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Employment Trends in the USA, Japan and the EC

by Eckhardt Wohlers, Hamburg*

Since 1973, the underlying tendency in most industrial countries has been for unemployment to increase strongly; the rate of unemployment rose noticeably in almost all instances. Nevertheless, trends in employment were much more varied, with significant differences visible between individual countries. The following article is a summary of the findings of a report concerning the reasons underlying differences between employment trends in the USA, Japan and the EC since 1973.¹

The increase in unemployment in the USA, Japan and the EC countries during the period 1973 - 1983 is an inadequate indicator of labour market trends in these countries, for trends in employment exhibited distinct differences (cf. Table 1 and Figure 1). In the USA the number of people gainfully employed – wage or salary-earning employees, self-employed and assisting family members – grew by 15.77 million during the period concerned; this is equivalent to an average annual increase of 1.7 %. In Japan, too, there was an increase of 0.9 % p.a. on average. The mean level of gainful employment in the EC countries, on the other hand, declined slightly. However there were again significant differences between individual countries. In Italy, for example, there was a clear growth in the number of gainfully employed, and in France a slight one, whereas in the United Kingdom, and to a still greater extent in West Germany, employment declined.

In sectoral terms, too, clear differences in employment trends were apparent. The number of people gainfully employed in industry, for example, still showed a slight increase in the USA and Japan, whereas in the EC countries there were decreases of varied magnitudes. In the service sector, with the caveat that comparison is made extremely difficult due to delineation problems,² the number of gainfully employed grew in all three regions. Differences lay, however, in the intensity of the increase and in the significance of the state in the role of “job creator”. The percentage increase in employment in services was stronger in the USA than in Japan and the EC; in fact it was three times as high as in West Germany, which brings up the rear. Moreover, approximately two-thirds of all the newly-created jobs for wage and salary earners in

the West German service sector were in education, health care and municipal services. In the USA, by contrast, these took up less than one-third.

If in many countries trends in employment led in themselves to difficulties in the labour market, these were further aggravated by developments on the supply side. The number of people eligible for work rose everywhere to varying degrees between 1973 and 1983. By far the strongest percentage increase occurred in the USA, where unemployment therefore rose despite the availability of many more jobs. In comparison to this, the increase in the supply of labour was distinctly weaker in countries such as West Germany. The increase in labour supply had two essential causes, the first being demographic developments and the second being income-earning behaviour. In all countries, as a result of the “baby boom” in the 1950's and 1960's, the population of working age has clearly increased. A further considerable increase in the potential labour force in the USA has been caused by a substantially higher participation by women. This also increased slightly in Japan and Italy. In the other EC countries, however, the underlying trend was decreasing.

Because the USA, Japan and the EC countries are all fundamentally market economy-oriented, one can assume that the basic determinants of employment were the same for all of them. In seeking reasons for the differences in employment trends, therefore, one has to

¹ Eckhardt Wohlers, assisted by Günter Weinert: Vergleichende Untersuchung der Gründe für die unterschiedliche Beschäftigungsentwicklung in den USA, Japan und der EG seit 1973, report commissioned by the Federal Ministry of Economic Affairs, Hamburg, November 1985 (to be published shortly).

² On the problem of delineation, cf. Manfred Wegner: Die Schaffung von Arbeitsplätzen im Dienstleistungsbereich, in: Ifo-Schnelldienst, No. 6, 1985, p. 3 ff.; Michael Urquhart: The employment shift to services: where did it come from?, in: Monthly Labor Review, No. 4, 1984, p. 16.

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look primarily at different developments and/or weightings relating to these determining factors in the individual countries concerned. The causes which should thus be given consideration are:

- ☐ differences in overall economic growth and in the structure of growth processes,
- ☐ differences in the development of wage and salary levels and structures,
- ☐ differences in the flexibility and efficiency of labour markets and
- ☐ differences in the overall legislative and policy framework, and in the conceptions underlying immediate policy implementation.

