

Centre of Full Employment and Equity

The myth of employment enhancing flexible labour markets

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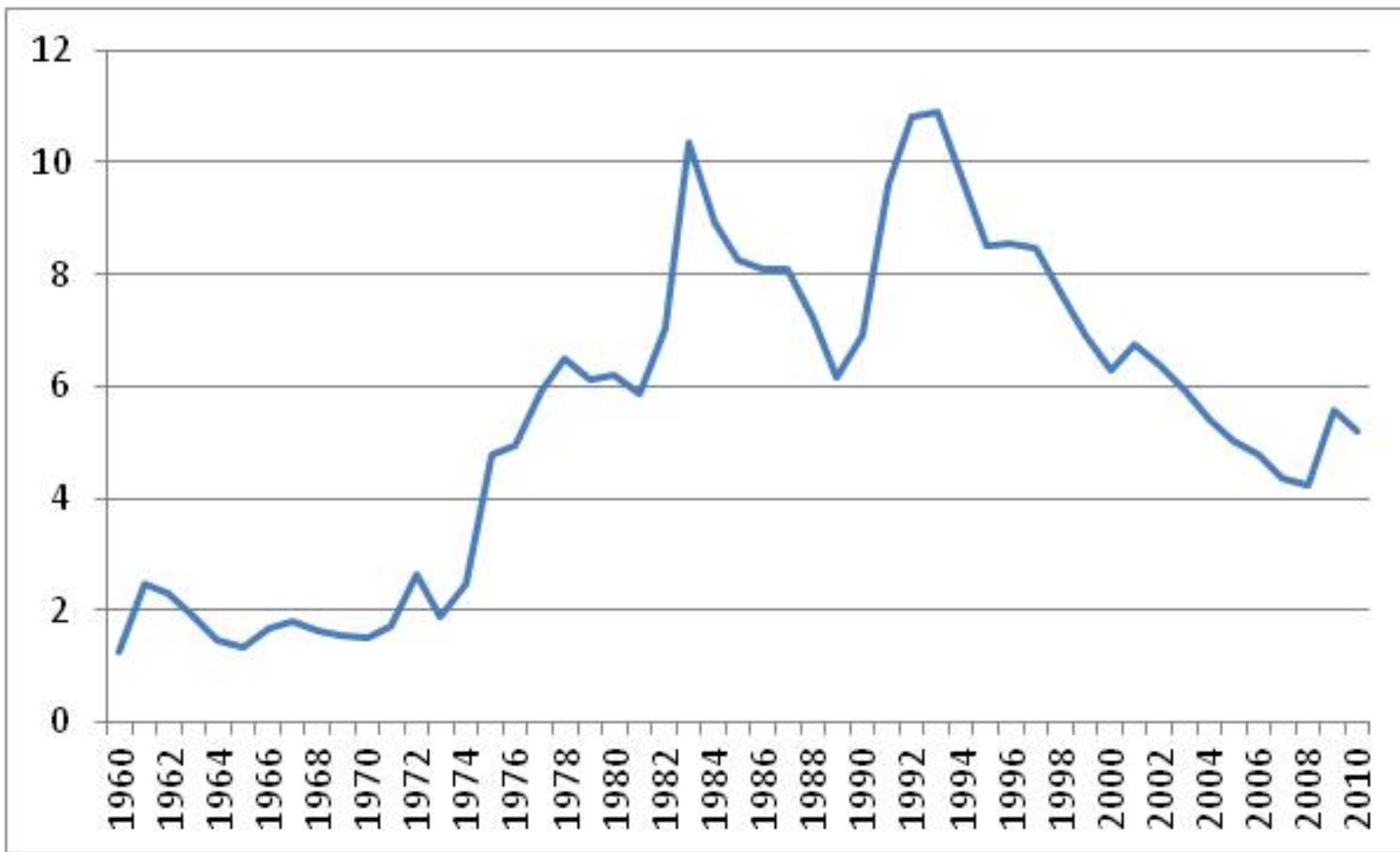
Structure presentation

- Observations
 - changes nature of labour markets in Australia and the Netherlands
 - both small open economies
 - strong reforms on the labour market
- Theories
 - firm behaviour during recessions
 - macroeconomic impact of (excessive) wage moderation

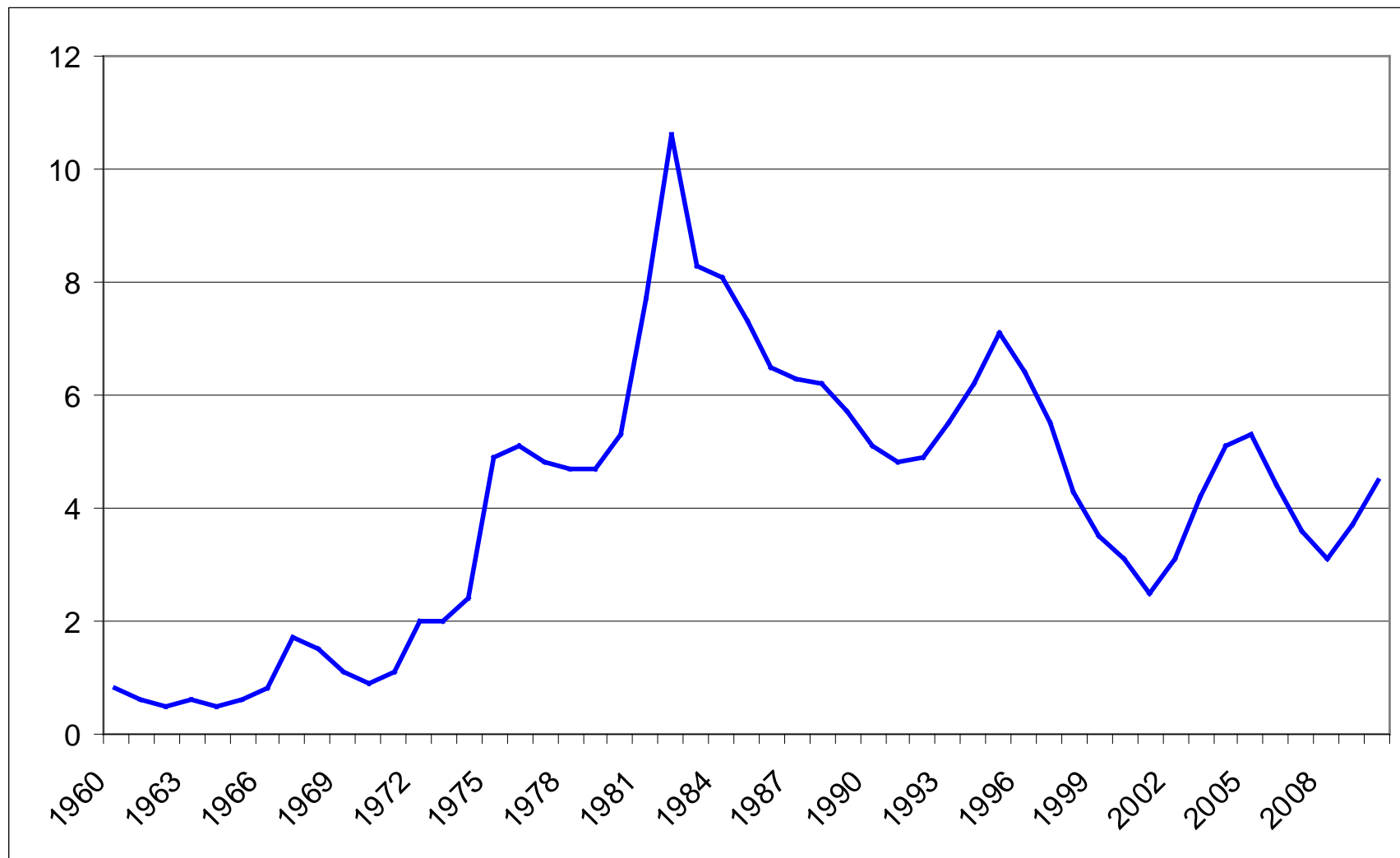
Background

- The Phillips-curve relationship presumes wage increases in tight labour markets
- Last decade(s) low unemployment and low inflation
 - Wage share is falling consistently in AUS and NL
 - But labour market is tightening

