

Labor market contrasts: United States and Europe

*Employment outlook is more favorable
for the U.S. than for Europe;
demographic pressures are easing
in the U.S. but intensifying abroad;
Europe has a much larger group
of long-term unemployed*

JANET L. NORWOOD

Analysis of data on the U.S. labor market cannot be done in isolation. The economic growth so necessary to sustain a vigorous recovery in this country simply cannot be achieved without simultaneous recovery abroad. Thus, if we are to evaluate effectively the state of our own economy, we must give attention as well to developments abroad.

As the world economies have become more closely tied together, we find that some of Europe's experiences presage our own. More recently, however, it is becoming clear that many of our experiences may well become a part of Europe's future. Nowhere is this more true than in labor market behavior. This article reviews some of the similarities—and the differences—in labor market conditions between the United States and Western Europe.

Beyond the jobless rate

Each month, the Bureau of Labor Statistics compiles the latest data on the U.S. employment situation. In spite of the comprehensive body of data that we publish, the most sensitive number—and the one on which the headlines are based—is the overall unemployment rate. That "magic

number" is, of course, important; but we must look far beyond it to understand what is happening. Indeed, the focus on a single number—the unemployment rate—may distort our view both of the U.S. economy and of the economies of the Western European countries.

It is not easy to compare conditions across national boundaries. In addition to the differences in such factors as demographic composition, political policy, and economic institutions, we need to take account of the differing backgrounds of experience in labor market developments that have occurred over the last decade on both sides of the Atlantic. During the 1970's, for example, the United States saw unprecedented labor force growth as larger numbers of women than ever before entered the labor force, and the postwar baby-boom generation reached working age. The U.S. economy created more than 20 million jobs, and the movement of employment away from the goods-producing sector into the service-producing sector accelerated. Some of these same developments took place in Europe, but the magnitude and the pace of the changes there were quite different. Indeed, European labor force growth and job creation experience have been very different from our own.

These differences and their effects on attitudes toward policy were discussed at a recent conference in England by experts from Western Europe and North America. The ques-

Janet L. Norwood is Commissioner of Labor Statistics. This article is drawn from her commencement address at the Fletcher School of Law and Diplomacy, Tufts University, Medford, Mass., May 29, 1983. Constance Sorrentino and Philip Rones assisted in preparing the analysis.

far more pessimistically by the Europeans than by the Americans. The attitudes at the conference were shaped by the historical framework and expectations of future developments. The Western European countries had very little job growth during the decade of the 1970's; and in most of the European countries, there was little if any expansion of the labor force.

Through the mid-1980's, the working-age population under 25 in the United States is expected to decline, whereas it will increase in Europe. And productivity and cost performance on both sides of the Atlantic have been quite poor. The United States looks toward recovery from one of the longest and steepest recessions in its history—a recovery which starts with a jobless rate that is higher than in most other countries (except for Great Britain and Canada) but with a larger proportion of our population employed. (See table 1.) We need to look, then, at both employment and unemployment when we make comparisons. Let us examine a few of these labor market developments.

Fewer women at work in Europe. The most dramatic change in the U.S. labor force in the past two decades has been the unprecedented entry of large numbers of women into the work force and their sustained commitment to the world of work. More than half of all American women of working age are now in the labor force. In Europe, only Scandinavian women exceed this level. Economic activity by women in the rest of Europe is rising but, in general, remains well below the U.S. level. Table 2 shows the civilian labor force participation rates of women for selected years. A transformation of major proportions in the role of women in working life has been occurring here and is beginning to

accelerate in most of Europe. The differences are primarily a matter of degree and of timing.

In the United States, single and divorced women have long had relatively high labor force participation rates for obvious economic reasons. Their rates are not far behind those of men. However, the most striking feature of greater female participation in the work force is the proportion of married women who work. American wives have entered the work force in significantly increasing numbers, especially since 1970, and European wives are increasing their labor force participation.

