

The labour market implications of the credit crunch

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What happens to labour in recession?

- Job destruction increases, unemployment inflow increases
- Unemployment goes up
- Job creation goes down, prolongs unemployment spells
- Long-term unemployment builds up, introduces persistence
- Output picks up but unemployment slower to react

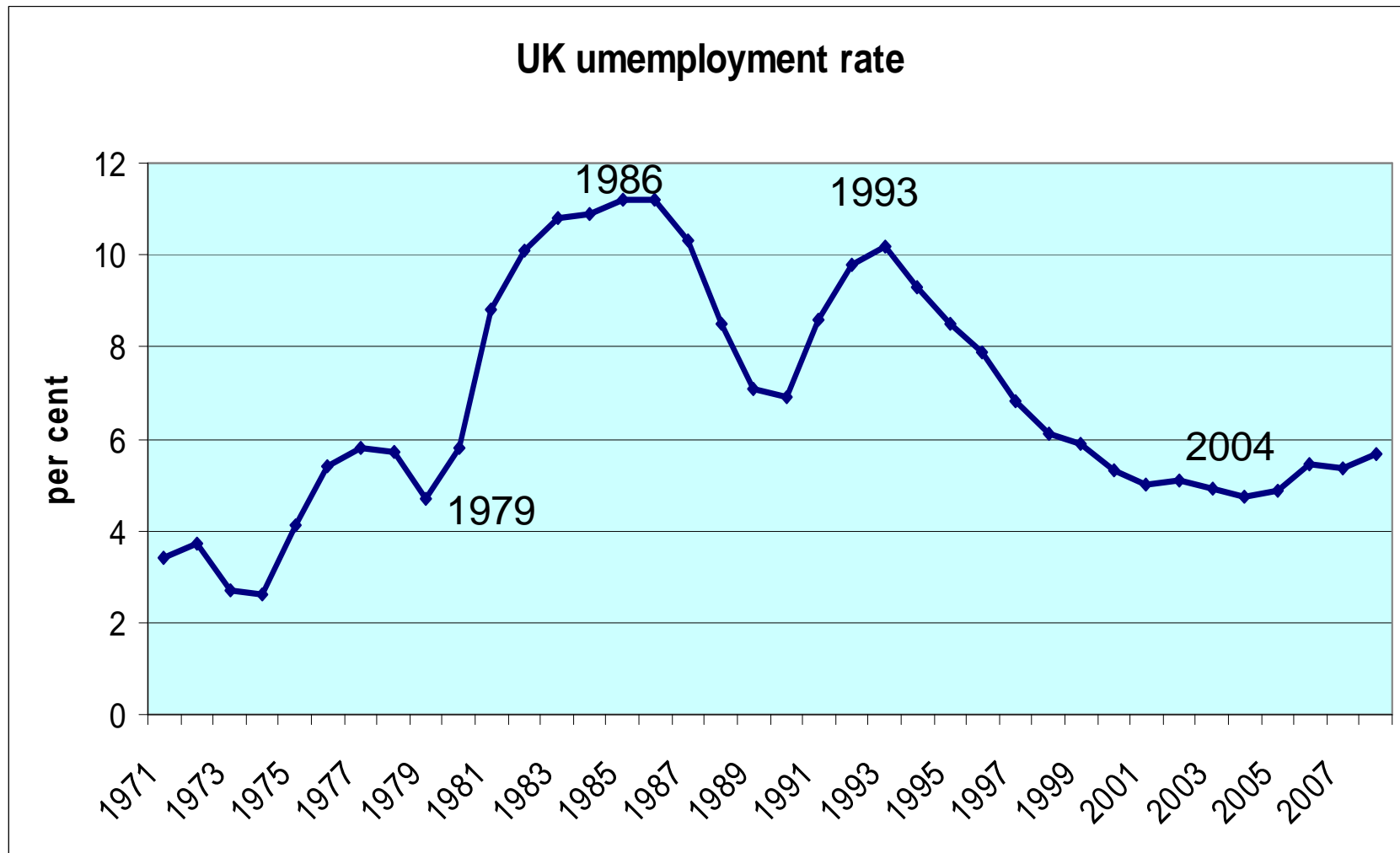
Is this recession conforming?