Growth and the Growth Process

Growth in the USA, Japan and the EC countries exhibited a great deal in common during the period 1973-83. In all of the countries, it was distinctly weaker than it had been in the 1960's, and the pace of growth in most countries did not differ greatly from that in the others. The growth in real gross domestic product in the USA, at 1.9 % p.a., was hardly above the rate of 1.7 % p.a. in the EC. The one exception here was Japan where, despite an equally distinct slowdown in its growth rate, it still remained virtually twice as high as in the USA or EC. At least the differences in employment trends between the USA and the EC, then, cannot be explained by differences in growth rates in the economy as a whole.

A reason for differences in employment trends is sought from time to time in a different structuring of the process of growth. It is claimed that countries where the proportion of economic activity taken up by services is high and/or strongly increasing, e.g. the USA, have more "labour intensive" growth than countries where the service share is lower and/or increasing more gradually. The underlying argument here is that both the level of, and the growth in, productivity are generally lower in the service sector than in industry.

Yet this does not provide an explanation for the differences in employment trends between the USA, Japan and the EC countries. In most countries the level of productivity measured in terms of real gross value-added per employee is in total hardly lower in the service sector (including the public sector) than in industry; in fact, productivity rates in Japan and West Germany were actually above those in industry. Also, in the USA in particular the rates of productivity growth were not much lower than in industry and in West Germany were in fact higher. Even in service branches with below-average

productivity levels and/or productivity growth – e.g. wholesaling and retailing, or catering – growth in the USA was generally no stronger, and in fact was often weaker, than elsewhere.

However, a point to be borne in mind here is that there are substantial problems in defining the service sector and the individual branches within it, and that these impair the meaningfulness of international comparisons. Furthermore, in this sector above all productivity is an extremely difficult quantity to measure.³ Determining output, or value-added, gives rise to major difficulties, and these are only added to by more problems in adjusting for inflation. Equally, it is questionable whether the level of productivity can be adequately ascertained with the usual measure, namely real gross value-added per employee.

Another hypothesis which boils down to a matter of differences in the structure of growth processes – namely to a disproportionately large growth in private consumption of services – is that the increase in employment in the USA is primarily attributable to the strong increase in both resident and working populations as well as the greater number of women in work.⁴ The underlying assumption in this case is that there is a relatively close functional relationship between trends in population and/or in employment behaviour on the one hand and the consumption of services on the other. There are two factors in particular which tend to refute such a close relationship: one is the dependence of private consumption on income levels – apart from population trends a significant determinant is real per capita income – and the other is the influence of relative prices on the structure of consumption. Nor does this hypothesis find any empirical confirmation. Consumption of services in the USA between 1973 and 1983 on average rose only slightly more strongly than, say, in West Germany or Italy, and indeed rose less strongly than in Japan or France. However, here again comparison is rendered difficult by definitional problems.

Wage-Cost Pressures and Relative Factor Costs

Movements in wage levels – or rather, in real wage levels – are said to be extremely significant with regard to employment trends, and the neo-Classicists are not

³ On this problem, cf. contributions such as I. Gershuny, Ian D. Miles: *The New Service Economy*, London 1983, p. 33 ff.; also John W. Kendrick, Beatrice N. Vaccara (eds.): *New Developments in Productivity Measurement and Analysis*, Chicago, London 1980.

⁴ Cf. e.g. Werner Sengenberger: *Das amerikanische Beschäftigungssystem – dem deutschen überlegen?*, in: *WIRTSCHAFTSDIENST*, Vol. 64 (1984), No. 8, p. 400.