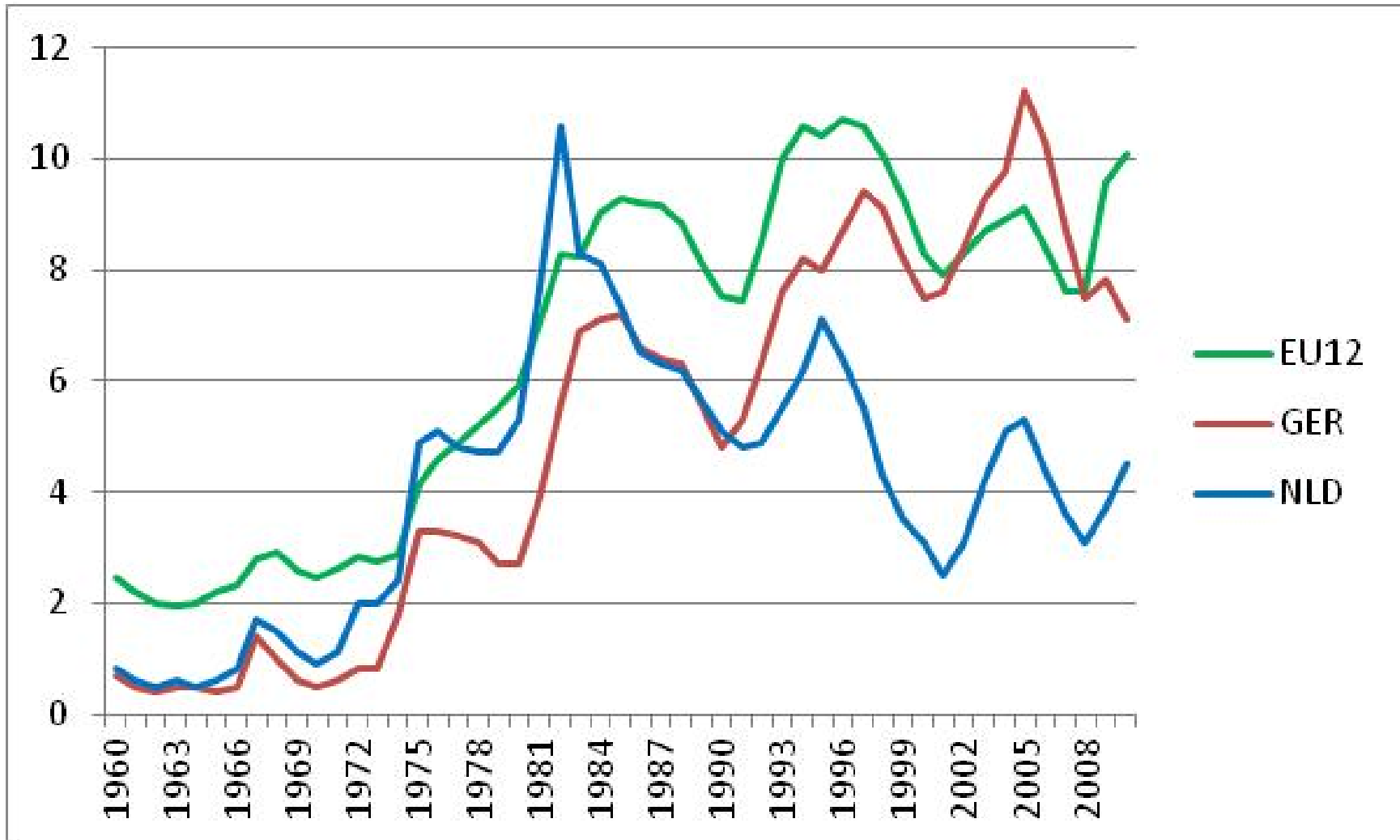
Unemployment, Australia, 1960-2010



Unemployment, The Netherland, 1960-2010

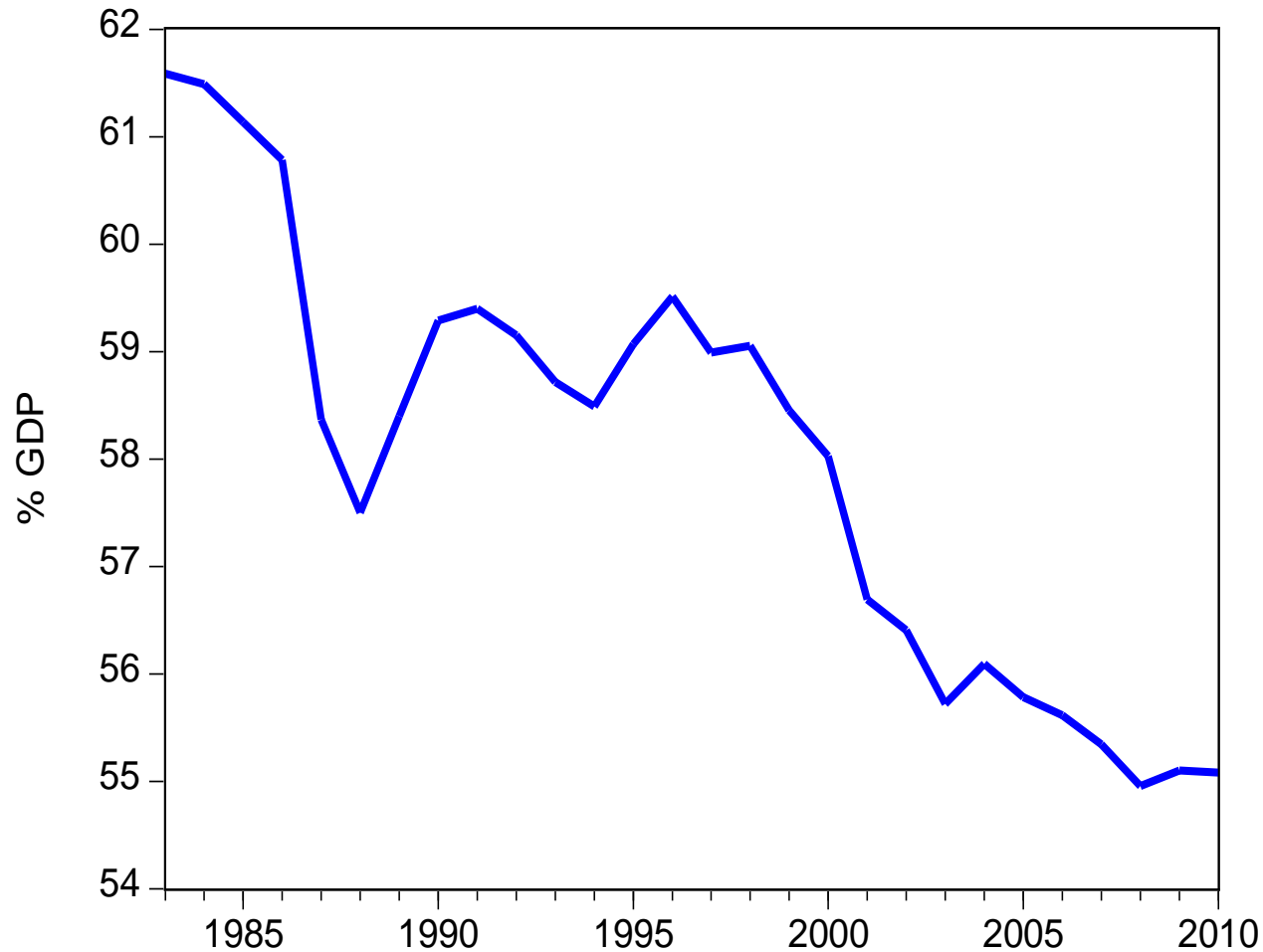


Unemployment, EU, 1960-2010

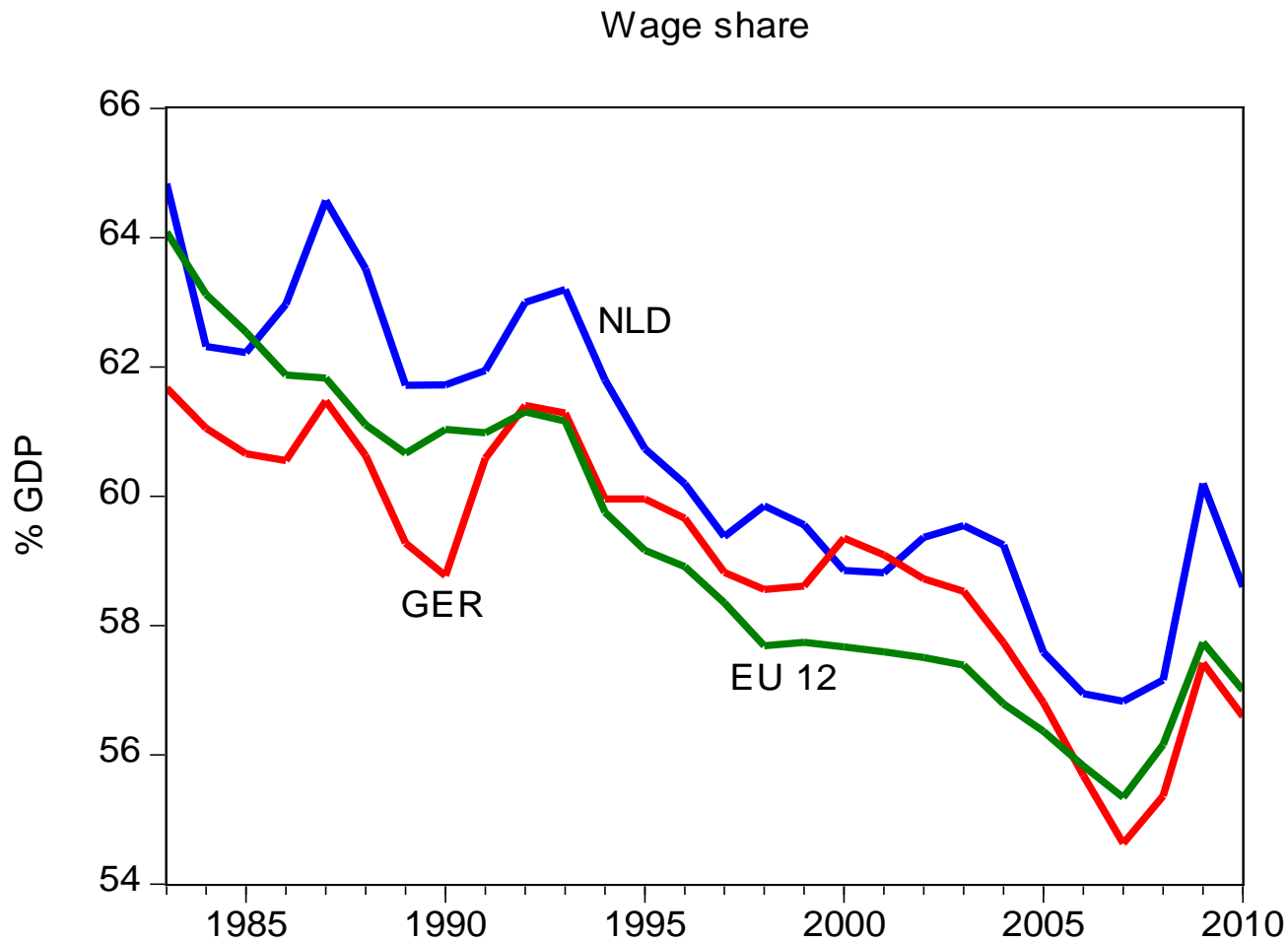


Wage share in GDP, AU, 1983-2010

Wage share, Australia



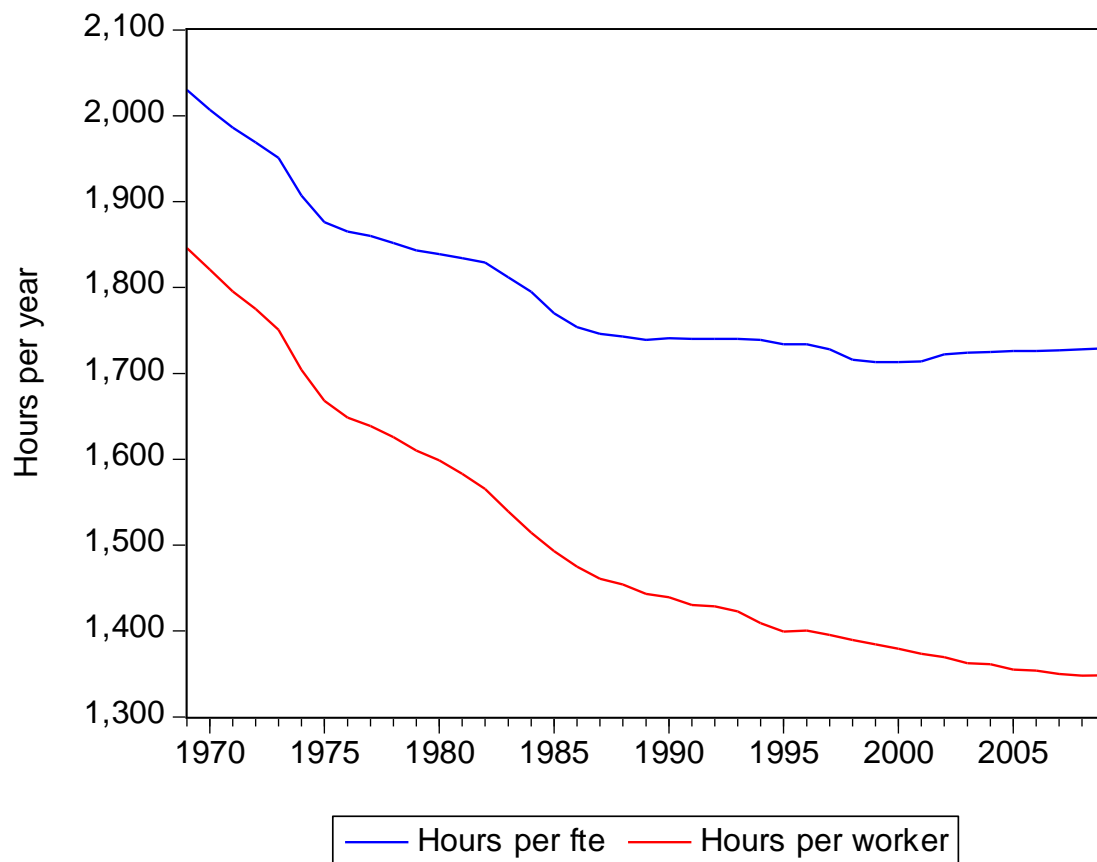
