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Volume Author/Editor: Rebecca M. Blank

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Introduction

Rebecca M. Blank

Starting in the mid-1970s, most western industrialized countries experienced a sharp decrease in growth and a corresponding rise in unemployment. In Europe these problems continued throughout the 1980s. In fact, growth in most European countries was slower from 1980 through 1990 than it had been from 1973 to 1979. Unemployment—particularly long-term unemployment—continued to rise in the 1980s to unprecedented rates. While the United States experienced similar trends between 1973 and 1983, over the late 1980s the United States saw a substantial decline in unemployment and an acceleration in growth. This generated a sustained discussion about what the United States was doing right that European countries were doing wrong. One answer to that question came to be widely accepted: the idea that the European growth difficulties were at least partially caused by their more extensive welfare states. The level of social protection provided through labor market regulation and income support programs limited the market response to high unemployment, it was argued, preventing workers from shifting rapidly from slower- to faster-growing segments of the economy. In other words, a trade-off was posited between social protection and economic flexibility. The United States, with lower levels of income or employment protection for workers, had an economy that adjusted more rapidly to the perilous economic environment of the past two decades.

This volume explores in more detail the relationship between social protection programs and labor market flexibility. As Rebecca Blank and Richard Freeman note in the first chapter, there is actually very little direct empirical evidence that measures the impact of social programs on the speed of labor

Rebecca M. Blank is professor of economics at Northwestern University, faculty affiliate at Northwestern's Center for Urban Affairs and Policy Research, and a research associate of the National Bureau of Economic Research.

market adjustment to a changing economic environment. The papers in this volume are designed to fill that gap, looking at cross-national comparisons over time between countries that demonstrate particularly interesting differences in the structure of their social protection systems and analyzing the effects of these differences on labor market adjustment.

What Can Cross-National Comparisons Contribute?

The divergent European and U.S. economic experiences of the 1980s have increased interest in cross-national research. This volume uses differences between countries, both across programs and over time, to study the impact of different tax, transfer, and regulatory programs on the degree of short-term price, wage, and mobility adjustment within labor markets. Cross-national comparisons are not perfect "natural experiments," however. Many significant differences in behavior among different countries, such as the greater work hours of Americans compared to Europeans, have developed over time and probably reflect responses to long-term differences in institutional structures and economic incentives. These national differences can create problems in making proper cross-national inferences, but this is no different than the problem that economists long have faced in drawing inferences by comparing different individuals within a country. It is the essential problem of all nonexperimental research: potential unmeasured heterogeneity or omitted variables may lead the analyst to draw mistaken causal conclusions.

There are several ways to deal with this problem in cross-national research. One way is to limit comparisons to countries with relatively similar economic, institutional, and demographic patterns. Thus, comparisons between the Swedish and the U.S. income transfer systems may have fewer useful policy implications than comparisons between the Canadian and the U.S. transfer systems. Meaningful comparisons require careful choice of the right countries. For some issues, it may be useful to compare the United States and the United Kingdom, since both have relatively unregulated private-sector labor markets. For other issues, it may be more useful to compare Germany and the United States, both of which have a well-developed federalist system, with strong state governments. But here, as elsewhere in economics, there is a trade-off. Countries that are similar in many respects are unlikely to have extremely different policies. The gain in similarity comes at the likely cost of less variation in the independent variable of concern.

A second way to deal with country heterogeneity in cross-national comparisons is to focus on changes in differences over time rather than on point-in-time differences in programs and outcomes. Looking at the changes in relative vacancy rates between two countries when one country implements stricter severance provisions is more convincing than comparing vacancy rates in a country with strict severance laws to those in a country with few severance restrictions. Fixed-effects models—difference in difference techniques—that contrast changes in country A before and after a program has been introduced with changes in country B (with no program) offer a way to control for long-term differences between countries.

Third, meaningful interpretation of statistical results requires an understanding of the institutional differences between countries. It is time consuming to learn about the institutional structure of any particular country and to become familiar with and gain access to its microdata sources. This means that good cross-national analysis will often involve comparisons between only a few countries at a time. A careful two-country analysis by a scholar who understands the history and structure of both countries and who has good microdata samples of individual behavior in each country should provide more information than a fifteen-country comparison based on aggregate data that necessarily ignores many of the most interesting institutional differences between the countries involved.

The papers in this volume are explicitly designed to meet these criteria. The authors have carefully selected countries whose comparison seems particularly appropriate for their topic; they limit their analysis to two or three countries, providing detailed information on the economic and institutional differences between these countries (many authors are writing about countries they know well); they use as many different sources of national data as are available, particularly seeking good microeconomic data; and when possible they focus on the effects of changes in programs over time rather than on point-in-time comparisons.

The next eleven sections of this introduction briefly summarize the main conclusions of each of the eleven chapters of the book. Readers interested in the overall conclusions of the volume should skip to the final section.