- This scenario was most emphatic in the early 1980s recession
- There are some signs that this recession is following a similar pattern but at a much lower scale
- From early 2008 redundancies are up sharply but unemployment picking up slowly
- Output impact seems minimal

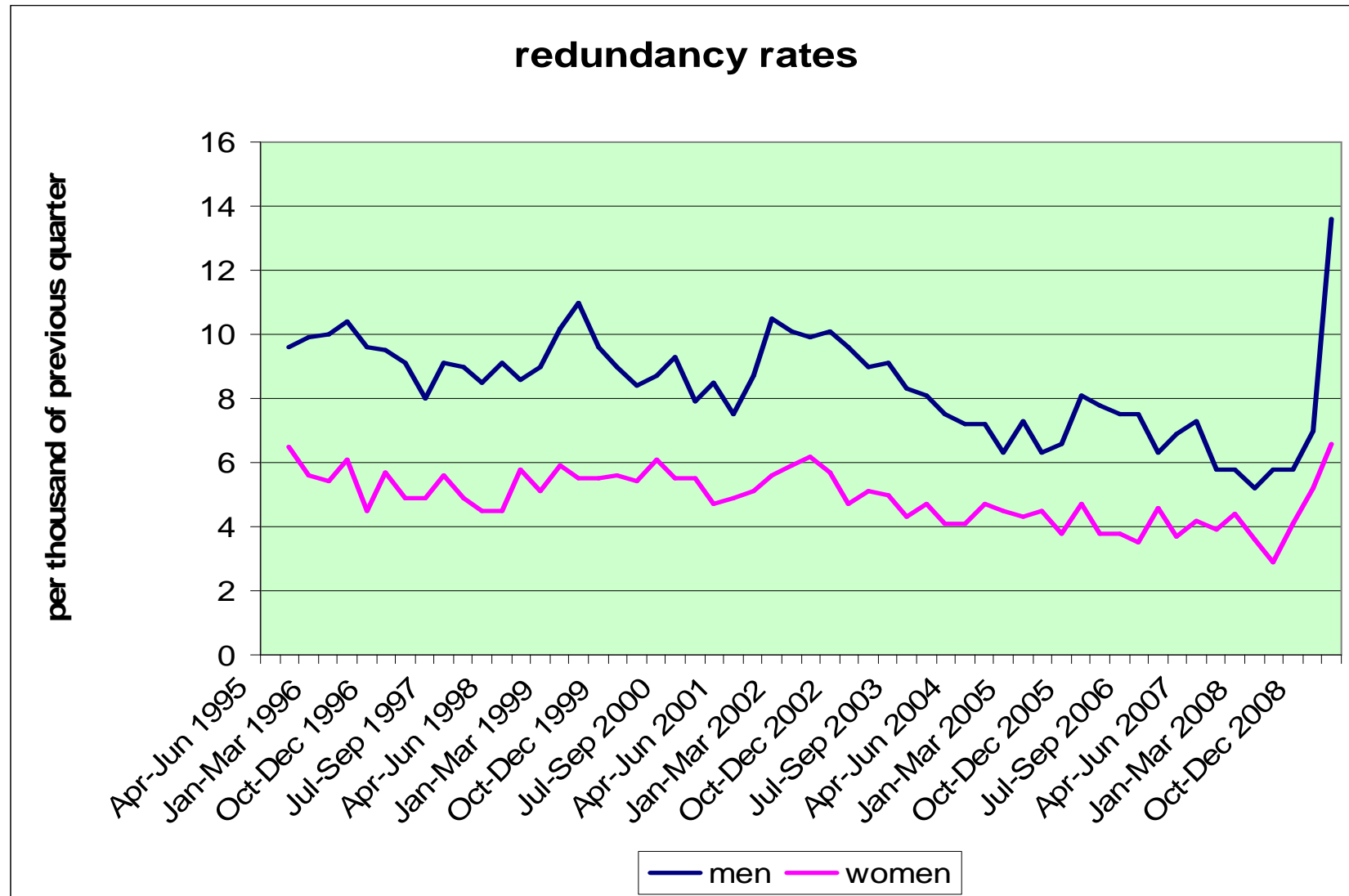
Speculative views

- Despite these early signs, this recession will not hit the labour market badly because of the reforms of 1980s and 1990s
- Decline of unions, reform of unemployment insurance, more strict supervision of benefit rules
- Will bring wage moderation, will not allow big increase in long-term unemployment

