Quotidiano Londra

FINANCIAL TIMES

17-GIU-2011
pagina 9
foglio 1

Diffusione: n.d. Lettori: n.d. Direttore: Lionel Barber

Britain's curiously continental job market

Martin Wolf

"Curiouser and curiouser," said Alice, in *Alice in Wonderland*, as she magically grew. That is how I feel about the contrast between the UK's post-crisis employment performance and those of other high-income countries, particularly the US. Unemployment has risen remarkably little, given the economic collapse. But productivity has fallen sharply.

In the last quarter of 2010 UK output per hour was 2.5 per cent lower than three years before and had stagnated since late 2008. In manufacturing, UK output per hour was 0.7 per cent lower in the last quarter of 2010 than three years earlier. But here we see a collapse during the crisis, followed by a fairly vigorous recovery: in the year to the fourth quarter of 2010, output per hour in manufacturing rose by a healthy 3.9 per cent.

The overall story, then, is one of a fall in productivity that cushioned the expected impact of a big decline in output on jobs and joblessness: in the first quarter of 2011, UK gross domestic product was 4 per cent lower than three years earlier and only 2.5 per cent above its trough in the third quarter of 2009. But the number of people with jobs has fallen – and the number of unemployed has risen – surprisingly modestly. Yesterday's data show total UK employment only 1.1 per cent below its pre-crisis peak and just 1.5 per cent above its post-crisis trough. Similarly, the most recent rate of unemployment is only 7.7 per cent, against 5.2 per cent just before the crisis hit in 2008, despite the depth of the UK's recession.

The contrast with the US is startling, particularly since many thought the two countries had roughly similar labour markets. In the first quarter of 2011, US GDP was already 0.7 per cent higher than it had been three years earlier. Indeed, it was higher relative to its pre-crisis level than was the case for France, Germany, Italy, Japan and the UK, with Germany the only other of these countries to have GDP (barely) above pre-crisis levels. But the US rate of unemployment jumped far more than the UK's, from 4.8 per cent in February 2008 to 10.1 per cent in October 2009, before falling modestly to 9.1 per cent in May 2011.

UK job statistics are so strong that some people, including in the Treasury, even believe GDP might be higher than estimated. In March 2011, for example, the number of jobs in the UK private sector was 520,000 (2.3 per cent) higher than a year earlier. This has more than offset the 143,000 decline in public sector jobs.

Even more illuminating cross-country contrasts can be drawn from the superb database of the Conference Board on GDP, output per person employed and output per hour (at international prices). From 2007 to 2010, output per person employed rose 5.1 per cent in the US but fell 2.6 per cent in the UK. The only significant high-income country to register higher productivity growth than the US was Spain, with output per person employed up 6.3 per cent. That, combined with the depths of the recession, explains the huge rise in the Spanish rate of unemployment, to 21 per cent. All other large high-income countries registered productivity falls.

One might suppose that these huge contrasts in the changes in output per person employed reflect US decisions to reduce hours of work by laying off actual workers (the "hire and fire" culture) against choices elsewhere, including in the UK, to lower hours worked per employee, instead. This was not entirely the case. In France, Germany, Italy and the UK, output per hour worked fell, as well. Thus, US output per hour rose 6.2 per cent between 2007 and 2010. It fell by 0.5 per cent in France, 1 per cent in the UK, 1.3 per cent in Italy and 1.4 per cent in Germany.

Thus, the overall picture shows a UK labour market response to the crisis very similar to that of France, Germany and Italy, but very different from that of the US. Interestingly, Spain is like the US: its output per hour rose 5.3 per cent, partly because of the collapse in employment in construction.

Even though UK productivity performance has been weak, unit labour costs have risen little. Thus, the pain has been shared out among workers via stagnant nominal wages and reductions in hours per worker and in output per hour.

What does this divergent pattern of labour market response imply? I suggest at least four answers.

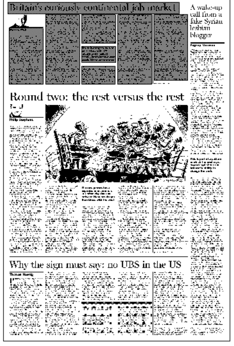
First, a market that adjusts to shocks via hours worked per person rather than via jobs is inherently desirable: it spreads the pain.

Second, if one does have a US labour market response, it is yet more important to support demand if one wishes to avoid the dire result of indefinitely elevated joblessness.

Third, if one is going to pursue austerity, as the UK government does, it greatly helps to have poor productivity performance. With US productivity, too, the UK would have a jobless rate of over 12 per cent.

On balance, I am grateful that the UK job market has responded to this recession in this curiously continental way. More important, so should George Osborne be. This has probably not delayed the recovery. It has certainly made it far easier to bear the recession and his austerity.

If one is going to pursue austerity, as the UK government does, it greatly helps to have poor productivity performance


Britain's curiously continental job market
Round two: the rest versus the rest
Why the sign must say: no UBS in the US

Il mercato del lavoro stranamente continentale della Gran Bretagna (pds)