Evaluating the Connection between Social Protection and Economic Flexibility

Rebecca Blank and Richard Freeman set up the issues in this volume in chapter 1, summarizing the cross-Atlantic debate of the past decade over the question "Why are European unemployment rates so high?" and reviewing the evidence for the argument that a primary culprit was the larger welfare state in most European countries.

Blank and Freeman describe a variety of ways by which social protection was believed to promote high European unemployment, limiting both employers' and workers' economic adjustment to macroeconomic shocks. In general, these arguments rely on economic analysis showing that government interventions can cause inefficiencies by creating incentives for market participants to behave differently than they would in an unregulated economy. For instance, income transfer programs may lead a worker to stay out of the labor market longer, adding to the unemployment rate. Severance pay requirements may make employers less likely to hire workers who will be costly to fire.

Those who argue for strong social protection programs typically respond in several ways. Some admit that social programs have distortionary costs but argue that the benefits of these programs in terms of increased well-being, which critics rarely measure, exceed the costs. Others, skeptical about the "trade-off" argument, often point out that most analysts of the distortionary effects of social protection programs compare them to a situation of perfect competition, a rarity in most modern economies. In a world with many overlapping tax, regulation, and transfer programs, some social programs may offset the inefficiencies and distortions caused by others. Finally, many proponents of social protection programs deny the premise of a trade-off altogether, stressing the role of such programs in enhancing human capital and productivity in the labor market.

Evaluating the evidence for these arguments, Blank and Freeman conclude that there is little empirical evidence of large trade-offs between labor market flexibility and social protection programs in general. They argue that the best attitude toward the trade-off hypothesis should be one of open-minded skepticism and suggest a research agenda that might usefully expand our knowledge in this area.

Trends in Social Protection Programs and Expenditures

In the second chapter, Peter Scherer looks at trends in social protection programs within the Organization for Economic Cooperation and Development (OECD) countries. He uses just-released OECD data that provide consistent country-specific estimates of public expenditures on social protection programs from 1960 through 1988. Since the early 1980s, there has been little increase on average in the share of gross domestic product (GDP) spent on public social protection programs within OECD countries, a sharp contrast to the 1960s and 1970s. In addition, there appears to be relative stability in the share of the major components of social expenditure: health care, expenditure on elderly pensions, and expenditures on the non-aged. The United States, of course, is an exception to this, with a growing share of health care expenditures.

The stability in the OECD average hides a great deal of variance across countries, and Scherer discusses some of the different variance patterns. The general conclusion, however, is that social protection expenditures have not been increasing at a rate faster than GDP in most industrialized countries over the past decade. Scherer discusses some of the reasons common across countries for the slowdown in the growth rate of social spending.

After reviewing these data, Scherer discusses differences in how various social protection systems deal with the issues of individual risk. Countries whose legal history is Anglo-Saxon have different presumptions about the role of the state versus the role of the family than do countries whose legal history is based on the Napoleonic code. This creates somewhat different public tensions and debates in these different countries. Scherer also discusses the question of how social protection expenditures relate to labor force participation, noting the inherent tensions between greater income protection and work incentives.

Does Employment Protection Reduce Labor Market Flexibility?

Laws that restrict firms' ability to lay off workers should slow the employment decline that occurs during a downturn and may also limit employment growth in a boom, as firms are reluctant to hire workers who will be costly to fire. In chapter 3, Katharine Abraham and Susan Houseman investigate the extent to which job security regulations adversely affect labor market flexibility, particularly focusing on advance notice and severance pay requirements in West Germany, France, and Belgium. The result should be much less cyclicality in employment in countries with strong job security legislation. But Abraham and Houseman note that many of these countries also have policies that encourage firms to utilize hours adjustments, such as short-time benefits that provide partial wage replacement to workers whose hours have been reduced. If firms facing restrictions on employment adjustment make greater use of hours adjustment, total labor adjustment over the cycle may not be lower but may be differently distributed between employment and hours changes.

In the 1970s, to protect workers suddenly threatened by mass layoffs and plant closings, many European countries strengthened their requirements for advance notice and severance pay. As European unemployment problems continued, however, many countries subsequently loosened these regulations by the late 1980s. West Germany, France, and Belgium all experienced these changes, in sharp contrast to the United States, which had no advance-notice or severance pay requirements throughout most of this period.

Through both graphic and econometric analysis of the data, Abraham and Houseman investigate the speed of adjustment of employment and hours. The results indicate that the United States has much faster employment adjustment than does West Germany, France, or Belgium, consistent with its lower level of employment security legislation. In contrast, hours adjust at about the same speed in West Germany, Belgium, and the United States, indicating that hours adjustment is a far more important component in aggregate labor adjustment in these European countries.

To test the effect of employment security legislation on labor market adjustment, Abraham and Houseman compare the speed of employment and hours adjustments in West Germany, France, and Belgium before and after changes in the stringency of job protection laws. If, as many European employers claim, such regulations limit their ability to adapt flexibility to market changes, then the loosening of these laws in the mid-1980s should have accelerated the rate of employment adjustment in these three economies. Strikingly, they find virtually no evidence that the rate of adjustment over time changed in any of these countries after job security provisions were loosened.

