

(IX) The U.S. and European Labor Markets

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Stylized Facts

1. Lazy Europe vs. Workaholic US
 - See page 1 in the handout
2. Rising Wage Inequality in the US (1980s & 1990s; then, polarization)
 - See pages 2-3 in the handout
3. Euroclerosis and beyond
 - See pages 4-6 in the handout

1. Are Europeans Lazy or Americans Crazy?

- Gordon (2004), Blanchard (2004)
- Average hours worked have fallen sharply in Europe: lower participation, higher unemployment, shorter working weeks and longer holidays
- Possible explanations:
 - **Preferences** (for leisure)
 - **Institutions**
- But (1): US productivity could be lower because of statistical effect (↑ participation)
- But (2): US GDP could be higher because of climate, crime, geography

2. Rising Wage Earnings Inequality in the US

- Autor et al. (2006, 2008), Katz and Autor (1999), Goldin and Katz (2001), Autor and Dorn (2008)
- Possible explanations:
 - **Supply shifts** (e.g., immigration)
 - **International trade**
 - **Skill-biased technical change**
 - **Institutions** (e.g., unions & minimum wage)
- Empirical studies: big role of skill-biased technical progress, but no single explanation
- Recent trend: **polarization** (↑ wage both at bottom & top)
 - Automation displaces routine clerical and production tasks, favoring both high-skill workers & low-skill service jobs (food, security, cleaning, gardening, home health, etc.)

3. Euroclerosis and Beyond

- Nickell (1997, 2008), Blanchard and Wolfers (2000), Boeri and Garibaldi (2009)
- **Euroclerosis** as other side of the coin with respect to US wage inequality
- Interaction between shocks and institutions:
 - Shocks cannot explain cross-country variation
 - Institutions cannot explain time variation
- Interaction: institutions hamper (wage) adjustment mechanism after shock. **Hysteresis** of unemployment:
 - Institutions favor insiders and their bargaining power
 - Institutions increase unemployment duration and produce discouraged workers

Eurosclerosis and Beyond (contd.)

- But: mass unemployment and long-term unemployment significantly reduced in the last decade
- This was not due to aging or immigration
- Explanations: **labor market reforms**
 - Reduction in EPL
 - Reduction in UB generosity
- New problems:
 - Labor market **segmentation**
 - Growthless job creation