

1. Unemployment

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Nr. 1

2.4. “Culture” and labor market outcomes

Part of a larger literature on the role of culture in economic outcomes. Labor market may be a good observation ground.

“Culture” may:

- affect economic outcomes (here, say, unemployment or employment rates) directly.
- affect outcomes indirectly, through institutions.
 - by shaping them.
 - by determining how well/badly given institutions work.

Important for the design of institutions. One set may not fit all. Importing institutions may not work.

No time for a thorough treatment. Just a number of interesting figures and questions. Look at three papers:

- Blanchard-Philippon. Trust.

Strong correlation between quality of labor relations and unemployment. Even given institutions.

Causality? Potential mechanisms. Introducing asymmetric information in DMP model.

- Algan-Cahuc. Civic attitudes

Strong correlation between public spiritedness and relative use of unemployment insurance versus employment protection.

Causality? Potential mechanisms. Moral hazard in search.

- Algan-Cahuc. Family values

Strong relation between employment rates of young and old, and indexes of family values.

Causality? Potential mechanisms.

1. Trust and unemployment

- Part of larger research on trust.
- Here: Trust between workers and firms. Quality of labor relations.
- Basic correlation. Figure 1 (BP).

Measure of quality of labor relations, from Global Competitiveness Report (4,000 executives in 59 countries)

From 1 (bad) to 7 (good). $\bar{R}^2 = .55$.

- Table 1.

Controlling for measures of labor institutions. col 2

Instrumenting by strike activity in the 1960s. col 4

Instrumenting by State attitude in the 19th century. col 5.

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Figure 1. Unemployment Rates and Labor Relations.

Nr. 5

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Table 1: Labor Relations and Unemployment.

Nr. 6

Potential mechanisms?

Different models of the economy by unions and business. (fixed rents, elasticity of the labor demand curve). Probably relevant, but hard to formalize.

Asymmetric information. Productivity known to the firm, not to the worker. The BP formalization:

- DMP economy. Bargaining between worker and firm:
- Productivity either low, y^l or high y^h .
- If firm announces y^l , worker strikes with probability s .
- If strike, match ends with probability γ . With probability $1 - \gamma$, worker makes a take-it or leave-it counteroffer.

- Probability s determined so firm has an incentive to tell the truth. s an increasing function of $(y^h - y^l)$.
- Alternative: Repeated game (as productivity shocks with probability λ .)
Cooperative equilibrium, with no strike. “Trust”
- Endogenous constraints on trust. Cooperative equilibrium may not be sustainable. Incentives to cheat too strong.
- Even if cooperative equilibrium is sustainable, workers and firms may still not cooperate.

The model delivers:

- Trust partly endogenous, partly exogenous (so potentially history dependent)
- Lower trust, lower productivity, so higher unemployment duration. Higher flows because of inefficient separations ($\lambda s \gamma$).
- If endogenous choice of technology, choice of less uncertain technologies. Potentially lower growth.
- If endogenous ownership, ownership structures that reduce conflict. (Philippon). Family firms?

2. Civic spiritedness and institutions

- In Europe today, a very popular model among politicians: “Flexicurity” from Denmark. Generous UI/limited EP. Low unemployment.
- European countries on a UI/EP frontier. Denmark at one end, Italy, Portugal, Greece, at the other. Figure 1 from Algan-Cahuc.
- Can countries really choose? Can Italy adopt Danish institutions? Will they work as in Denmark?
- Tentative answer from Cahuc Algan: No.

Institutions reflect choices.

Choices are partially determined by culture, in this case “civic spiritedness”

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Figure 1. Unemployment Benefits and Job Protection in the End of the 1990s. Source: OECD.

The evidence.

- Measures of civic spirit: Answer to:
“Do you think it can always be justified, never be justified, or something in between, to claim government/state benefits to which you have no rights?”. 1: never. 10: always.
in two surveys (WVS, and ISSP)
- Large differences across countries, stable over time. Denmark: 8.5, Greece: 2.5. Figures 3, 4
- Exogeneity? Indirect evidence from country of origin (for US) .
- Effect on institutions. Panel data country/period.
More civic spirit leads to higher UI, lower EP. (Survives country fixed effects. Good or bad news?)

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Figure 3. Mean reply to the question: "Do you think it can always be justified, never be justified, or something in between to claim government/state benefits to which you have no rights."

Source: WVS, 1980, 1990, 1999-2001.

Figure 4. Mean reply to the question: "Do you think it can always be justified, never be justified, or something in between to claim government/state benefits to which you have no rights." Source: WVS, 1980, 1990, 1999-2001.

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Table 4. Civic Attitudes and Labor Market Institutions. GLS Estimates. Period 1980-2003.

Nr. 14

A model (Algan-Cahuc)

- Standard DMP, with productivity shocks, and endogenous search.
- Search intensity not observable, so moral hazard in search
- A utility cost (guilt feeling) from receiving benefits if not searching.
- Government maximizes expected utility.
- The higher the guilt feeling, the smaller the moral hazard problem, thus:
The higher UI (the degree of insurance), the lower EP (the smaller the need to distort the destruction margin), the higher utility.

3. Family values and employment rates

The evolution of employment rates. Basic facts. 1970-2003

- Up for women, more so in countries where they were low to start. Incomplete convergence.
- Decrease in the employment rates of the young, and of the old.

Correlation with measures of family values? Three measures from answers to WVS questions:

- “When jobs are scarce, men have more rights to a job than women.”
- “When jobs are scarce, older people should be forced to retire early”
- “Here is a list of qualities that children are encouraged to learn at home. Which if any do you consider to be really important: Independence?”

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Figure 1. OECD Employment Rates by Demographic Groups Over the Period 1970-2003. Source: OECD.

Nr. 17

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Figure 7. Correlation Between the Employment Annual Growth Rates of Young and Older People. Source: OECD.

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Figure 15. Correlation Between National Family Attitudes and Employment Rates in OECD Countries.

Nr. 19

Exogeneity? Family values in US by country of origin.

The model:

- Countries differ in the valuation of family activities
- Decrease in price of durables used in household production
- Decrease in time devoted to home production (ambiguous). Increase in market work by women.
- Increase in family activities. Stronger increase the stronger the valuation. Decrease in employment rates of young and old. (?)

Explain a large set of time-series/cross country facts. But not totally convincingly. Alternative explanations (for example, Fogli 2004).