Thus, this paper indicates that strong job security provisions may well be compatible with labor market flexibility. But it is flexibility of a different kind than we see in the United States, with more emphasis on hours adjustment and less emphasis on employment adjustment. One effect of this is to spread the costs of an economic downturn more broadly among workers. This is, of course, also consistent with the institutional structure of the Japanese labor market (although this paper does not look at that country), which provides substantial job security to its workers and yet seems able to respond quite flexibly to economic changes.

Is Regional Mobility Necessary for Flexible Labor Markets?

Labor mobility is often taken to be a necessary ingredient in economic flexibility. In chapter 4, Edward Montgomery looks at regional labor adjustments in the United States and Japan, investigating the persistence of regional wage and unemployment differentials in each country and the role of interregional migration in offsetting these differentials.

Both Japan and the United States experienced greater economic growth in the 1980s than did Europe, although Japan's growth outpaced the United States'. Many have suggested that Japan's greater growth is due at least in part to policies designed to enhance labor mobility. If Japan's policies to encourage labor mobility are more successful, this implies that interregional differences should be less persistent and interregional migration should be higher in Japan. Comparing equal-area migration rates, it turns out that regional migration in Japan is less than half that in the United States.

Montgomery investigates the persistence of regional levels of employment growth, unemployment rates, and earnings in the two countries, looking at Japanese prefectures and U.S. states. Unemployment rates and rates of economic growth show significant persistence within Japanese prefectures over time but are not persistent over time within U.S. states. Prefectural earnings seem to show little persistence over time, however, while higher wages do show some persistence within states.

To further investigate these differences, Montgomery explores the determinants of regional earnings and unemployment rates over time. He finds evidence in both countries that regional labor markets respond to regional demand factors. Regional migration rates in both countries are also responsive to economic forces. Because of the size of Japanese prefectures, it is quite possible to commute between them for work. Therefore, Montgomery investigates interprefectural commuting patterns as well as migration patterns and finds that commuting patterns are similar to migration patterns and affected in the same way by economic forces.

The overall conclusion of this paper is that regional adjustment appears to be somewhat slower and regional mobility lower in Japan. Both countries show evidence of substantial responsiveness within their regional labor markets. Regional wages, unemployment rates, and migration rates all vary as the economic environment within regions changes. But migration across equivalent regions is lower and regional employment growth and unemployment are more persistent over time in Japan than in the United States. Thus, there is little evidence that Japanese labor market policy creates greater regional economic flexibility or migration. While regional labor market flexibility might have been an important factor behind the relatively more successful U.S. and Japanese economies in the 1980s, this cannot explain the higher growth and lower unemployment experienced by Japan versus the United States over this decade.

Does Housing Market Policy Influence Labor Market Mobility?

Most governments intervene heavily in housing markets through tax laws, building codes, rent subsidies, subsidized housing construction, and tenant protection. To the extent that these policies tie people to particular locations, they may limit labor market flexibility by limiting mobility. In chapter 5, Axel Börsch-Supan compares the effects of housing policy in the United States, West Germany, and Japan. He focuses on the impact of tenant protection regulation and of homeownership subsidies across these countries.

German tenant protection laws make rent increases on sitting tenants difficult to obtain but do not regulate starting rents. Börsch-Supan investigates the effect of these laws on tenure discounts—that is, the tendency for there to be a growing difference over time between the rents of sitting tenants and the rents of new tenants in equivalent housing. He finds large tenure discounts in West Germany. Certain cities in the United States also have rent controls, and Börsch-Supan compares these cities to those without such laws. He finds tenure discounts in the United States that are as large or larger than in West Germany and that are virtually the same in cities without rent control as they are in cities with rent control. This indicates that tenure discounts are not caused by rent control laws. To the extent that worker mobility is limited by tenant discounts, this is not due to tenant protection legislation.

Börsch-Supan also compares mobility in West Germany before and after tenant protection laws were introduced in 1971 and after they were weakened in 1983 and 1987. There is no observable change in mobility rates in West Germany consistent with the claim that these legislative changes in tenant protection affected mobility. While mobility declined in the early 1970s, when the law was first being implemented, it declined even further in the 1980s, when the law was substantially weakened.

Homeownership subsidies, designed to improve households' well-being by fostering homeownership, are another major source of government intervention into the housing market. All three countries offer substantial subsidies to homeowners through tax and loan subsidy programs. Börsch-Supan presents evidence that these subsidies increase homeownership.

To the extent that homeownership subsidies encourage greater homeownership, this may decrease labor mobility. Homeowners have much lower rates of mobility in all three countries. Aggregate cross-national mobility rates, however, are clearly not dominated by this effect. Homeownership rates in Japan and the United States are at 61 percent and 64 percent respectively, while they are only half this in Germany, at 39 percent. Yet 18 percent of U.S. households move every year, while 10 percent of Japanese households move and only 7 percent of German households move. Thus, the country with the lowest homeownership level also has the lowest mobility rate.