Wage share in GDP, EU, 1983-2010



Trends in the Netherlands, 1969-2009

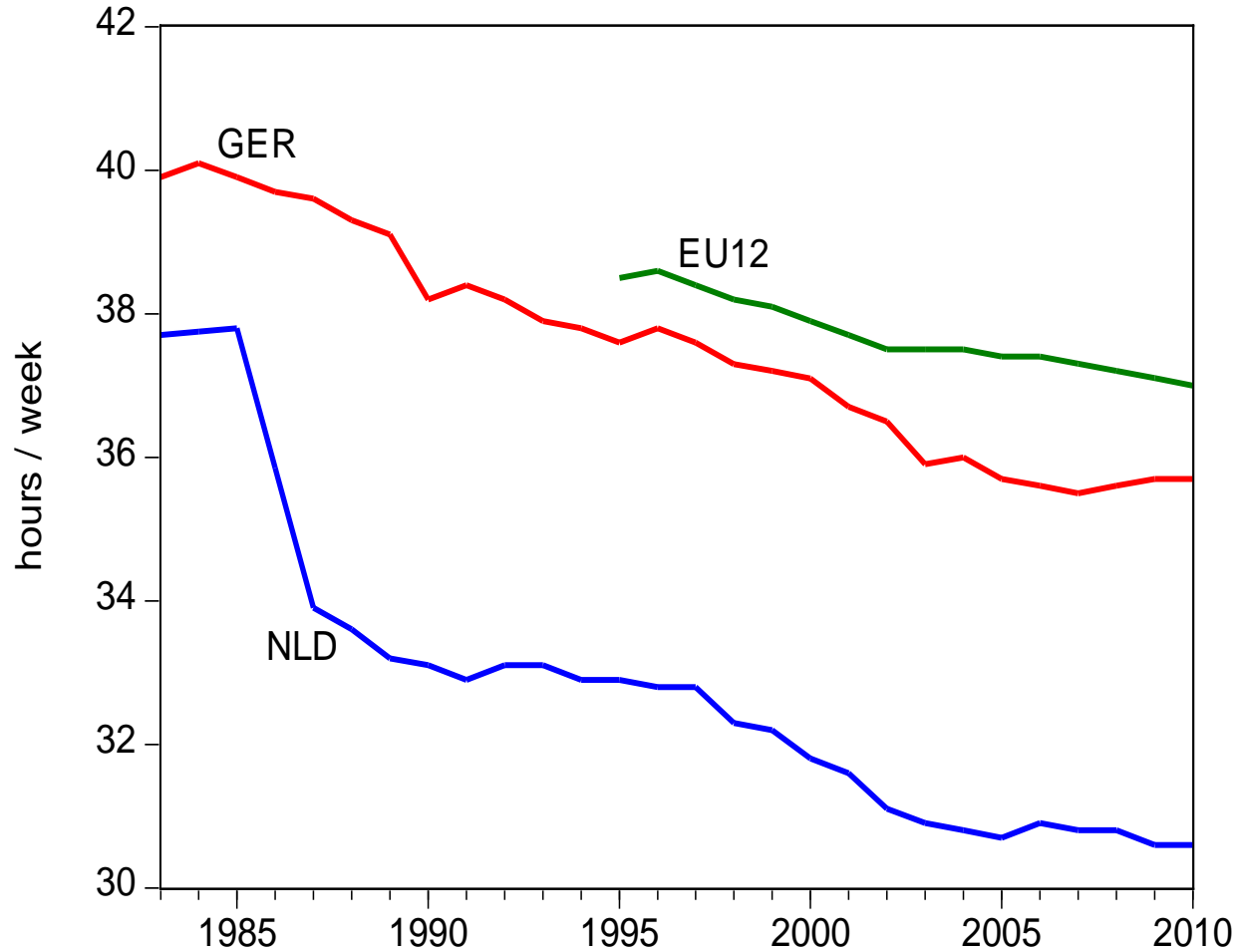
- Decline in hours worked per person overall and for FT employment.
- PT employment has risen consistently
- Increasing underemployment
- During recessions in 1981, 1993 and 2001
 - switch from FT work to PT work
 - persistent increase in underemployment