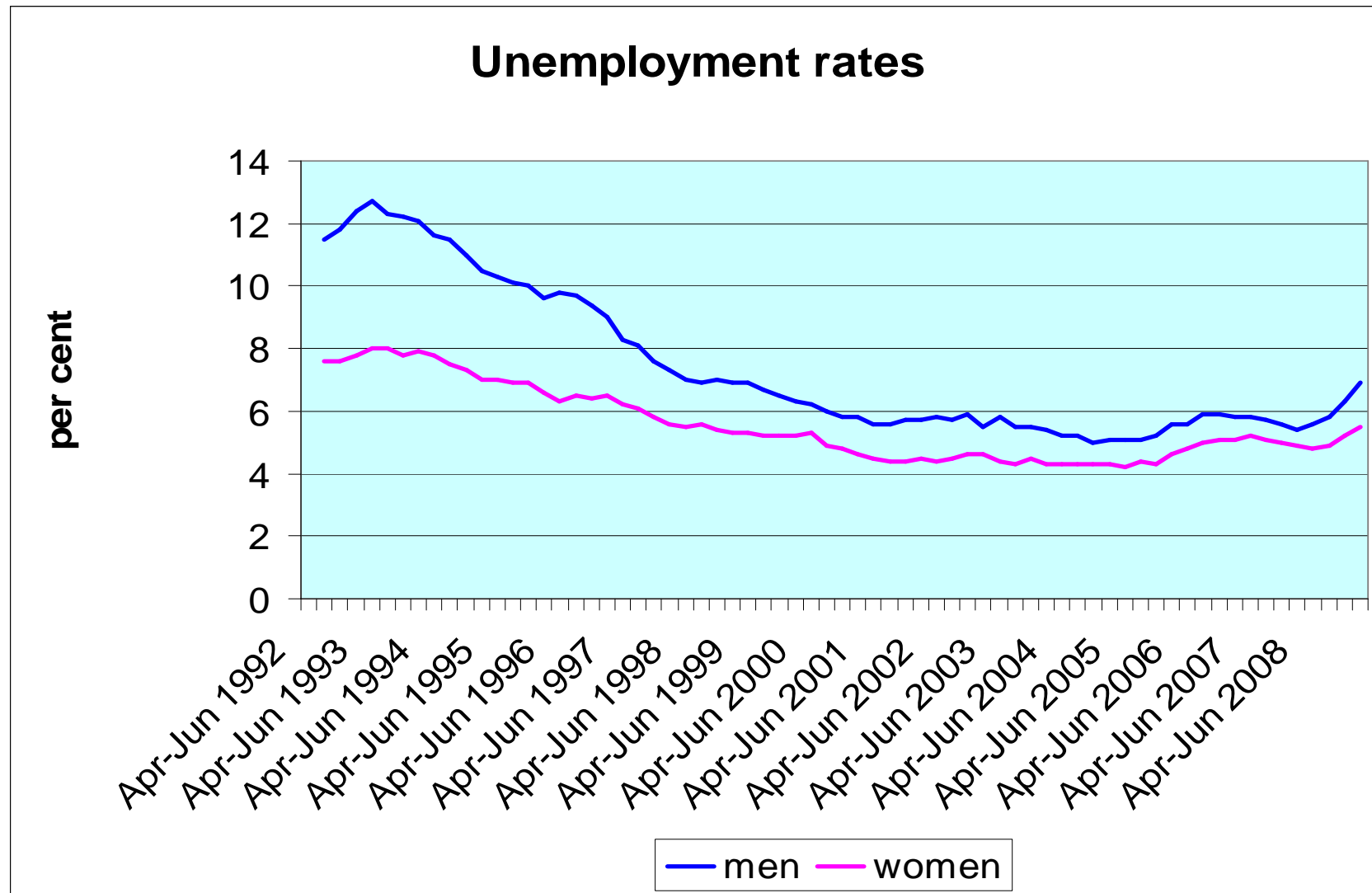
Much less impact on unemployment