The overall conclusion of this paper is that there is little evidence that housing market regulations substantially impact national labor mobility. While homeownership subsidies appear to increase homeownership, which is linked with lower mobility rates, these differences do not dominate cross-national patterns of mobility. Tenant protection laws also do not appear to impact mobility rates.

Does Tying Health Insurance to Employment Limit Job Mobility?

One of the many complaints about the U.S. health system of employer-provided care is that it may interfere with the smooth functioning of the labor market by creating "job lock": workers may be discouraged from changing jobs if they fear that such a change could produce an interruption or termination of health insurance. In chapter 6, Douglas Holtz-Eakin investigates this issue in the United States and West Germany. While Germany ensures health care, some German workers must change insurance funds when they change jobs, whereas others do not. Those who change funds can face a change in the price they pay. For these German workers, this could also limit job mobility.

The raw data in the United States are consistent with the hypothesis that those with health insurance on their job change jobs less often. Of married workers who are insured on their job, 26 percent will change jobs in the next three years; 37 percent of those who are uninsured will change jobs. The insured are a very different group from the uninsured, however, and it may be these differences rather than the availability of insurance that is causing differential job mobility. Holtz-Eakin investigates the possibility of job lock by looking at whether those with insurance on their own job or on their spouse's job are less likely to change jobs, controlling for all other characteristics of the individual and the job.

His conclusions for the United States are straightforward. There is no evidence of significant job lock among married or single workers, nor is there any evidence that this effect is any different over a three-year period than over a one-year period. Even workers in poorer health or with larger families show no evidence that they are less likely to change jobs if they are insured.

In the West German data, Holtz-Eakin estimates that about 50 percent of the work force may face a change in health insurance rates if they change jobs. Job changes in West Germany are quite infrequent compared to the United States, consistent with the evidence in the previous chapter that indicated migration rates in West Germany are well below those in the United States. Again, the raw data indicate that workers in national insurance funds are somewhat more likely to move than workers who face potential insurance price changes.

When the probability of job changes is estimated, controlling for individual and job characteristics, West German data provide somewhat more support for the job lock hypothesis than do U.S. data. For some groups, there is evidence of small effects that are weakly significant. Holtz-Eakin concludes that his evidence supports the possibility that the low rate of West German job mobility is reduced further by the institutional structure of the German health insurance system, but the evidence is relatively weak and the estimated effects are small.

The conclusion of this paper is that the health insurance systems of these two countries do not appear to have major effects on labor market mobility. This implies that these systems should not be judged by their secondary effects on labor mobility, which are small or nonexistent, but should be judged by their primary effects on access to health care and on the efficiency and quality of care they provide.

Do Public Pension Plans Limit Older Workers' Labor Market Responsiveness?

Publicly supported pension and early retirement plans exist in all industrialized countries. In times of high unemployment, these policies may, by providing alternative sources of income, encourage older workers to leave the labor market. Of course, this may mean older workers are less likely to enter the labor market in times of high demand, as well. In chapter 7, using data from the United States, Japan, and Sweden, Marcus Rebick investigates the effect of public pension plans on the responsiveness of older workers' labor market behavior.

In all three of these countries, there have been expansions in public pension benefits, coverage, and eligibility over time. At the same time, older men have substantially decreased their labor market participation, although older women's labor force participation has increased or (at higher ages) shown little change. The economic well-being of older persons has unambiguously improved in all three countries as the public pension system has expanded. For instance, poverty among the elderly has decreased. To the extent these public pensions are designed to improve the well-being of the elderly, they appear to be successful.

Rebick investigates the responsiveness of the share of older workers who are employed to cyclical changes in aggregate demand. The results indicate that the share of older men who are employed decreases significantly when unemployment rises. The response among both Japanese and Swedish men is larger than among U.S. men, primarily because men in these two countries have a larger propensity to drop out of the labor market when the unemployment rate rises. Among older women, the patterns are similar but not quite as strong. Rebick concludes that both Japan and Sweden rely heavily on their older workers to leave the labor force in economic downturns in order to maintain their reputation as countries with stable employment and low unemployment.

To investigate the effect of changes in public retirement laws, Rebick looks at differences in the responsiveness of older workers to economic changes during two periods, one with lower benefits and one with higher benefits, in the United States and Japan. If higher benefits make it more possible for older workers to leave the labor market in times of economic downturns, then the employment of these workers should be more responsive in the second period than in the first. If, however, higher benefits make it harder to induce older workers to reenter the labor market when labor demand rises, then the employment of workers should be less responsive in the second period. The results are very mixed, with greater responsiveness among some groups and less responsiveness among others. There appears to be little consistent pattern in the changes in labor market responsiveness to the macroeconomy among older workers as benefits expand.