EMPLOYMENT

Table 1
Employment and Unemployment

		USA	Japan	EC (nine) ¹	West Germany	France	Italy	United Kingdom
Gainfully employed ² absolute (in thousands)	1962	66,702	45,560	100,475	26,289	18,737	20,270	24,185
	1973	85,064	52,590	103,018	26,411	20,865	19,057	24,696
	1983	100,834	57,330	101,827	24,649	21,254	20,350	23,470
average annual change (%)	1962-73	2.2	1.3	0.2	0.1	1.0	-0.6	0.2
	1973-83	1.7	0.9	-0.1	-0.7	0.1	0.7	-0.5
of which:								
Industry ³ absolute (in thousands)	1962	23,219	14,210	43,007	12,795	7,327	7,341	11,356
	1973	28,225	19,570	43,239	12,554	8,238	7,470	10,482
	1983	28,253	19,930	36,283	10,352	7,145	7,352	7,882
average annual change (%)	1962-73	1.8	3.0	0.1	0.0	1.1	0.2	-0.7
	1973-83	0.1	0.2	-1.7	-1.9	-1.4	-0.2	-2.8
Services ⁴ absolute (in thousands)	1962	38,545	18,680	41,779	10,189	7,412	7,006	11,763
	1973	53,265	25,970	50,317	11,933	10,279	8,098	13,486
	1983	69,037	32,090	58,418	12,926	12,312	12,472	14,961
average annual change (%)	1962-73	3.0	3.0	1.7	1.3	3.0	1.3	1.3
	1973-83	2.6	2.1	1.5	0.8	1.8	2.6	1.0
Rate of unemployment ⁵ in % population available for work	1973	4.8	1.3	3.0	0.8	2.6	6.2	3.3
	1980	7.0	2.0	6.0	3.0	6.3	7.5	7.0
	1981	7.5	2.2	7.8	4.4	7.3	8.3	10.6
	1982	9.5	2.4	9.1	6.1	8.0	8.9	12.3
	1983	9.5	2.7	10.2	8.0	8.0	9.7	13.1
	1973-83	7.1	2.0	6.0	3.8	5.4	7.3	7.1

¹ Excl. Greece, Portugal and Spain. ² Gainfully employed in civil spheres (armed forces excluded), according to ISIC definition. ³ Mining, manufacturing industry, electricity, gas and water supplies, construction. ⁴ Wholesaling and retailing, catering, transport and communications, banking, insurance and other commercial services, public sector services, personal and social services. ⁵ Standardised rate of unemployment (OECD).

Sources: OECD, EUROSTAT, own computations.

alone in asserting this.⁵ In this respect marked differences are apparent between the USA, Japan and the EC countries during the period under review. To illustrate, whereas real wages⁶ in the USA rose by an average of just 0.5 % p.a., in the EC countries they increased three or four times as much. The largest real wage increases, though, occurred in Japan.

Yet trends in real wages do not in themselves tell us anything about the effect of wages on employment; in addition, productivity developments need to be taken into account. Real wage rises cannot be expected to adversely affect employment levels until such time as they exceed the increase in productivity – or, put more precisely, the “employment-neutral” increase in productivity. “Employment-neutral” is taken as referring to the advance in productivity which would have resulted if the ratio of factor inputs had remained unchanged; this is based on the assumption that the substitution of capital for labour is primarily dependent on the development of labour costs. An approach towards ascertaining the advance in productivity which would be “employment-neutral” can be made by adjusting the statistically measured productivity gain to purge it of that part which is determined by substitution, i.e. by a change in the ratio of factor inputs.⁷ The difference between the increase in real wages and the

“employment-neutral” advance in productivity is frequently described as the “real wage gap”. This is taken as a measure of whether or not the level of real wages in an economy is compatible with full employment.⁸

Differences in Developments

Measured in terms of the “real wage gap”, only a slight degree of wage cost pressure developed in the USA during the 1970's and early 1980's, even though the overall “employment-neutral” productivity advance was only a modest one, the reason being that real wages also rose only slightly. In the EC countries on the other

⁵ It is impossible to go into more detail here regarding the persisting discussion on the influences of wages on employment. On this, cf. e.g. Peter Kalmbach: Lohnhöhe und Beschäftigung: ein Evergreen der wirtschaftspolitischen Debatte, in: WIRTSCHAFTSDIENST, Vol. 65 (1985), No. 7, p. 270 ff.; OECD: Real Wages and Employment, Working Party No. 1, Paris 1982.

⁶ Real wages are defined here as gross income from non-independent work per employee, or per employee-hour, adjusted for inflation using the gross domestic product price index.

⁷ On the procedure used in separating these elements and the problems which occur with it, cf. Eckhardt Wöhlers, ass. by Günter Weinert, op. cit., p. 92 ff.