Declining fertility rates have tended to reduce the home responsibilities of women, facilitating their rising labor force activity in many countries. Women are having fewer children, but even young children do not seem to be the obstacle to employment that they once were. Only 1 of 5 American married women with children under the age of 6 was in the labor force in 1960; now about half are. In Sweden, the proportion is even higher. Both here and in much of Europe, it is no longer true that women automatically quit work upon marriage or after childbirth.

Women today are probably much better off than their mothers, but they are not as well off as their brothers. In most European countries—as in the United States—women are working primarily in the low-paying occupations in the low-paying industries.

Youth unemployment high. Young people also tend to be concentrated in low-paying jobs—when they work. Youth unemployment rates are at very high levels in both Europe and in the United States. More than 1 of 5 teenagers in the U.S. labor force is unemployed, as is 1 of 7 young adults

Table 1. Civilian unemployment rates (seasonally adjusted), 1974–83, and employment-population ratios, selected years, for selected countries, approximating U.S. concepts

Year	United States	Canada	France ¹	Germany ¹	Great Britain ^{1,2}	Italy ³	Netherlands	Sweden
Unemployment rates:								
1974	5.6	5.3	2.9	1.6	3.1	2.8	3.8	2.0
1975	8.5	6.9	4.2	3.4	4.6	3.2	5.2	1.6
1976	7.7	7.1	4.6	3.4	6.0	3.6	5.3	1.6
1977	7.1	8.1	5.0	3.5	6.3	3.6	5.0	1.8
1978	6.1	8.4	5.4	3.4	6.2	3.7	45.2	2.2
1979	5.8	7.5	6.1	3.0	5.6	3.9	45.3	2.1
1980	7.1	7.5	6.5	2.9	7.0	3.9	46.2	2.0
1981	7.6	7.6	47.7	4.1	10.6	4.3	49.1	2.5
1982	9.7	11.0	48.5	45.8	12.3	4.8	(⁵)	3.1
1983: first quarter	10.3	12.5	8.5	7.0	13.7	5.2	(⁵)	3.3
Employment-population ratio:⁶								
1970	57.4	54.5	56.2	56.6	59.4	47.4	(⁵)	63.1
1980	59.2	59.2	53.1	51.6	58.6	46.1	445.8	65.6
1981	59.0	59.8	452.5	51.1	56.0	45.9	444.9	465.3
1982	57.8	56.9	452.1	450.3	(⁵)	45.2	(⁵)	465.0

¹Quarterly figures for France, Germany, and Great Britain are calculated by applying annual adjustment factors to current published data and, therefore, should be viewed as less precise indicators of unemployment under U.S. concepts than the annual figures.

²Preliminary revision based on new British unemployment series.

³Quarterly rates are for the first month of the quarter. Major changes in the Italian labor force survey, introduced in 1977, resulted in a large increase in persons enumerated as unemployed. However, many persons reported that they had not actively sought work in the past 30 days, and they have been provisionally excluded for comparability with

U.S. concepts. Inclusion of such persons would more than double the Italian unemployment rate shown.

⁴Preliminary.

⁵Not available.

⁶Data relate to civilian employment approximating U.S. concepts as a percent of the civilian noninstitutional working-age population, except for Germany, where the institutionalized population is included.

Table 2. Civilian labor force participation rates for women, selected countries, 1960, 1970, and 1981

Country	1960	1970	1981
United States	37.7	43.3	52.1
France ¹	41.6	40.1	43.1
Germany	41.2	38.4	238.6
Great Britain	39.5	42.0	248.1
Italy	32.2	26.2	30.1
Sweden	346.1	50.0	260.3

¹1960 data are for October; 1970 and 1981 data are for March.

²Preliminary.

³1961

NOTE: Data relate to the civilian labor force approximating U.S. concepts as a percent of the civilian noninstitutionalized population of working age, except for Germany which includes the institutionalized population. See Constance Sorrentino, "International comparisons of labor force participation, 1960-81," *Monthly Labor Review*, February 1983, pp. 23-36.

Italian, and Dutch youth now meet or surpass these high U.S. levels, while West Germany manages to maintain much lower rates, especially for teenagers. (See table 3.)