Rebick concludes that the responsiveness of older workers to aggregate economic conditions is greater in Japan and Sweden than in the United States, indicating that, by leaving the labor market and using public assistance, they bear more of the burden of labor market adjustment to a recession. Although levels of labor force participation among older workers have clearly declined as public pensions have increased, there is little evidence that the responsiveness of older workers to aggregate economic demand has changed. Rebick concludes that the primary effects of these programs are on the economic well-being of the elderly, not on their labor market responsiveness.

Does the Size of the Public Sector Limit Labor Market Flexibility?

Expansions of social protection programs almost inevitably result in expansions of the public sector, as workers are needed to implement and oversee the operation of public programs. Exclusive of the effect of any particular welfare state program, the public sector expansion that it induces may limit labor market flexibility if the public sector labor market is less responsive to demand changes. Rebecca Blank investigates this question in chapter 8, using data from the United States and the United Kingdom, two countries whose leadership over the 1980s launched strong attacks on public sector bureaucracy.

Worker characteristics in the public sector are relatively similar in the United States and the United Kingdom. In both places, expansion in the public sector will create relative employment expansion among well-educated, white-collar, clerical and service workers, women, and minorities.

Both the United States and United Kingdom have positive aggregate public/private wage differentials. Public sector workers earned 10.5 percent more than private workers in 1987 in the United Kingdom and 3.1 percent more than private workers in the United States in 1989. There is evidence in both countries over the 1980s that public sector wages came more into alignment with private sector wages, although these changes varied substantially among different groups of workers in both countries.

Over the 1980s the distribution of wages in both the United States and the United Kingdom has widened. In both countries, wages in the public sector are more compressed than in the private sector, but they have widened along with private sector wage distributions. This indicates that wage distributions in both sectors are responding in similar ways to the economic forces causing these distributional changes.

In addition, Blank looks at variability in employment and wages among public and private sector workers over time. In general, she finds that, in both countries, variation in employment and in wages is as great over time in the public sector as in the private sector, providing little indication that the public sector is less adaptable over time. The correlation between employment changes and the economic cycle is lower in the public sector, however, than in the private sector. But if public sector demands do not move cyclically, there is no reason for public sector employment to move cyclically. The more important question is how public employment responds to the demand for public services.

The last part of the paper estimates a series of models, relating changes in aggregate private and public sector demand to changes in private and public sector employment. In both the United States and the United Kingdom, increases in government demand appear to have little long-run effect on public or private sector employment. Increases in private demand, however, increase both public and private sector employment in the United States. In the United Kingdom, in contrast, increases in private demand increase private employment but have few effects on public employment.

Blank concludes that there is little evidence of substantial inflexibility in public sector labor markets. In both countries, public sector labor markets have shown substantial changes over the past decade, with wages coming closer to private sector wages and with similar distributional changes. In both countries, there is considerable variability in public and private sector employment and wages over time, although the patterns of variability in the public sector are less cyclical than those in the private sector. In the United States, both public and private sector labor markets expand when private demand grows. The main evidence of inflexibility occurs in the United Kingdom, where there appears to be less spillover in demand between the growth of the public and private sectors.

Does the Avoidance of Employment Mandates Increase Flexibility?

Most mandatory social protection legislation assumes that enforcement will be effective. If noncompliance is possible, however, an underground economy may emerge that allows those workers and firms who find these mandates most costly to avoid government regulations, thereby creating greater economic flexibility. In chapter 9, Sara de la Rica and Thomas Lemieux investigate the employer provision of health insurance in the United States, where health insurance is optional, with health insurance coverage in Spain, which levies mandatory taxes to pay for its nationalized health plan but where substantial noncompliance occurs.

Health, disability, and pension benefits in Spain are publicly provided and supported through a 24 percent mandatory social security tax per worker. These high tax rates create incentives for firms to hire workers off the books, especially since enforcement is weak and fines for noncompliance are not punitive. If workers are hired off the books, they will not receive a social security card, which they need to gain access to the national health care system. Since care is provided to all members of a worker's family, however, those who have working spouses can receive insurance through their spouse.

A survey in 1985 found that 12 percent of all Spanish workers reported they avoided social security taxes. This is in contrast to 32 percent of U.S. workers who report that they are not covered by health insurance through their employer. The well-being implications of these two systems are very different, however. Virtually 100 percent of uncovered Spanish workers have a working spouse who is covered by the system, but this is not true in the United States. For instance 13 percent of employed married women in the United States have no health insurance coverage.

De la Rica and Lemieux estimate the probability that a worker receives health insurance through his or her employer in the two countries. In both countries, similar factors determine the likelihood of receiving health insurance. Married males in full-time jobs with longer tenure, higher wages, and more education are most likely to get health insurance. Even after controlling for a substantial number of personal and job characteristics, however, there are big differences across industries in the propensity to provide health insurance to workers. The industries with higher tax avoidance in Spain are also less likely to provide health insurance in the United States.