Average hours worked per person and per full-time job, NL, 1969-2009

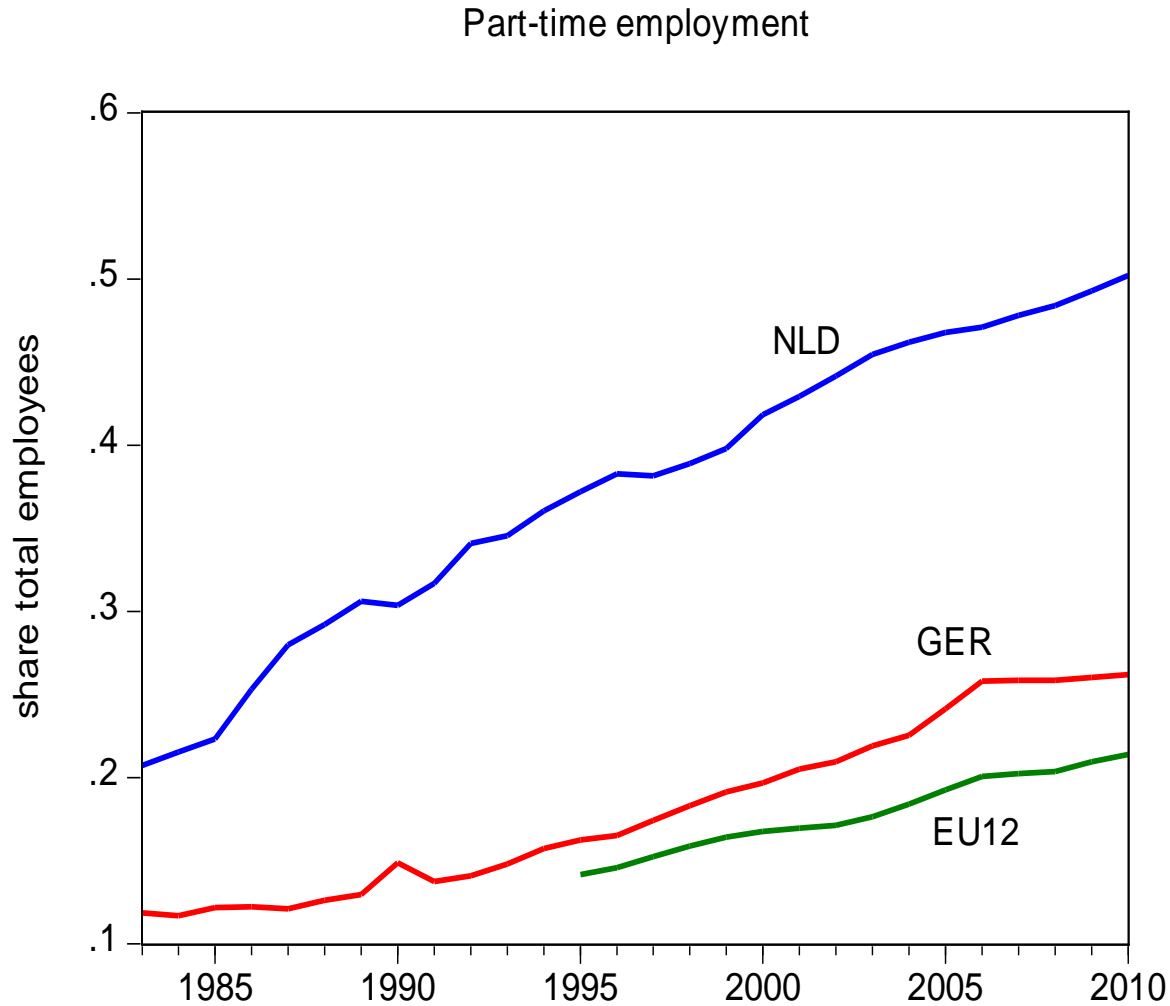


Hours worked per person, 1969-2010

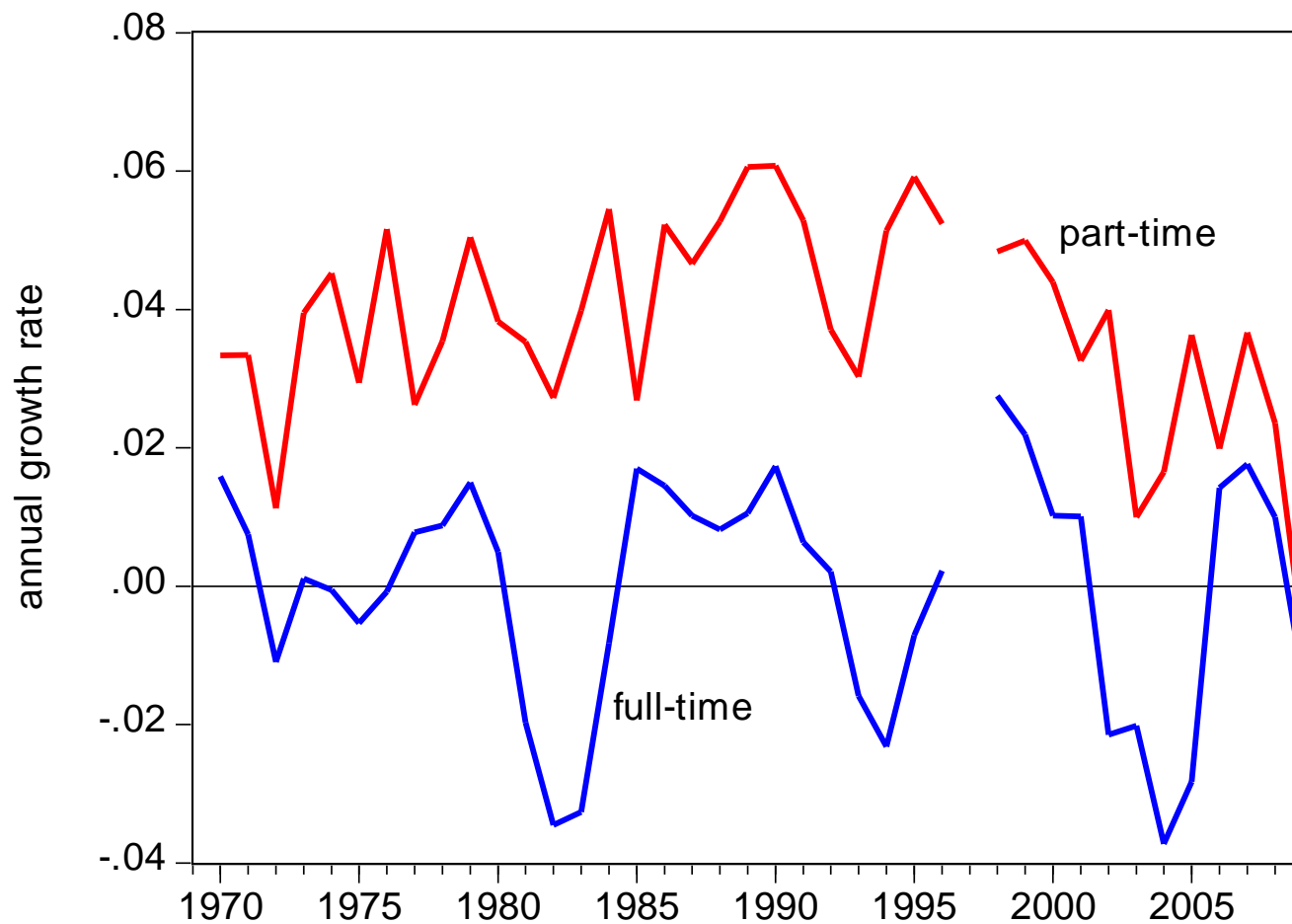
Average hours worked (main job)