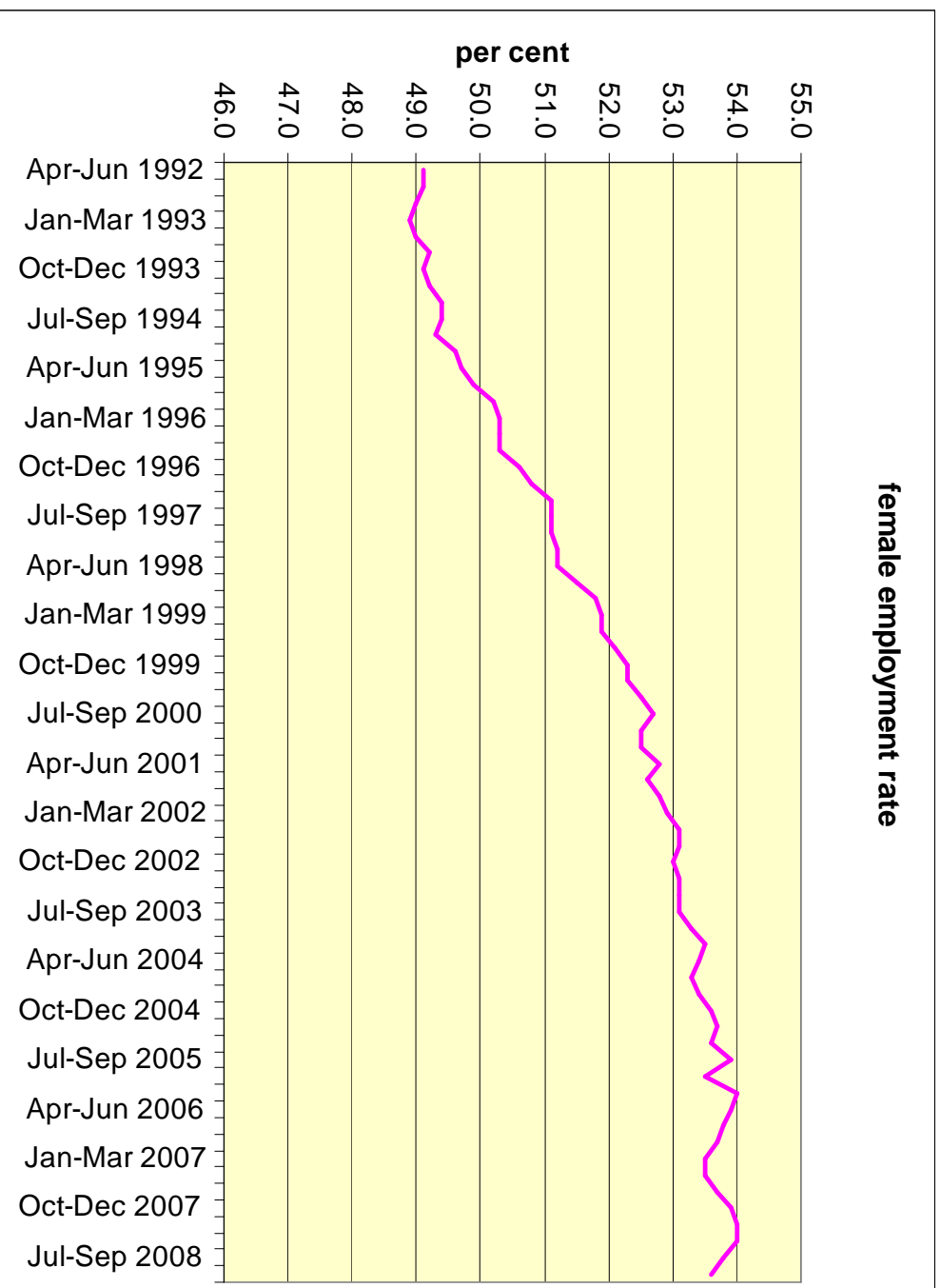
Despite sharp rise in redundancies

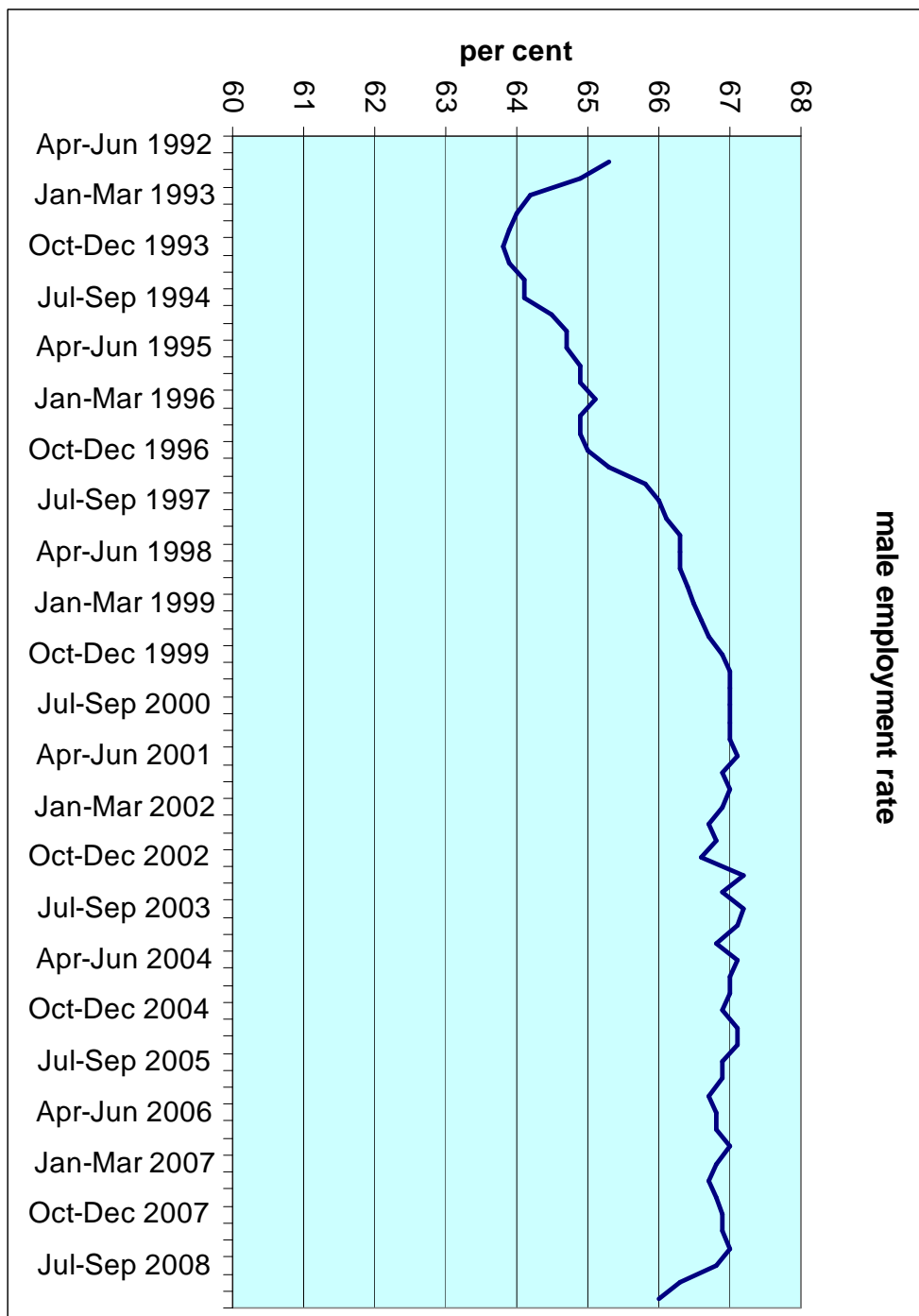