During the 1960's and early 1970's, much was made of the fact that European countries in general had low levels of youth unemployment. In Germany, youth rates were about the same as adult rates. Elsewhere in Europe, youth unemployment rates were higher than rates for adults, but the disparity in Europe was not nearly so large as in the United States.

During the same period, the United States was experiencing, simultaneously, a rapid expansion in both the youth population and in their participation rates. Also causing upward pressure on our jobless rates were the very high rates of labor force participation among students, whose movement into and out of the labor force gives them higher unemployment rates than those for youths who are not in school.

Since the late 1970's, the traditional gap between the U.S. and European youth unemployment rates has narrowed or disappeared. The mid and later 1970's were a time of dramatic turnaround in demographic trends. During the early to mid-1960's, when the U.S. birth rate began to fall, European birth rates began to rise. These young Europeans started to enter the labor market in the latter half of the 1970's. After many years of decline, youth participation rates in Europe also began to stabilize or even increase. Further, more European youth were beginning to adopt the American pattern of seeking work while in school, and increasing educational enrollments in post-compulsory schooling brought a rising tide of youth into the school vacation job market. The labor markets in Europe have not been able to absorb the greater supply of student jobseekers or the greater supply of new college graduates.

In the United States, the teenage population began to decline in 1978, as the baby-boom generation moved into older age groups. This development is expected to exert downward pressure on the unemployment rate throughout the present decade and into the 1990's. In Europe, the teenage population has only recently begun to decline; the 20- to 24-year-old age group, however, continues to increase.

Youth are expected to exert upward pressure on European unemployment rates for several years to come.

Concerns of the older population. Just as most industrial countries are experiencing serious problems at the lowest end of the age spectrum, there are also problems emerging at the other end of the spectrum—the older population. Unlike youth, older workers are not a high unemployment group; the problems here relate more to retirement and to income support systems.

Life expectancy has increased both here and in Europe. During the last two decades, the U.S. and European population over the age of 65 has grown by one-half. Compounding the normal increase in "dependency" that would accompany an aging population has been the decline in labor market activity of older workers.

In Europe, the changes in older worker labor market status preceded ours in timing and have been more serious. Not only has the older population of Europe been consistently a higher proportion of the total population, but their labor force participation rates have been substantially lower, and currently are less than half those in the United States.¹

The role of the older worker, in most countries, has become a policy paradox. Pressures on income-support systems point toward policies to induce older persons to work longer. In fact, the opposite trend is dominant. In the face of high unemployment rates, a new emphasis in many European countries has been placed on encouraging persons to retire early or to work part time while receiving a pension. The rationale is to create more opportunities for younger workers.

The costs of early retirement have been higher in Europe. But we are playing a good game of catchup. As the huge U.S. baby-boom generation grows older, there is probably no other labor market issue that incites such forceful policy debate and such intense political pressure.

Minorities. Europe preceded us in facing the issues raised by the aging of the population; however, our experience

Table 3. Youth unemployment rates for the United States and for European countries, 1982

Country	All working ages	Under age 25		
		Total	Teenagers	20- to 24-year-olds
United States	9.7	17.8	23.2	14.9
France ¹	8.2	22.6	36.3	17.2
Germany ²	3.6	4.8	4.3	5.1
Great Britain ³	11.8	20.6	24.1	18.0
Italy	4.8	17.7	23.7	14.2
Netherlands ⁴	10.1	⁴ 20.2	⁽⁵⁾	⁽⁵⁾
Sweden	3.1	7.6	10.9	6.0

¹Data are for October 1981.

²Data are for May 1981.

³Data are registered unemployed as percent of civilian labor force. Such data are understated in relation to U.S. concepts.

⁴Preliminary.

⁵Not available.

NOTE: Data relate to unemployment rates approximating U.S. concepts, except for Great Britain and the Netherlands.

with the labor force problems of minority groups far predates that in Europe.

Racial, ethnic, and other minority groups often have disadvantaged positions in the labor market. America's large black population as well as its increasing Hispanic population continue to have higher jobless rates than most other groups. Many of the European countries have experienced an inflow of foreign "guestworkers" who came to meet the labor shortages of the 1960's. Both the guestworker migrations in Europe and the majority of recent U.S. migrant flows from Mexico and other parts of Latin America derive from a similar situation—the existence of wide differences in standards of living across common or nearby borders.