Part-time employment, 1983-2010

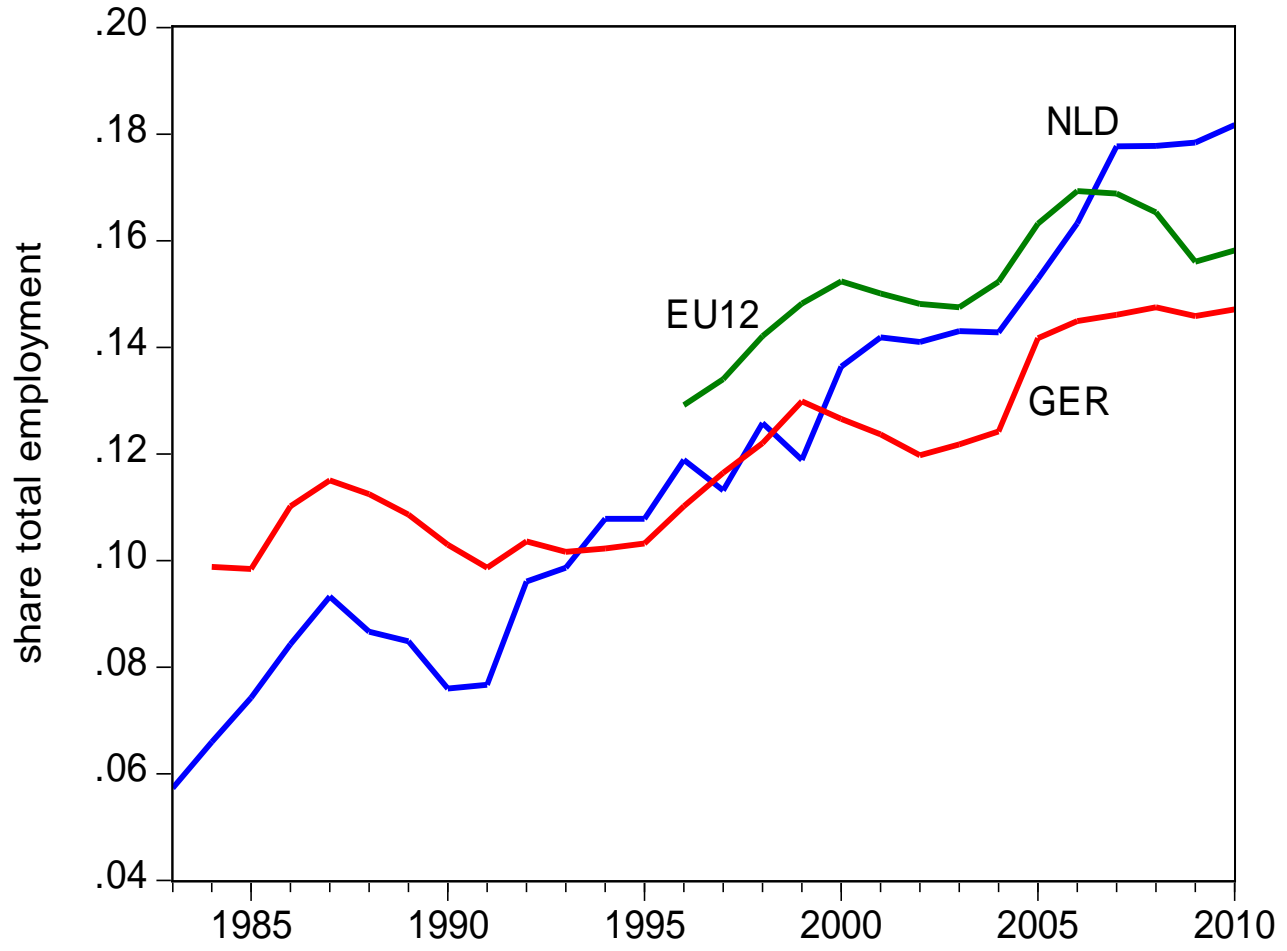


Full-time and part-time employment growth, NL, 1969-2009

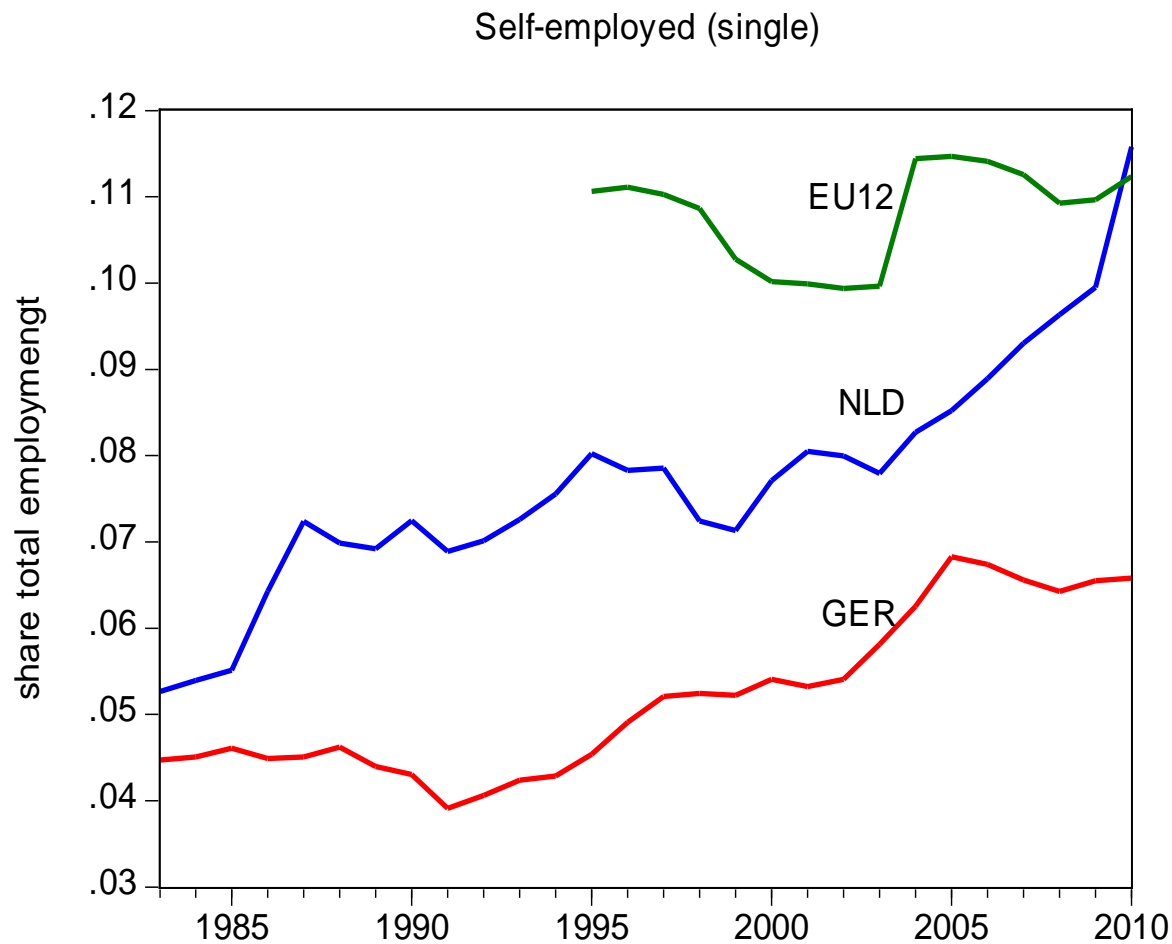


Temporary employment, EU, 1983-2010

Temporary employment



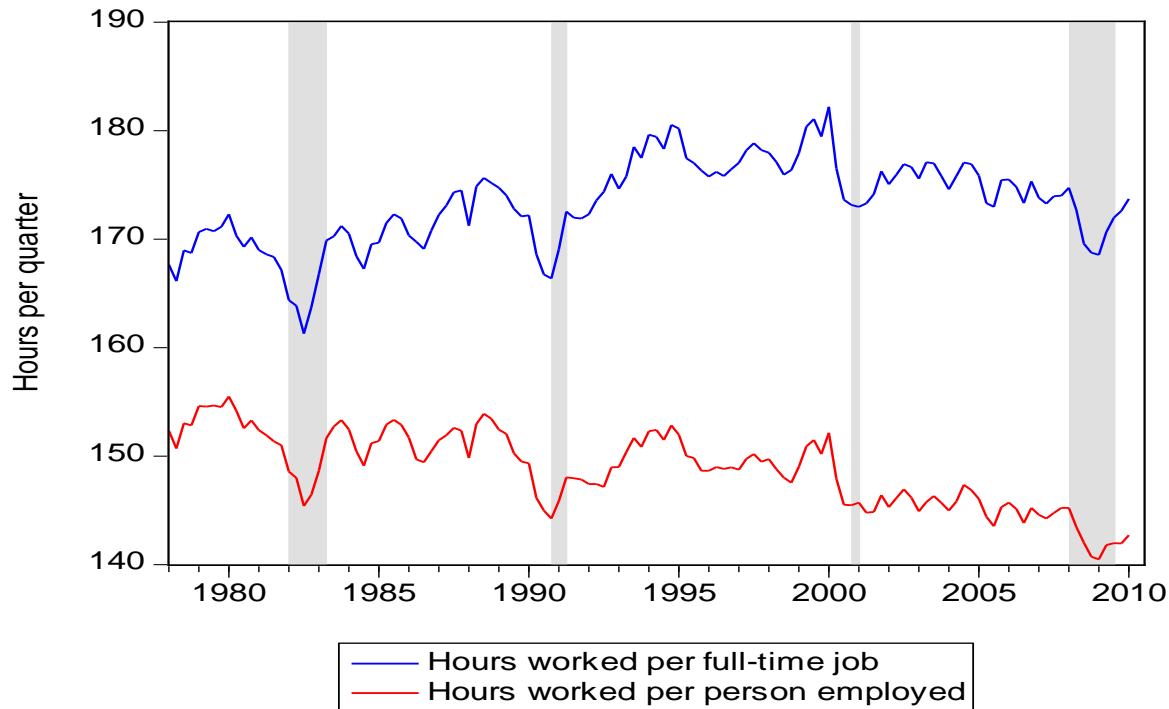
Single self employment, EU, 1983 - 2010



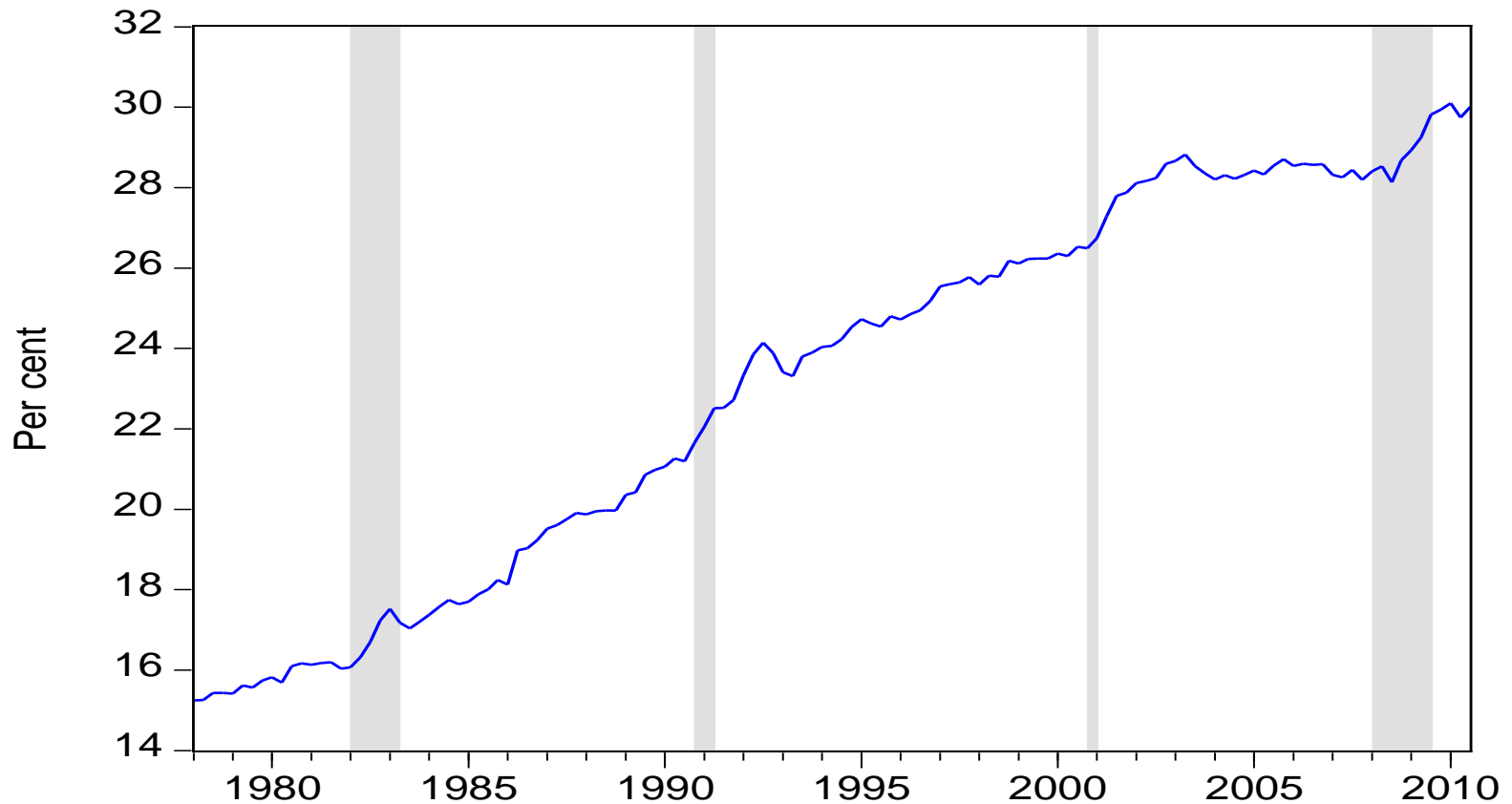
Trends in NL (**also AUS**)

- Decline in hours worked per person overall and for FT employment.