Small unemployment response whichever way you look at it

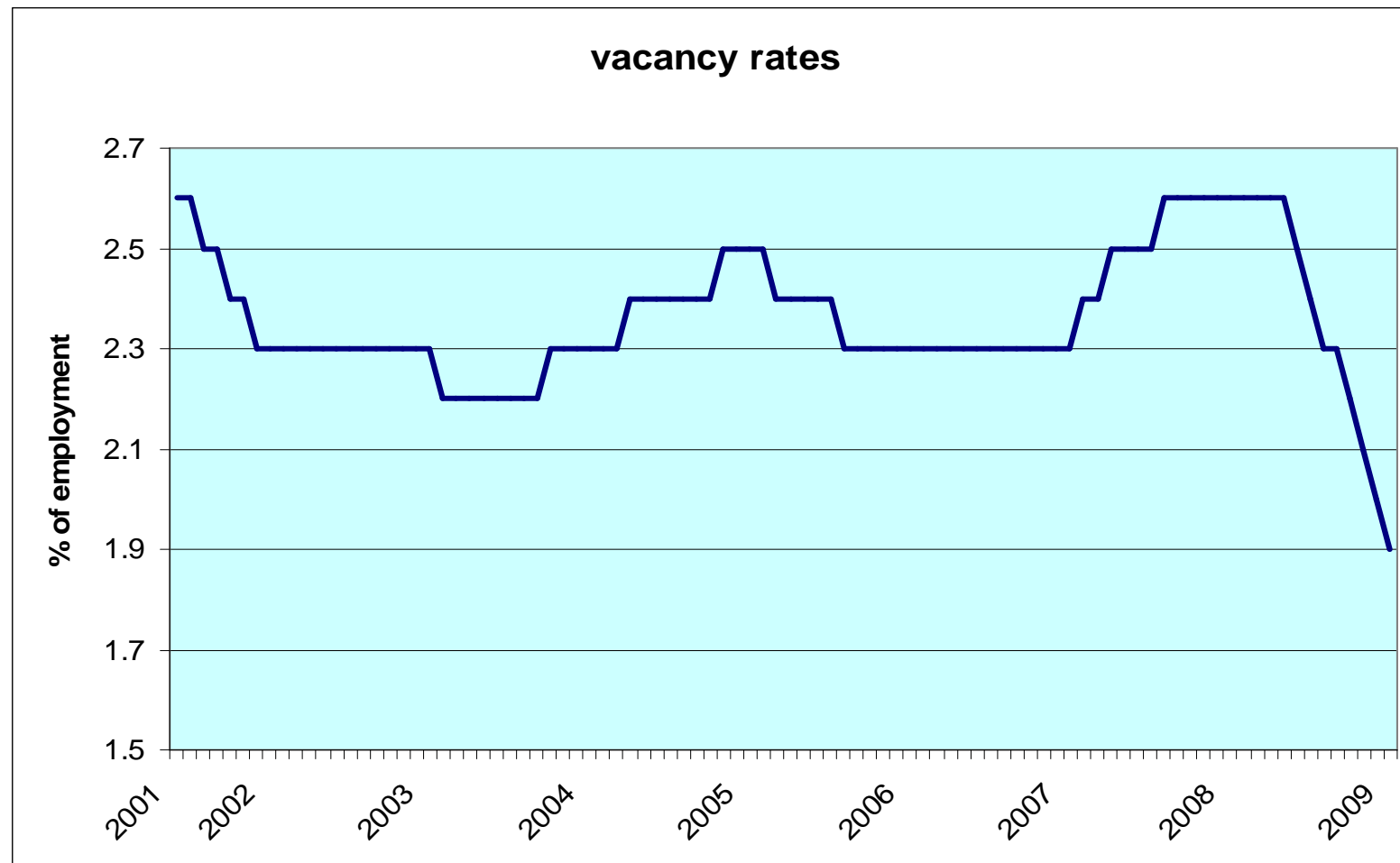


Employment rates falling but only marginally