De la Rica and Lemieux conclude that the provision of health insurance by both U.S. and Spanish firms is affected by labor demand and supply factors and that these factors are quite similar across the two countries. Thus, although the institutional systems governing health care are different, similar groups of workers remain uncovered. The possibility of noncompliance in Spain produces a market outcome relatively similar to the outcome in the United States. The primary difference in the systems is one of well-being; in the United States a substantial number of workers remain without access to health insurance.

While it would be wrong to conclude that a good policy is to pass mandatory laws and then be relatively lax about enforcing compliance, this paper does indicate that attention to compliance and underground economy questions are very important if the actual adaptability of the labor market is to be understood.

Do Limits on Income Assistance Payments Move Women into the Labor Market?

In the United States in particular, there has been an ongoing debate about the extent to which income transfer programs for low-income single mothers keep women out of the labor market. In chapter 10, Maria Hanratty compares U.S. income support programs for single mothers, which provide similar levels of support for a family until a child reaches age eighteen, with French income support programs, which are sharply curtailed after the youngest child in a family reaches age three.

Single parents in France receive assistance from a variety of programs with much higher total benefits than public support programs would provide to similar women in the United States. After the youngest child reaches age three, however, French mothers' benefits become less generous than those in the United States. In addition, public nursery school is available in France, substantially decreasing the cost of child care for mothers. Virtually 100 percent of children age three and over attend public nursery school, which is viewed not as child care but as the beginning of public education.

Hanratty compares the employment rates of single mothers with preschoolers over age 3 to those with preschoolers under age 3, in France and in the United States. She estimates the effect of decreased public transfers on labor supply through several methods. Even after controlling for the availability of public child care in France and the propensity for mothers to work more in general as their children age, she finds a significant net increase in employment among single women as a result of this program structure.

Hanratty tests this result further by looking at the effects of a similar change in income support for married mothers with three or more children who quit work for the birth of a child. These mothers receive a special allowance until their youngest child turns three or until they reenter the labor force, whichever occurs first. Using similar analysis, Hanratty demonstrates that these mothers also increase their labor force participation, but by a much smaller amount, when their income support is terminated.

The results of this paper indicate that single French mothers with preschool children increase their labor force participation when their public assistance income is cut back. The implication is that putting time limits on welfare programs in France seems to increase women's labor market involvement. It is important to recognize, however, that the magnitude of this effect may be dependent upon the network of social programs available in France for working single parents.

The effect of this policy on long-term labor market flexibility and family well-being is hard to predict. On the one hand, women are obtaining more labor market experience with this program, which should increase their wage and employment opportunities and thus increase the skill level and size of the labor force. On the other hand, the children may be receiving somewhat less parental attention, and any long-run effect of this is difficult to measure.

What Difference Do Childcare and Maternal Leave Policies Make?

Compared to the United States, many European countries have far more extensive maternity leave policies and more publicly available child care. The effect of these programs on labor market flexibility may be twofold. First, they may affect women's long-run productivity if they change women's level of labor market experience. Maternity leave programs may decrease experience, but childcare programs may increase labor market contact. Second, such programs may affect long-term productivity in an economy if they enhance the cognitive development of young children. The net effect of such programs on overall labor market flexibility is clearly uncertain. In chapter 11, Siv Gustafsson and Frank Stafford investigate the labor market effects of childcare policies in the United States, the Netherlands, and Sweden.

The United States provides little public support for women who have children, except among those with very low incomes. It has no paid maternity leave and little publicly funded care. In contrast, Sweden provides universally available and quite generous maternity leave and public day care. The Netherlands' childcare policy is similar to the U.S. policy, with little public day care or leave, but it emerged from a very different history in which opposing religious groups tried to foster fertility among their members by encouraging women to stay at home.

Gustafsson and Stafford indicate that these policy differences lead to substantial differences in family behavior. In the United States, there is high labor force participation by women, and mothers return to work almost immediately after a child is born. Sweden has high labor force participation rates among mothers of older preschoolers, but there is very low labor force participation among mothers with children under age one. The Netherlands has relatively low labor force participation rates among all young mothers, and work behavior is strongly affected by religious affiliation. While 72 to 82 percent of young married women work in the United States and in Sweden, only 49 percent of these women work in the Netherlands.

Estimates of the determinants of wages for younger women in these three countries indicate that the returns to education and experience, while positive in all countries, are much larger in the United States. While these returns are partly determined by the childcare policies in the United States that encourage women to work more, they in turn reinforce the U.S. system by giving larger returns to those women who return to work quickly and remain in the labor market more constantly over their lifetime.

The conclusions of this paper are twofold. First, long-term institutional forces within countries shape their childcare policy. These forces have resulted in very different institutional structures across countries and continue to shape women's behavior. Second, once these structures are created, they in turn reinforce behavior, so that the labor market participation patterns and wage patterns of U.S. and Swedish women are very different in ways determined by the vast differences in policy between the two countries.

Pulling It All Together: What Does This Volume Say?