Originally, the European guestworker flows were cyclical; foreign nationals flowed into the Northern European countries when demand was high and left when it was low, with little effect on the unemployment rate in the host country. As work contracts were renewed, however, many guestworkers began to put down roots in the host countries, marrying locally or bringing their wives and children from home. When the recession struck in 1974, increased job competition caused bans to be placed on new immigration by the host countries. While some guestworkers returned home, most stayed, and many entered the unemployment rolls. The children and wives of the guestworkers also entered the labor market, more than offsetting the numbers who had returned to their homelands. Further, there was a growing influx of illegal migrants.

These new problems that Europe has had to confront sound familiar to us. They include language as well as social and cultural differences. Foreigners tend to live in the large urban areas. The foreign youth of working age constitute a substantial and growing part of the youth unemployment problem in Europe—just as minority youth in the United States have a much harder time than others in finding successful job experiences.

Dynamics of the labor market

The comparative experience of women, of youth, of older workers, and of minorities points, in many instances, to relationships or trends previously considered unique to either the United States or to Europe that are now becoming shared experiences. There is one area in which we diverge sharply—the dynamic nature of the U.S. labor market.

We tend to focus on the employment and unemployment figures which are announced each month. These represent a snapshot of that particular month. But the monthly figures mask the very large flows of people who enter and leave the labor force or who change their employment status during the course of the month and from one month to the next.

Last year, the number of people unemployed in an average month in the United States was about 10.7 million. But the number of workers who experienced some spell of unemployment at some time during the entire year was at least 2½ times that number. Most people have relatively short

spells of unemployment, which are interspersed frequently with periods of employment and of inactive labor force status. In fact, if we compare the group of people who were unemployed in a given month with the group unemployed in the following month, we find that in normal times in the United States only about half are still unemployed; a quarter have found jobs, and the remaining quarter have left the labor force entirely. European countries have much lower levels of labor market flows than we do.

These differences in labor market dynamics show up best when we examine comparative unemployment duration and job creation. In the United States, even during the recent period of recession, the mean duration of unemployment is only about 4 months; in Europe, the average ranges from 7 to 10 months for most countries. On average, in 1982, 1 of 3 of the British and French unemployed were out of work for 1 year or longer. In contrast, fewer than 1 of 10 of the American unemployed had been jobless that long.

The point is that American workers tend to move into and out of employment and unemployment, whereas European joblessness tends to reflect a much larger group of long-term unemployed.

In terms of job creation, the United States has had extraordinarily large advances compared with Europe. Since 1970, as the U.S. labor force has increased, employment has grown by more than 20 million. In the four largest European countries, whose combined population closely approximates our own, employment has actually declined slightly since 1970. The following tabulation shows the civilian employment (in thousands) in the United States and in European countries (approximating U.S. concepts), 1970 and 1982, and the change for the period:

	1970	1982	Change
United States	78,678	99,526	+20,848
Four largest European countries, total	89,290	*88,920	-370
France	20,320	*20,980	+660
Germany	26,100	*25,090	-1,010
Great Britain	23,780	*22,460	-1,320
Italy	19,090	20,390	+1,300

*Preliminary.

This disparity in employment change is greater than can be explained by differences in economic growth or demographic factors. One reason for the difference is that almost the entire increase in U.S. employment since 1970 has been in the service sector. The proportion of employment in the goods-producing sector has declined markedly. Today, only about 1 in every 4 American workers is employed in manufacturing, mining, or construction. Employment in these industries has also been declining in Europe, but the growth in the service sector has not been large enough to make up for these reductions. (See table 4.)

Why does the United States have more labor mobility, more labor market flows, more short-term unemployment, and more job creation than Europe?