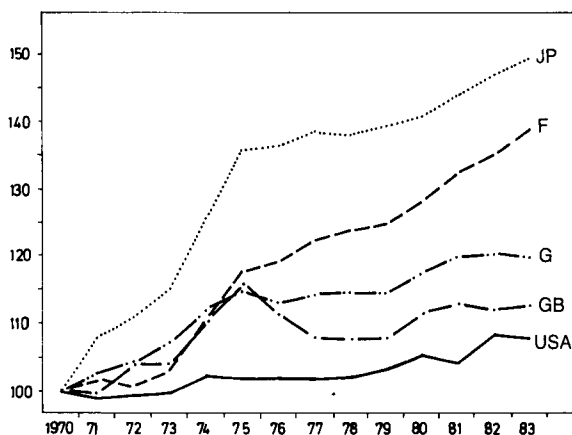
⁸ In some cases, what is known as the corrected or employment-neutral ratio of the total wage bill to national income is used as a measure of the conformity of real wage movements with full employment. Cf. Henning Klotz: Lohnquote und Beschäftigung – die Lohnlücke, Kiel Working Papers No. 230, Kiel 1985. Fundamentally, both concepts are geared to the same functional relationship.

hand – and in Japan too – wage cost pressure was noticeably greater given that in the first half of the 1970's in particular (primarily in the wake of the first oil crisis) real wage increases were distinctly above the "employment-neutral" gain in productivity (cf. Figure 2). In the years which followed it did not prove possible to correct these adverse movements, which remained as a mortgage to be paid back by the labour market.

The differences in real wage movements also made themselves apparent in the trends in relative factor prices, although this can only be empirically established in approximate terms. In the 1973-83 period, relative factor prices in the USA remained virtually unchanged; in the EC countries and Japan, on the other hand, labour went up in price relative to capital. This also largely explains the differences in the extent of capital intensification. In the USA with its modest real wage growth, pressure to rationalise and intensify the use of capital was only slight relative to the other countries. Hence as far as real wage developments are concerned conditions in the USA were, all in all, more favourable for employment than they were in the other countries.

One important reason for the differences in real wage developments may well lie in the fact that in the USA – and to some extent in Japan – nominal wages only adapted to shocks pushing up consumer prices which resulted from monetary policies or international economic influences after a certain amount of delay, and then did not absorb those shocks in full ("nominal wage inertia"); such influences, then, were also reflected in

Figure 2
Trends in the Real Wage Gap¹
(1970 = 100)



USA = United States of America, JP = Japan, G = West Germany, F = France, GB = Great Britain.

¹ Rise in real wages less "employment-neutral" advance in productivity.
Sources: Own calculations using data from OECD and EUROSTAT as well as national statistics.

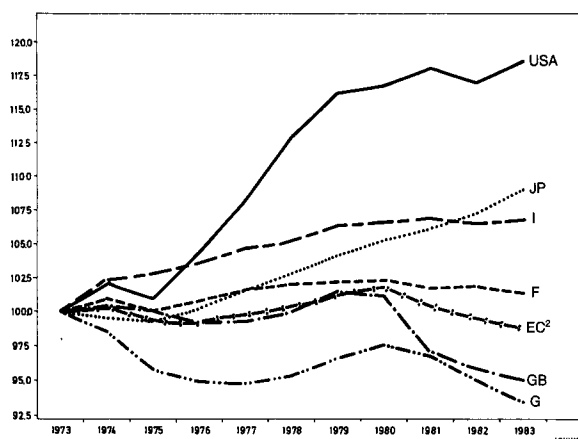
real wage levels. In the EC countries, on the other hand, nominal wages reacted relatively flexibly to shocks of this kind, in the 1970's at least, meaning that feedback effects upon real wages largely failed to occur ("real wage inertia").⁹ Variations in the adaptation of nominal wages can be attributed both to differences in the process of establishing wages, in the nature and duration of agreements on working conditions and the influence of the trade unions, and also to differences in wages policy. There are a number of grounds for asserting that the American trade unions – but probably also those in Japan – have taken much greater account of the necessities of employment policy than have their counterparts in Europe.

Wage Structures

The level of wages in the economy as a whole is an average value which can involve various wage structures. Even a high level of real wages can be compatible with the maintenance of employment if the wage structure backing it up is true to the market. If the latter is not the case, then even a low level of real wages is still not a sufficient condition for a high level of employment. Wage structures, therefore, are also of major significance for the employment situation.