- PT employment has risen consistently
- Increasing flexible employment
- During recessions in 1981, 1993 and 2001
 - switch from FT work to PT work
 - persistent increase in underemployment
 - flexible and special self employment

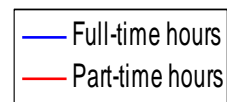
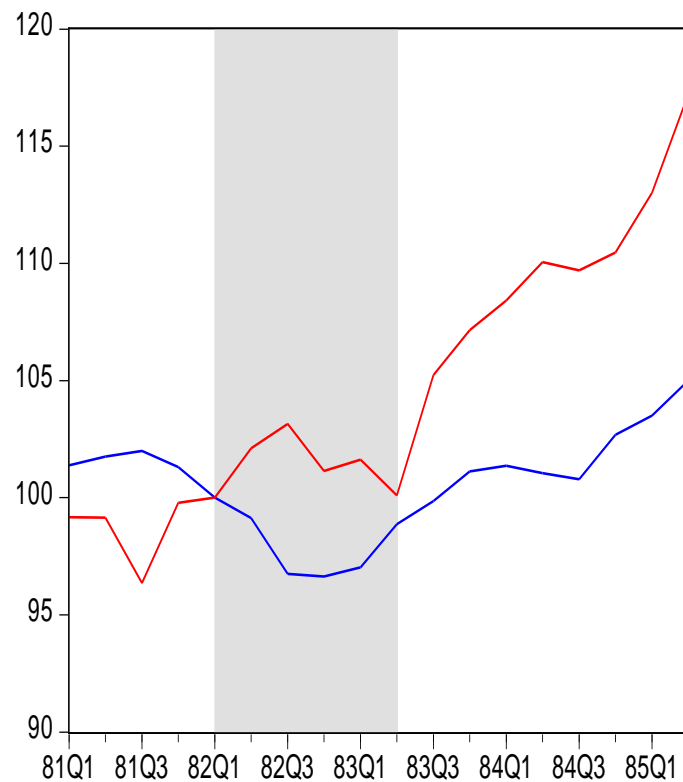
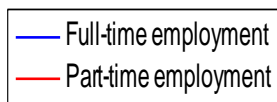
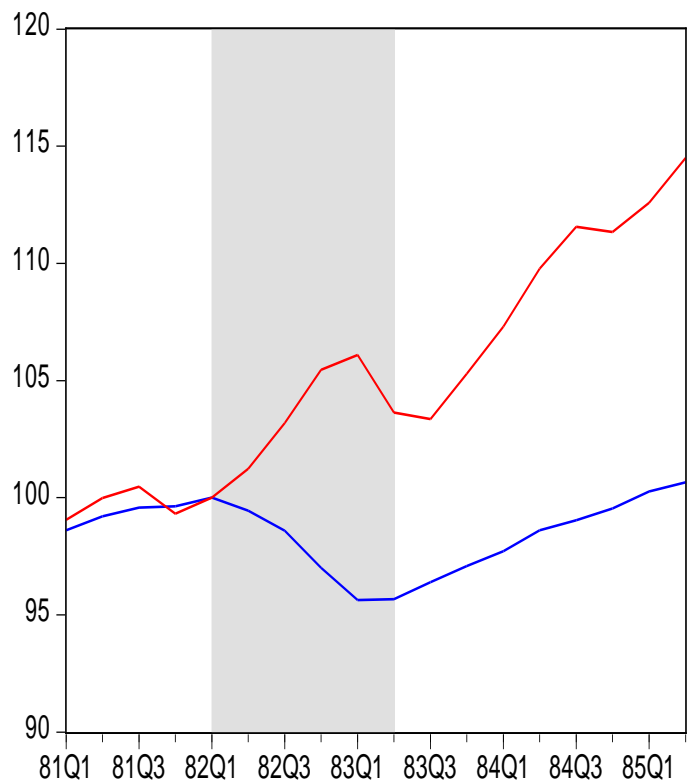
Figure 1 Average quarterly hours worked per person and per full-time job, Australia, 1978-2010



