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The Nation; Where Joblessness Is a Way of Making a Living

By SYLVIA NASAR

WHEN Olivier Blanchard, a liberal economist at the Massachusetts Institute of Technology, is asked why unemployment rates are higher in Europe than in the United States, he likes to tell audiences about a pamphlet he saw in a British library: "Leaving School: What You Need to Know About Social Security."

His point: Europe's cradle-to-grave safety net means not only that being out of work has become a viable way of making a living, but that there is no longer much stigma attached to joblessness. That goes a long way in explaining the contrast between America's current jobs boom and the contrasting jobs bust in Europe.

Not that long ago, the best and brightest young American economists were churning out papers with titles like, "Why Is U.S. Unemployment So High at Full Employment?" As recently as five years ago, slow job growth, downsizing and shrinking paychecks loomed large in America's psyche, and in 1992 Lester C. Thurow's book "Head to Head: The Coming Economic Battle Among Japan, America and Europe," hailing the superiority of the European and Japanese economic models, was atop the best-seller lists.

Not any more. Today, American blacks, long afflicted by double-digit unemployment rates, are less likely to be out of work than Europeans. For the first time in memory, the United States jobless rate has dipped below that of Japan, where until recently lifetime employment was taken for granted. What's more, American pay and productivity are rising handily.

What's behind Americas jobs miracle? And why have long-time world beaters suddenly turned into apparent deadbeats?

Part of the answer is that America's economy is booming. A surprisingly tame inflation rate has allowed the Federal Reserve, which controls the amount of money in circulation and thus the spending power of companies that create jobs, to avoid raising interest rates -- even as joblessness has dropped to the lowest level in 30 years. The rate for April, released last week, barely inched up, from 4.2 percent to 4.3 percent.

Meanwhile, the economies of Japan and Europe are stagnating. Japan has been mired in a recession that's lasted about as long as America's eight-year expansion. While the stagnation was initially caused by a financial meltdown, says the economist Paul Krugman in his new book, "The Return of Depression Economics," the main problem now is that Japan's central bank, fearing inflation, is unwilling to pump enough money into the economy to lift spending -- and create jobs.

Tight monetary policy is also holding back job growth in Europe. "Alan Greenspan is willing to push the economy along until he sees inflation actually picking up," says Mr. Krugman, referring to the Federal Reserve chairman, "but the European Central Bank isn't giving unemployment a chance to get down."

But tight monetary policy isn't the main culprit in Europe. Rather, it's that various safety-net programs over the years have made not working a viable way of life, especially for young workers and those who are approaching retirement. Professor Blanchard and Justin Wolfers at Harvard University, co-authors of several studies of European labor markets, point to two especially pernicious institutions. One is the web of restrictions on layoffs. Even though these rules and regulations are no longer as numerous or effective as they were a decade ago -- Europe, like America, has discovered temps -- they are still powerful enough to have a chilling effect on companies' willingness to hire. As a result, workers who lose jobs find it very difficult to get new ones, and rising unemployment doesn't have the normal, healthy effect of reining in labor costs.

A bigger problem is the nature of unemployment benefits. Partly, it's their generosity. In Sweden, where the unemployment rate has jumped from a minuscule 1.4 percent to 5.6 percent in the last decade, unemployed workers can collect nearly 80 percent as much as if they were working, compared with about 50 percent in the United States and Japan. In Spain, it's 70 percent (until recently it was 90 percent) and in France it's nearly 60 percent.

The extent to which generous unemployment benefits inhibit job growth depends partly on the proportion of workers who are eligible: Only about one-third of workers who are out of work qualify for benefits in the United States and Japan, where newer members of the labor force and temporary workers are ineligible. Compare that with 89 percent of unemployed workers in Germany and 98 percent in France.

What matters even more is how long benefits can be collected. Unemployment benefits in Germany are equal to only 36 percent of a prior paycheck but an ex-worker can collect for at least five years. In Britain, unemployed people can collect practically forever. In the United States and Japan, by contrast, the limit is 26 weeks.

BUT if Europe's generous safety net is the key problem, how come it has taken so long for the chickens to come home to roost? After all, the welfare state has been in place since the 1950's and 60's, when full employment was the norm. One explanation, say Professor Blanchard and Mr. Wolfers, is that until the 70's there were few economic jolts like oil shocks that buffeted rich countries in 1973, 1979 and 1990. "Shocks displace people, but institutions like unemploymentbenefit programs determine how many people get displaced and for how long," Mr. Wolfers said.

In Europe, many displaced workers stay out of work longer, and bad things happen when a large group of people stay out of the work force for a long time. Lawrence Katz, a labor economist at Harvard, says that reducing the stigma attached to joblessness has profound effects on the labor market. In Sweden, which combined extremely low joblessness with extremely generous welfare programs, someone who got laid off used to be ashamed to admit it to his or her neighbors. Now, with a new generation of workers less imbued with that work ethic, much of that shame has evaporated. There are other negative effects as well. Workers who don't get rehired fast also lose skills and, more importantly, connections. Since most hiring is by word of mouth, people who don't know others with jobs find it hard to get one themselves.

The flaws of the welfare state are compounded by other forms of government intervention, says Alan B. Krueger, an economist at Princeton University. One important reason American workers get hired at such surprising rates is that it's much easier to start new businesses in the United States. In Austria, Professor Krueger says, someone who wants to open a pharmacy must get permission from the other drugstores in town.

At the end of the day, it boils down to social choices. "One can say the Europeans have made a political decision that they are unwilling to tolerate as much income inequality as in the United States," Professor Katz said. "But equity comes at the cost of job creation."

Even today, men in their prime working years are not faring much worse in Europe or Japan than in the United States. But in America, which excels at absorbing new workers, other groups like the young, immigrants and women are faring much better. Now the American economy is absorbing workers with the least education and the fewest skills, including ones who have been out of the work force for years and written off as lost causes.

In Europe, choices made decades ago are preventing a similar expansion in the work force.

Graph: "Behind America's Jobs Boom" AMERICA HAS ONE OF THE WORLD'S LOWEST JOBLESS RATES . . . Unemployment rates,latest 1999 figures. Italy: Jan. -- 12.0% France: March -- 11.5% Germany: March -- 10.5% Canada: March -- 7.8% Australia: March -- 7.4% Britain: Feb. -- 6.3% Sweden: March -- 5.4% Japan: March -- 4.8% U.S.: April -- 4.3% . . . AND CREATES JOBS FASTER THAN EUROPE AND JAPAN . . . Change in employment, 1990-1995. EUROPE: -0.3% JAPAN: +0.7% US: +1.0% . . . ESPECIALLY AMONG YOUNGER WORKERS AND WOMEN. Graph compares percent of people in various age groups who are employed in Germany, Japan and the U.S. ONE REASON IS THAT THERE IS NO INCENTIVE TO REMAIN UNEMPLOYED FOR LONG IN THE U.S. Unemployment benefits. AMERICAN BENEFITS ARE NEARLY 50 PERCENT OF THE AVERAGE WAGE . . . France: 58% Japan: 51% U.S.: 48% Germany: 36% Britain: 21% . . . BUT ONLY LAST SIX MONTHS: France: 2 years Japan: 1 year U.S.: Six months Germany: 5 years Britain: 5 years AMERICAN COMPANIES ALSO FIND IT CHEAPER TO HIRE WORKERS THAN THEIR EUROPEAN COMPETITORS..

Graph tracks index measuring the cost of labor to produce one product, 1979 = 100, for 13 European nations and the U.S., from 1980 through 1997. (Sources: Bureau of Labor Statistics; Organization of Economic Cooperation and Development; The Economist)