Changes in wage structures were slight in all the countries under examination between 1973 and 1983;

Figure 1
Trends in Gainful Employment¹
(1973 = 100)



USA = United States of America, JP = Japan, EC = European Community, G = West Germany, F = France, GB = Great Britain, I = Italy.

¹ Gainfully employed in the civil sector.

² Excl. Greece, Spain and Portugal.

Sources: see Table 1.

⁹ On this point, cf. also Jeffrey D. Sachs: Real Wages and Unemployment in the OECD Countries, in: *Brookings Papers on Economic Activity*, No. 1/1983, p. 225 ff.; William H. Branson, Julio J. Rotemberg: International Adjustment with Wage Rigidity, in: *European Economic Review* 13 (1980), p. 309 ff.

the only development which did show through was that in France and Italy, to varying degrees, there was some tendency towards wage levelling. However, the near stability of wage structures in the USA must be viewed differently from that in West Germany. For the necessity for the wage structure to adapt as a result of changing domestic and international conditions was, in the 1970's at least, less in the USA than in West Germany. One immediate reason for this was the lesser proportion of the US economy involved in foreign trade together with the dollar's depreciation in real terms while the Deutsche Mark was appreciating in real terms. The differences in real wage movements between the two countries also brought with them differing requirements to adapt.

One can only make presumptions as to the greater span in the USA's wage structure having done better justice to the demands of maintaining employment than West Germany's relatively narrow "spread". However, the greater differential in the USA between wages in industry and those in the service sector quite obviously was beneficial in creating new jobs; this at any rate is what the distinct employment increase in the American service sector implies. There are strong indications, then, that the American wage structure was more compatible on the whole with maintaining employment than the West German structure. Whether this also applies to the other EC countries cannot be established with a sufficient degree of certainty due to lack of statistical material. Comparison with Japan is not very meaningful because of the peculiarities of the Japanese employment and remuneration system.

Labour Market Flexibility

An efficient labour market which properly lives up to its guiding and coordinating function can only exist if it is flexible to a high degree. This flexibility is governed by a number of factors such as the regional and occupational mobility of employees, the mobility and "labour market behaviour" of employing companies, but also to a great extent by the overall legislative and political framework and by the influence the state exerts via its labour market policy. A comparison of labour market flexibility in the individual countries concerned therefore needs to take account of a multitude of different factors. Not only this poses difficulties for analysis, but also the fact that indicators of labour-market flexibility are few and far between, and are frequently not comparable.

What information is available does suggest the conclusion that the flexibility of the labour market in the USA between 1973 and 1983 was markedly higher than

in the EC countries; here again Japan represents a special case, which makes an attempt at direct comparison appear relatively fruitless. One indicator of flexibility is the degree of regulation and state intervention, and this was significantly lower in the USA. Also, the average duration of unemployment was markedly shorter in the USA than in the EC countries.¹⁰ The trend in dismissals or redundancies and the trend in new recruitment were both slightly upward in the USA, whereas in the EC countries they were clearly downward; this also indicates substantial differences in labour market flexibility. Given that the termination of working relationships in the USA is a relatively simple matter, the tendency to take on new staff was also persistently high. In the EC countries, on the other hand, the increased difficulties in dismissing employees or making them redundant and the costs associated with this have noticeably subdued the willingness to recruit labour. Another phenomenon suggesting that American employees are more mobile than their European counterparts is the briskness of personnel moves from company to company.

Policy Implementation and the Legislative Framework

In the industrial countries, a high level of employment is, with a greater or lesser amount of expressed intent, a central goal of economic policy in general and direct policy implementation in particular. For the greater part of the 1973 to 1983 period, the orientation of such policy implementation was similarly Keynesian in all the countries under review. The deviations in policy implementation which did become apparent – especially towards the end of the period – are hardly enough to explain the unfavourable movements in employment and unemployment in the EC countries relative to the USA and Japan.

In contrast to this, overall legislative conditions with their different ways of influencing market forces' coordination of supply and demand on goods and factor markets in the different countries obviously had an important part to play. A by no means minor testimony to a fundamentally positive relationship between competition and employment is provided by the processes which came into play when a number of spheres in the US economy were deregulated. When competition was intensified and user prices were reduced in the road freight and airline businesses, a dynamic process emerged which tended to create new jobs.