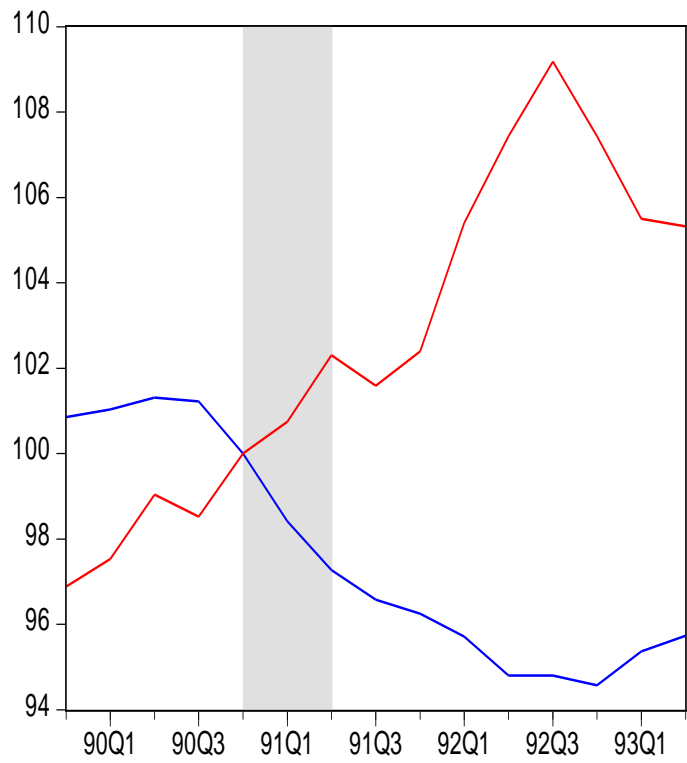
Part-time employment as a percent of total employment, Australia, 1978-2010



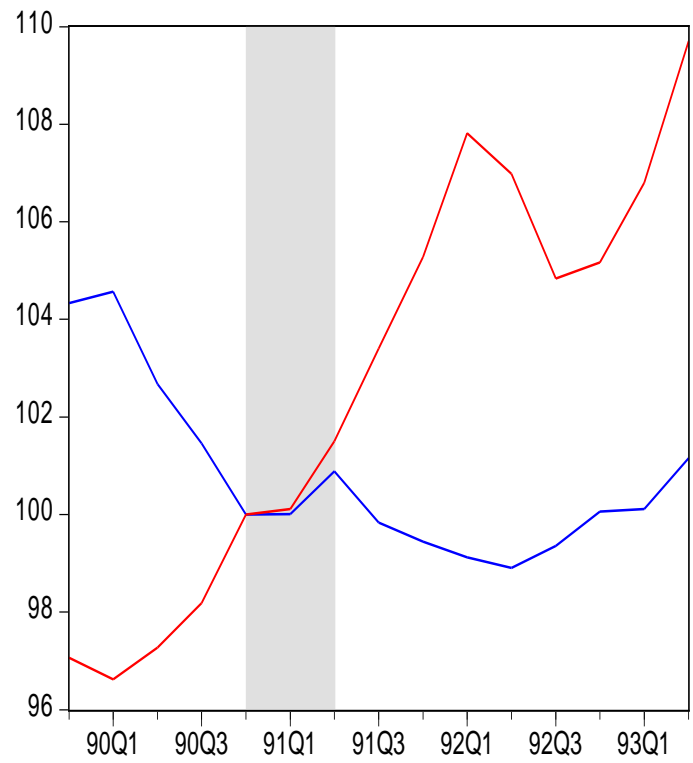
Full-time and part-time employment and hours, 1982, Australia, index numbers



Full-time and part-time employment and hours, 1991, Australia, index numbers

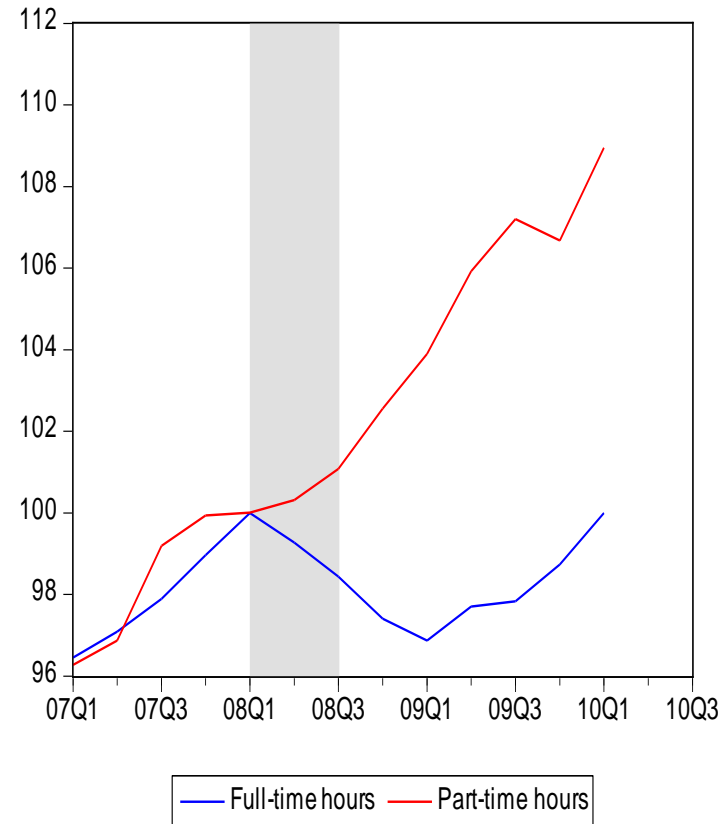
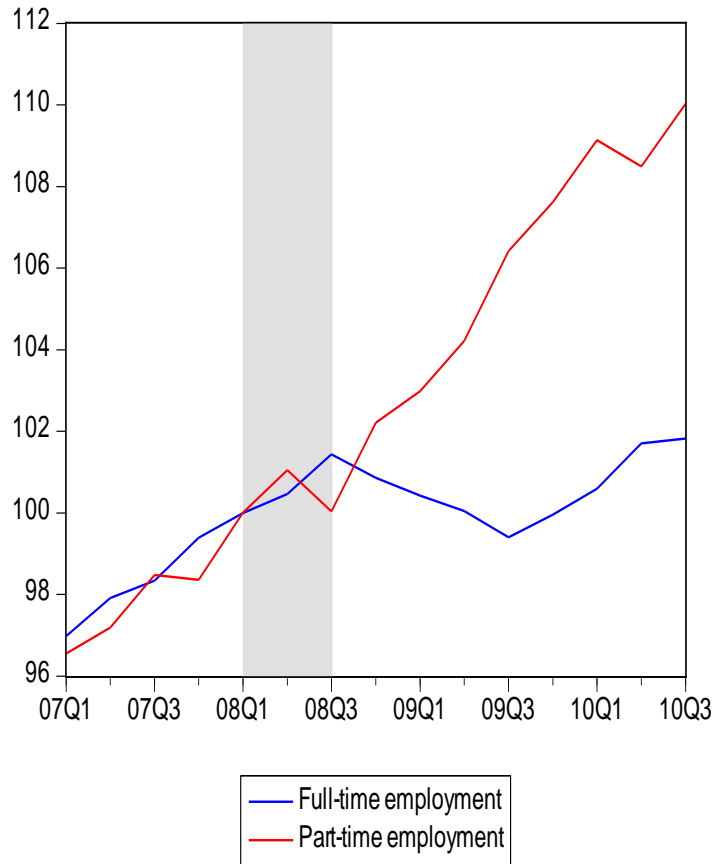