Table 4. Civilian employment in the United States and European countries by economic sector, selected years, 1970-82

[In thousands]

Year	United States	France	Germany	Great Britain ¹	Italy
Agriculture:²					
1970	3,567	2,821	2,262	782	3,839
1978	3,550	1,927	1,536	666	3,053
1979	3,508	1,887	1,479	654	2,985
1980	3,529	1,841	1,436	657	2,896
1981	3,519	1,800	1,402	647	2,731
1982	3,571	⁽³⁾	1,371	⁽³⁾	2,525
Goods-producing:⁴					
1970	26,080	7,917	12,465	10,531	7,586
1978	28,810	7,611	10,958	9,372	7,626
1979	29,797	7,489	11,086	9,344	7,641
1980	29,136	7,412	11,145	8,948	7,767
1981	28,995	7,208	10,885	⁵ 8,028	7,722
1982	27,070	⁽³⁾	⁵ 10,480	⁽³⁾	7,594
Service-producing					
1970	49,031	9,605	11,442	13,071	7,656
1978	63,688	11,575	12,675	14,587	9,187
1979	65,519	11,742	12,942	14,778	9,471
1980	66,638	11,874	13,164	14,760	9,715
1981	67,883	11,968	13,261	⁵ 14,373	10,003
1982	68,888	⁽³⁾	⁵ 13,215	⁽³⁾	10,277

¹Includes Northern Ireland.

²Includes forestry, hunting, and fishing.

³Not available.

⁴Manufacturing, mining, and construction.

⁵Preliminary.

NOTE: Some small adjustments made to the overall employment data in the tabulation on p. 6 could not be made to the sectoral employment data for France, Germany, and Great Britain.

Certainly, differences in history and cultural attitudes play an important role in mobility patterns. European workers seem much more reluctant to change jobs voluntarily than their American counterparts. There is also less of a tendency to change residence in search of jobs. In the United States, mobility is considered desirable, even though the search for a better job may entail some unemployment. Americans are still experiencing sharp shifts in regional economic development and opportunity. In addition, young Americans tend to do more job changing before settling into more permanent careers than European youth do.

However, it is much more than history, tradition, and sectoral shifts that explain these labor market differences. Institutional differences are also important, as are differences in the social insurance systems of the United States and Europe. There are also international differences in layoff practices and job security procedures. In Europe, employers often cut working hours during periods of reduced orders; the lost hours are reimbursed by government-subsidized benefits. When the 1974-75 recession came, these short-time work mechanisms saved thousands of European workers from becoming unemployed.

Most of the European-style job security and job continuity practices are absent or are much weaker in the United States.

American employers are quicker to respond to labor market conditions by hiring or dismissing workers. In general, American workers must be fully unemployed to collect unemployment benefits.

A look ahead

At present, estimates place the number of unemployed persons in the industrial countries of Europe at about 18 million. More than 11 million are jobless in the United States. Recent forecasts by the Organization for Economic Cooperation and Development (OECD) and others starkly illustrate the magnitude of the problems before us. The recession has been long and steep, and the countries of Western Europe and North America have before them the formidable task of restoring labor market health.

Since December, the U.S. employment situation has improved considerably. The jobless rate has declined, employment has increased, especially in the hard-hit manufacturing sector, and factory hours have risen sharply. But improvement has not yet begun in Europe. In fact, most of the forecasts suggest continued increases in unemployment in most European countries through the first half of 1984.

The high unemployment levels in this country have come at a time when demographic pressures are easing. In Europe, however, demographic pressures are becoming more intense and will continue at least until the mid-1980's. Structural declines are occurring in several major industries on both sides of the Atlantic, and high joblessness among the minority population is a matter of great concern in both Europe and the United States. But the fact that Europe has a much larger group of long-term unemployed persons than the United States suggests that the road back to labor market health may be even rockier abroad.

The success of recovery in the United States rests partly on Europe. No major country—the United States included—has been able to expand successfully in a stagnant world. The scope for a purely national recovery is limited, because all developed countries have become inextricably linked together by world trade, capital flows, exchange rates, and the international monetary system. Foreign trade has long been a crucial part of European prosperity, and it is increasingly becoming a crucial part of our prosperity. More than ever, the United States is an interdependent part of a world economy. □

FOOTNOTE

¹See Constance Sorrentino, "International comparisons of labor force participation, 1960-81," *Monthly Labor Review*, February 1983, p. 30, table 4.