More significant than this, however, were deviations notably in the fields of labour law and regulations on

social rights. These make themselves felt in the cost of labour as a factor of production, partly directly and partly indirectly, i.e. via an associated restriction of a company's flexibility in adapting its deployment of labour to suit changing operating conditions. Thus the more limited individual protection enjoyed by employees in the USA – especially against dismissal and redundancy – clearly increased companies' readiness to take on new staff, whereas the high direct and indirect costs associated with dismissal and redundancy in the EC countries dampened the willingness to recruit labour.

Illustrations of the effect of a wide variety of individual factors are inadequate in characterising the influence deviations in the overall political and legislative framework may have had on employment trends in the USA, Japan and the EC. What is evidently of more concern in this context is the overall combination of causes and effects which, on a country-by-country basis, is primarily reflected in differing propensities to accept market processes and the consequences they bring for goods markets and especially for factor markets. It is possible that one reason why efforts to "adjust" these forces in favour of the factor of production labour – even if this is detrimental to its competitiveness relative to the factor capital – have been more limited in the USA and Japan is that they have not experienced any long period of labour shortage, as was the case in Europe in the 1960's.

Japan: a Special Case

In several respects, Japan represents a special case. For one thing, between 1973 and 1983 an increase in employment went hand-in-hand with substantial rises in real wages. This should certainly also be viewed in the context of Japan's growth rate still being almost twice as high as in the other countries. One possible explanation, however, also lies in the level of wage costs. At the beginning of the 1970's, this was considerably lower than in the other countries and the strong increase in wages has done no more than to detectably narrow this gap, even after exchange rate movements are taken into account.¹⁰ Also the substantial wage increases in Japan must be judged differently from those in the EC countries because of the different system of remuneration. Earnings represent a combination of a basic wage and a bonus; this bonus system allows

circumstances specific to one particular company to be accounted for.

However, the Japanese employment system is also an important factor in itself. Even when wage cost pressure is high, the system of life-long employment and the company's social obligation towards its employees represent an effective brake on dismissals or redundancies. However, as a "quid pro quo" a great degree of flexibility within the company is demanded of the employees. In the years following the first oil crisis, rigorous use was made of this principle as efforts were directed towards adapting to the changed economic environment. However, a substantial portion of the burden of adaptation was also shunted on to suppliers, sub-contractors etc., and hence on to the "secondary" labour market. Even in these less "privileged" areas, though, redundancies are generally regarded as a last resort. Thus initial recourse is frequently taken to other means such as short-time working or temporary lay-offs, in which case the employee is still not treated as being unemployed.

Summary

This brief outline demonstrates that, between 1973 and 1983, there were differences between the USA, Japan and the EC countries with regard to a number of employment determinants. This is especially true of trends in labour costs, wage structures and the flexibility of the labour markets; in all these spheres, an important part was also played by differences in the overall political and legislative framework. No single factor was crucial in bringing about the differences in employment trends; they stem from the combined effect of many factors. It is thus also difficult to estimate the importance of individual factors within this overall picture; as the case of Japan illustrates, it is quite likely that the relative weightings were not always the same in the individual countries concerned because each has its own peculiarities.

All in all, the American employment system has obviously proved to be more efficient than that of the EC countries in tackling the employment problem, not least the problem of integrating the large numbers of new candidates for work streaming on to the market. The same applies – under special conditions which are neither comparable with EC countries nor with the USA – to the Japanese employment system. The case of the USA also shows that merely moderate economic growth does not necessarily lead – as is often claimed in West Germany – to a stagnation, or indeed decline, in employment. Evidently, this is only the case if other conditions are simultaneously unfavourable to employment.

¹⁰ However, the American practice of laying off workers for set periods in response to temporary declines in sales – in West Germany short-time working would be introduced in such a situation – as well as "on-the-job training" both played a part in this.

¹¹ Cf. Angelika Ernst: Das japanische Beschäftigungssystem – Auswirkungen auf die internationale Wettbewerbsfähigkeit, in: Ifo-Schnelldienst, Nos. 26-27/1985, p. 27 ff.