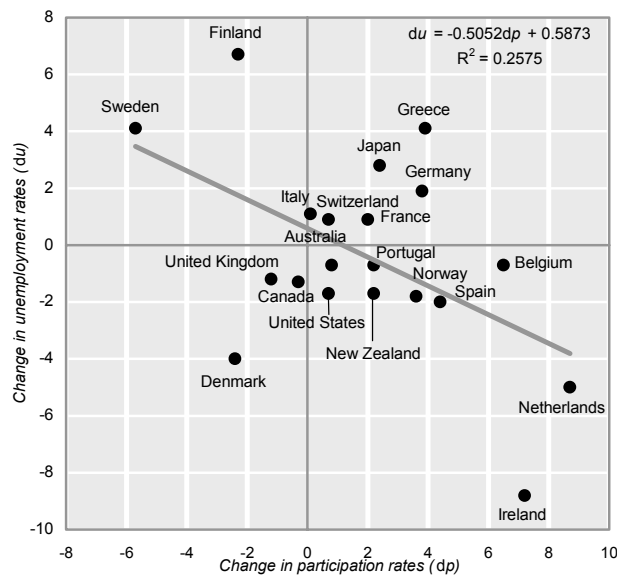
Unemployment versus participation rates across OECD economies in 2000  
(Per cent)



Source: OECD, *Employment Outlook 2001* (Paris).

CHART 2.2.5

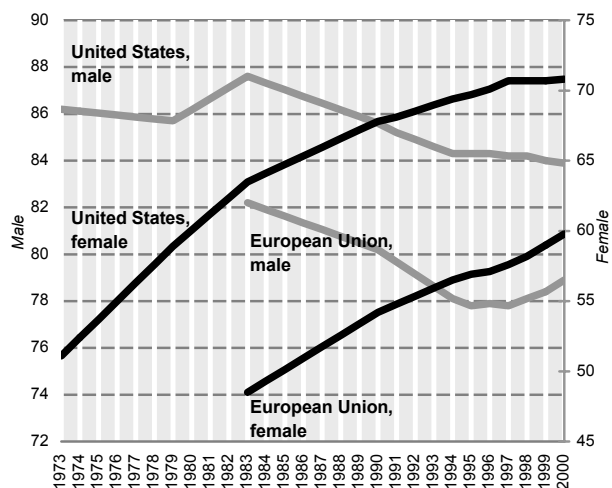
Unemployment versus participation rates across OECD economies, 1990-2000  
(Percentage points)



Source: As for chart 2.2.4.

CHART 2.3.1

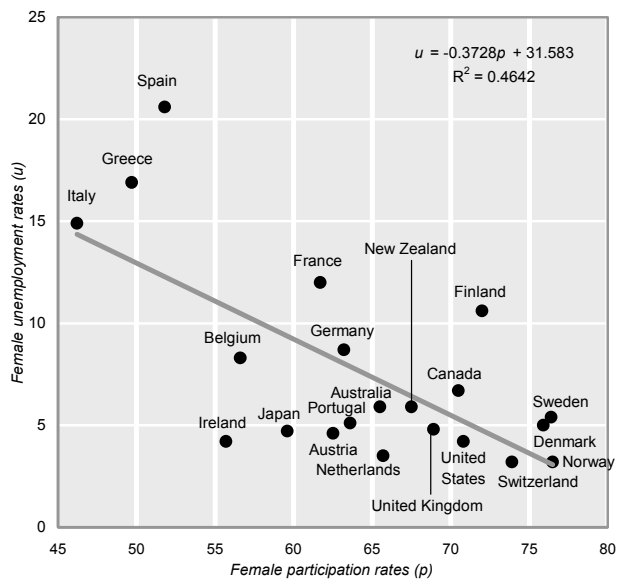
Labour force participation rates in the United States and the European Union, 1973-2000  
(Per cent)



Source: OECD, *Employment Outlook 1992, 1999-2001* (Paris).  
Note: Partly interpolated.

CHART 2.3.2

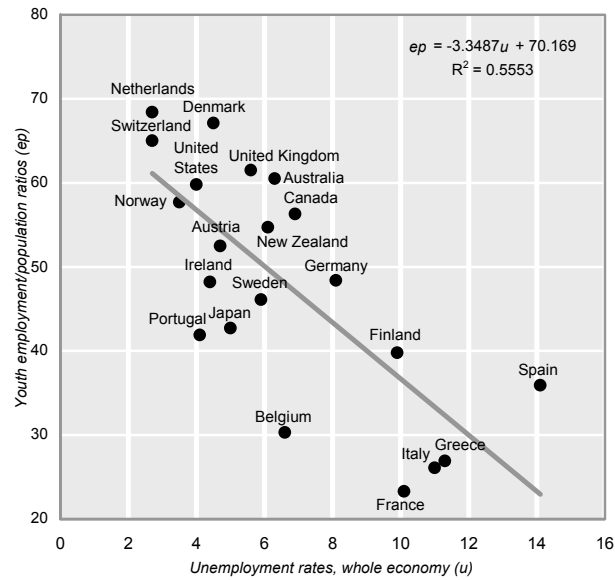
Female unemployment versus participation in 2000  
(Per cent)



Source: As for chart 2.2.4.