Several main conclusions emerge from the empirical papers in this volume. Most important, these papers give little evidence that labor market flexibility is substantially affected by the presence of social protection programs, nor is there evidence that the speed of labor market adjustment can be enhanced by limiting these programs. Abraham and Houseman find little effect on labor adjustment in West Germany, France, or Belgium when advance notice and severance pay requirements are loosened. Montgomery finds that Japan has less interregional mobility and greater persistence of regional differentials than the United States, even though it (Japan) had greater economic growth over the past several decades. Börsch-Supan finds little evidence that differences in housing market regulations between West Germany, Japan, and the United States strongly affect country-specific mobility rates. Holtz-Eakin finds no evidence that tying health insurance to jobs in the United States prevents job mobility, and only weak evidence of such an effect in West Germany. Rebick finds little evidence that increases in pension benefits in Japan, Sweden, and the United States substantially changed the responsiveness of older workers to changes in labor market demands. Blank finds little evidence that public sector labor markets in the United States and the United Kingdom have been much less responsive to the overall economy over the past decade than the private sector has. De la Rica and Lemieux find that mandated fringe benefit taxes in Spain have had less impact on the labor market than might be predicted, because extensive noncompliance has occurred. Finally, both Hanratty and Gustafsson and Stafford find evidence that child-related policies definitely affect the labor market behavior of mothers of young children, but these authors are unable to conclude whether this substantially affects the flexibility of the labor market.

The consistency of this conclusion is particularly striking in this volume because it occurs across papers that use very different data sets to investigate the effects of different programs in different countries. When the authors of this volume came together to present their research to one another, all of us were struck by the correspondence in results and inferences across these papers.

This conclusion is consistent with other research that questions the hypothesis that social protection laws are the primary cause of economic inflexibility. *Labour and Society* (1987) devoted an entire issue to articles reviewing this hypothesis skeptically. Burtless (1987) indicates that the more-extensive unemployment benefits in European countries did not cause the relative rise in European versus U.S. unemployment rates over the 1970s and 1980s, because the estimated effects are far too small to generate the large observed unemployment changes. Blanchflower and Freeman (1993) find that even the most liberal estimates of the effects of Prime Minister Margaret Thatcher's programs on labor market flexibility were dwarfed by the effects of aggregate economic conditions. Buechtemann (1993) argues that mechanisms to limit labor market adjustment and protect workers arise because of failures in the labor market and that these "inflexibilities" would exist even in the absence of strong employment protection laws.

Rather than finding that more-extensive social protection systems seem to limit labor market adjustment, a second conclusion of this volume is that countries with more extensive social protection systems find other ways by which adjustment can occur. In other words, the entire *system* of interlocking programs and behavior in different countries is quite different. In comparison to the United States, Germany and Belgium rely more heavily on hours adjustment rather than employment adjustment when faced with an economic downturn. Even though Japan has less interregional mobility than the United States, it has high rates of interregional commuting. Sweden and Japan rely more heavily than does the United States on older workers leaving the labor market in an economic downturn to keep unemployment rates low. Young Swedish women have labor force participation rates very similar to young American women's, but a much higher fraction of the Swedish women take more than a year off work when they have a child.

Two important implications follow from the fact that there are many routes to economic adjustment. On the one hand, this means that simple measures of economic flexibility may say little about the overall economic adaptability of an economy. The speed of employment adjustment alone is not a good measure of labor market adjustment, without corresponding information on wage and hours adjustment. Mobility rates alone can vary for many reasons and are not a good measure of labor market flexibility. Information on the amount of movement between employment and unemployment is of limited usefulness without matching information on how many people are leaving the labor market entirely.

On the other hand, comparing single programs across countries can produce misleading inferences. It is important to understand how individual programs link into the web of rules and institutions in each country. High and mandatory per-employee taxes to pay for public health and pensions plans in Spain do not produce major disemployment of low-skilled workers, because of the prevalence of tax avoidance. Time-limited income support payments to single young mothers in France have strong labor market effects partly because free public child care is available just at the point when transfer payments drop. Higher homeownership subsidies in the United States than in Germany do not produce lower mobility rates in the United States, as many other factors influence mobility.

Finally, the third main conclusion of this volume is that it is hard to conclude anything about the net effect of social protection programs simply by observing that they cause behavioral changes. Virtually all of these papers confirm the classic economist's wisdom that the structure of government programs can affect the behavior of employers and workers. Germany, France, and Belgium do less employment adjustment in the face of significant restrictions on major layoffs. Homeownership subsidies in Germany, Japan, and the United States significantly affect homeownership rates in those countries. Rising public retirement benefits have produced a downward trend in the labor market participation of older men over time. Cutting off income transfers to young mothers increases their propensity to spend more time in the labor market. There is nothing in these papers that denies the standard conclusions about the potentially distortionary effects of government programs on behavior.