— Full-time employment
— Part-time employment



— Full-time hours
— Part-time hours

Full-time and part-time employment and hours, 2009, Australia, index numbers

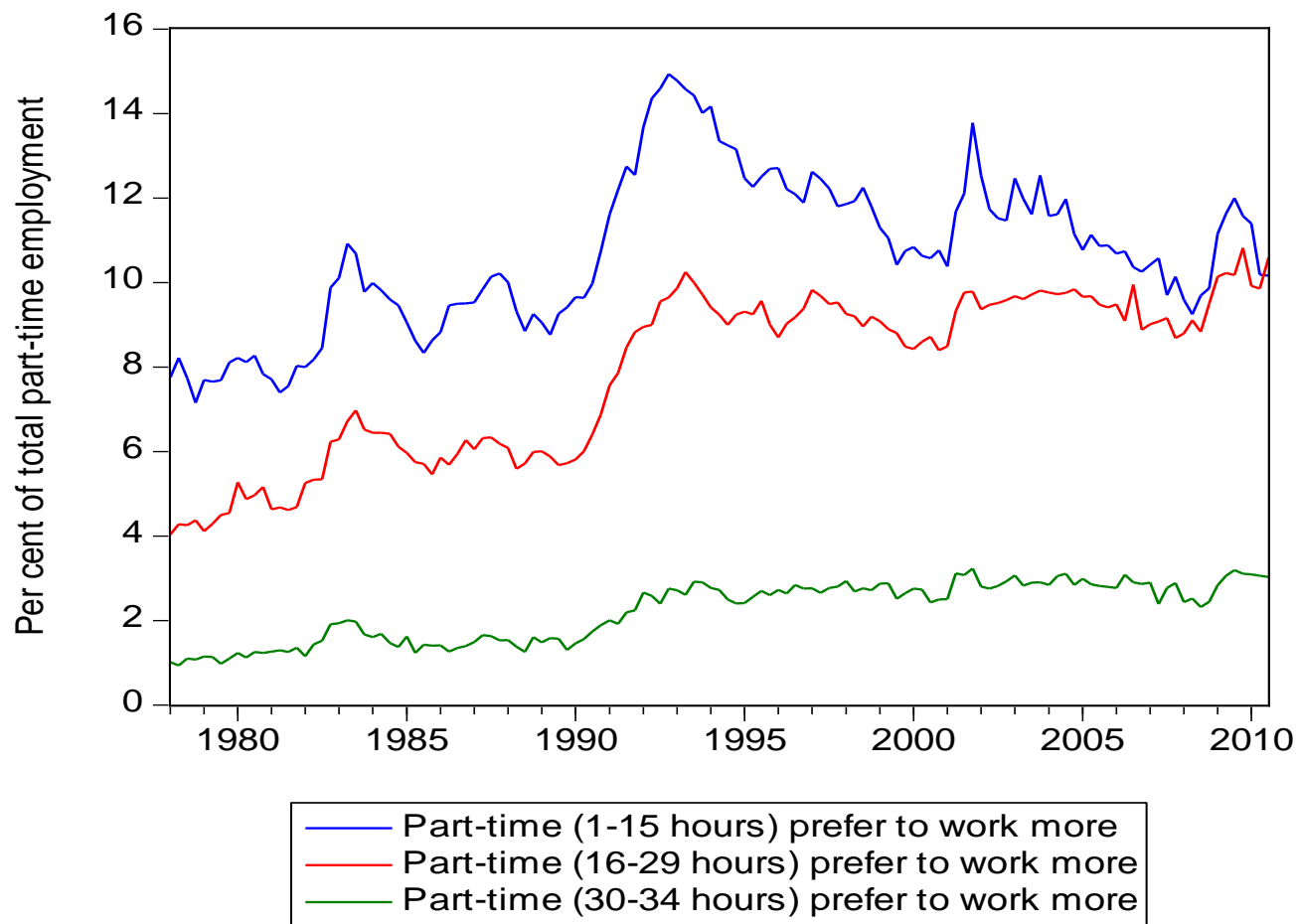


Recessions

- 1982
 - shift FT => PT; less hours/worker
- 1991
 - shift FT => PT; underutilisation
- 2009
 - shift FT => PT; less hours/worker; underutilisation

	FT	PT	Hours /worker	Underutilisation
1982	-	+	-	0
1991	-	+	0	+
2009	-	+	-	+

Underemployed part-time workers by hour bands, Australia, 1978-2010, per cent



Unemployment and underemployment, Australia, 1978-2010, per cent



Observations

- Nature of labour market has changed
- Shift from permanent to temporary work, and increased flexibility in hours worked
- Persistent changes during recessions
 - clear hysteresis effects
- Unemployment as a discipline device is replaced by job flexibility (underemploym.)
 - see also Mitchell and Muysken (2008a)

Theories

- Firm behaviour during recessions
 - simple model, Kahn (2010)
 - empirical studies, WDN
- Macroeconomic impact of wage moderation
 - demand-led growth models

Modelling firm behaviour

- Not in general equilibrium tradition
 - focus on matching models
 - ignores impact of demand shocks
 - no role for institutional differences and asymmetries employer-worker power
- Firm behaviour (Kahn, 2010)
 - workers more productive in booms
 - firing costs more important in recessions
 - we add: declining MPL of hours worked

Model findings

- Increasing incidence of PT work follows from decreasing firing costs
- Recessions reinforce the trend in shift from full-time to part-time employment
- Flexible employment and short-hours employment is used during recessions by firms as an hours-buffer to meet the flux and uncertainty of aggregate demand

Wage Dynamics Network (ECB)

- EU firms response to cost-push shocks:
- 44% reduce labour costs
 - 27% reduce employment
 - 17% reduce wages and working time
- Bargained wages: less wage reductions
- Temporary employment buffer

OECD on Lab Mrkt Reforms

- Huge data set on institutional indicators
- Explain labour market success from:
 - Usual suspects
 - Institutional indicators <<< often significant
- Policy advice
- Ignore
 - role underemployment
 - impact on economic growth

Alternative findings

- Kahn (2010) – EU-household data
 - Labour market reforms only stimulate transformation of permanent jobs into temporary jobs
 - No net employment creation
- Mitchell, Muysken, Welters (2011) – HILDA data
 - Dual labour market structure in Australia
 - Once in temporary, casual jobs => no exit

Macroeconomic impact of wage moderation

- Demand-led growth models:
- Impact of wage restraint on
 - Aggregate demand
 - **Negative**: Consumption, income multiplier (Wage led)
 - **Positive**: Investment & Exports (Profit led)
 - Productivity
 - **Positive**: Induced technological progress
 - **Positive / Negative**: impact of output growth (Verdoorn)

Demand-led growth models

- Various studies for OECD countries
 - Consistently find wage-led growth dominating
 - In case of profit led growth
 - Strong negative impact of fall in world trade
- Also impact on (un)employment
 - highly dubious
 - Naastepad & Storm, 2009; Hein & Tarassow, 2010

Conclusion

- Nature of labour market has changed
 - Shift from permanent to temporary work, and flexibility in hours worked
 - Persistent changes during recessions
- Impact on economy unclear
 - Detrimental effects on economic growth
 - No clear impact on (un)employment
- Role of financial crisis <<Current research

References

- Mitchell, W.F. and Muysken, J. (2008) *Full employment abandoned: shifting sands and policy failures*, Aldershot, Edward Elgar.
- Mitchell, W.F. and Muysken, J. (2008a) 'Labour underutilisation and the Phillips Curve', *Working Paper 08-09*, Centre of Full Employment and Equity.
- Mitchell, W. & J. Muysken (2010), Recessions and flexible labour markets. *Working Paper No. 10-07*, Center of Full Employment and Equity (CofFEE), University of Newcastle, Australia.
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