CHART 2.3.3

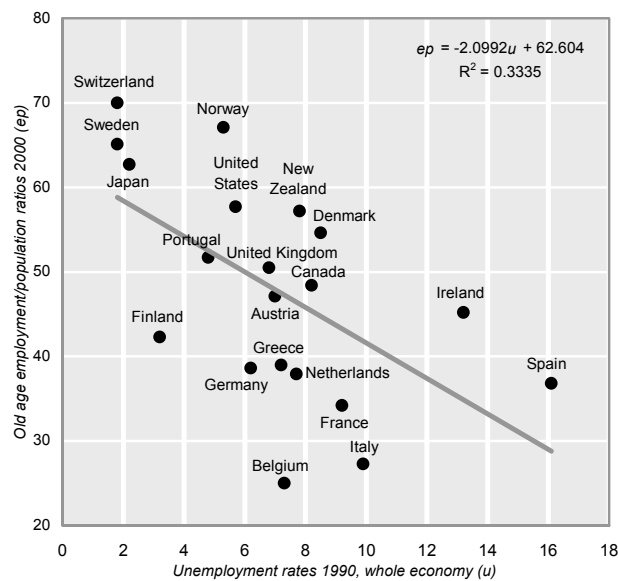
Employment/population ratios versus unemployment rates for youth aged 15-24 in 2000  
(Per cent)



Source: As for chart 2.2.4.

CHART 2.3.4

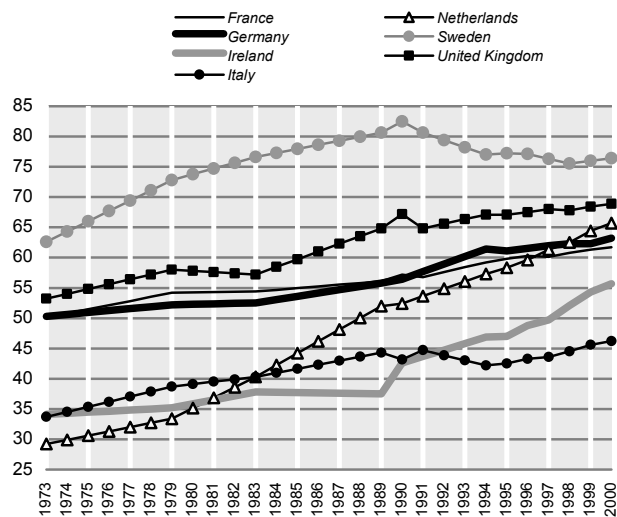
Employment/population ratios 2000 versus unemployment rates 1990 for older persons aged 55-64  
(Per cent)



Source: As for chart 2.2.4.

CHART 2.3.5

Female labour force participation rates, 1973-2000  
(Per cent)



Source: As for chart 2.3.1.

Note: Partly interpolated.

## DISCUSSANTS' COMMENTS

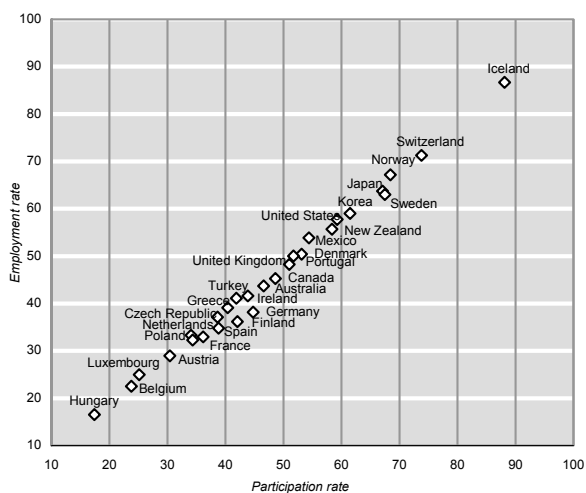
2.A Jørgen Elmeskov<sup>103</sup>

and

2.B Juan F. Jimeno

CHART 2.A.1

Employment and participation rates for older male workers, 1998  
(Per cent)



Source: OECD.

<sup>103</sup> These comments represent the view of the author and are not necessarily shared by the OECD or its member governments.