Yet, among the papers in this volume that study specific social protection programs, virtually all of them also point to changes in worker well-being provided by these programs. Higher public retirement benefits have increased the economic well-being of the elderly. The Spanish health insurance system provides health insurance to virtually 100 percent of Spanish workers, while the U.S. system leaves many uninsured. Extensive maternity leave programs in Sweden allow mothers to stay home with young children.

These papers were not written with the intention of trying to measure the aggregate costs and benefits of social protection programs; thus, they do not produce any answer to the question of whether the net costs and benefits of such programs are positive or negative. But they do serve as a reminder that these programs often have substantial positive social benefits associated with them, benefits too rarely discussed in the economics literature. The research agenda laid out by Blank and Freeman to look more carefully at these questions indicates some ways to begin more fully analyzing the effects of social protection programs.

There are some important caveats to these conclusions. First, the research in all of these papers focuses on particular programs in particular countries at particular points in time. The results in this volume indicate that the changes in social protection programs enacted by European countries in the 1980s in order to increase labor market flexibility had few effects. It is possible that programmatic changes in other countries at other time periods might have produced different effects.

Second, it could be claimed that many of the program changes studied in these papers are relatively small. Rather than the implementation or abolishment of programs, most of the changes studied here involve the expansion or contraction of existing programs. This sort of marginal change may be too minor to have big effects on aggregate labor market flexibility. Perhaps only major economic restructuring in European economies, involving the complete abolishment of collective bargaining systems or radical changes in the nature of the welfare state, will produce noticeable increases in the speed of labor market adjustment. The research here cannot reject such a hypothesis, but it is worth noting that such radical changes are rarely possible within stable political environments. The program changes studied here represent ones that are conceivable in the short run in most countries.

Third, all cross-national research is subject to the caution that there may be missing variables that are not adequately controlled for or considered in the analysis. The methodology in many of these papers, looking at changes in behavior before and after regime changes, will control for many of the fixed differences between countries and groups. Future availability of better data and new methodologies may make possible more effective comparisons than are presented here, and this may in turn lead to new and different conclusions.

If we accept the conclusion of this volume, it is perhaps worthwhile to speculate why analysts were wrong when they argued in the mid-1980s that substantial cutbacks in social protection programs would solve European unemployment problems. One possible reason is that the interlocking systems of legislation and labor market operation in the European economies, while different from those in the United States or Japan, nonetheless had their own internal consistency. Workers and employers were used to these systems and had adopted modes of behavior that minimized any distortionary effects (such as the tacit acceptance of limited employer tax avoidance in Italy or the more extensive use of hours adjustment in West Germany.) Given that this system was working, there was little incentive for employers or workers to substantially change their behavior even after legislative changes in some of these programs. This is the argument made by Abraham and Houseman in explaining the lack of response to loosening of job security regulations in West Germany, France, and Belgium, and it may well be applicable to other changes as well.

A second possible explanation is that the analysis of social protection programs as a primary cause of inflexibility and high unemployment in Europe was simply flawed from the beginning. The best counterexample here is Japan, a country with extensive job-security provisions and with less interregional mobility than the United States that has consistently outperformed the United States as well as its European competitors. Japan at least provides evidence that there is no inherent correlation between poor economic performance and the presence of welfare state programs and/or slower labor market adjustment in terms of employment or mobility. It is possible that the sluggish economies of Europe over the 1980s were due to quite different factors, such as a lack of useful cooperation and communication between the political system and the private sector or the increasing social alienation of growing groups of workers—particularly youth—from mainstream jobs.

Results in this volume and elsewhere also suggest that perhaps the entire focus of the past decade's discussion about "What did the United States do right with regard to labor market policy?" has been misconceived. As Blank and Freeman note, the growth of GDP per employee—one measure of productivity growth—has been as low in the United States as in Europe, while it has been substantially higher in Japan. Only the United States' success at employment creation over the past decade has made it appear more successful in the labor market. Viewed in terms of productivity measures, Japan is the outstanding country and the United States performs as poorly as most European economies.

It is true that the U.S. economy created far more jobs than the European economies in the past decade and therefore unemployment fell to much lower levels. The full reasons behind this "job miracle" in the United States are not fully understood, although it may well be at least partially due to the lower level of employment regulation and taxation in the United States. But the United States has also seen real wage declines among less-skilled workers and a much larger increase in wage inequality than any other nation over the past decade (Freeman and Katz 1994). In 1993, after several years of stagnant employment growth and growing concern about the problems of low-wage U.S. workers, it is increasingly unclear that the labor market of the United States over the 1980s should be either envied or emulated.

The evidence in this volume indicates that the differences in labor markets in the United States and in other economies over the 1980s cannot be simply ascribed to the United States' relatively lower level of social protection programs, which allowed the U.S. economy to adjust more rapidly to economic change. While there is evidence of higher worker mobility in U.S. labor markets and faster employment adjustment than in other countries, these factors are not easily correlated with the presence or absence of social protection programs in these countries, nor can greater flexibility—as measured by a variety of "speed of adjustment" measures—be seen as a necessary or sufficient condition for an adaptable and responsive labor market.

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