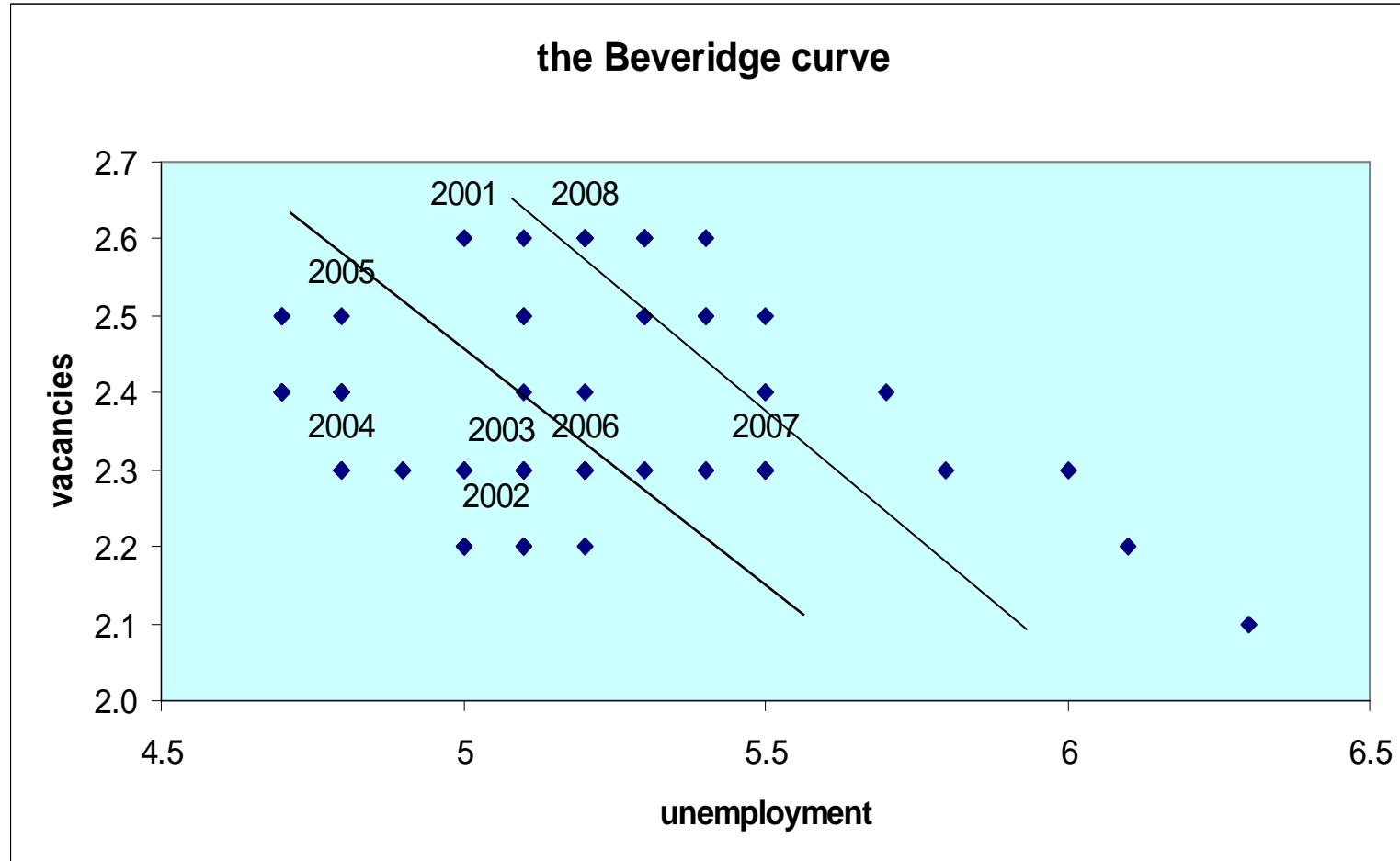




Things might get worse because hiring will fall



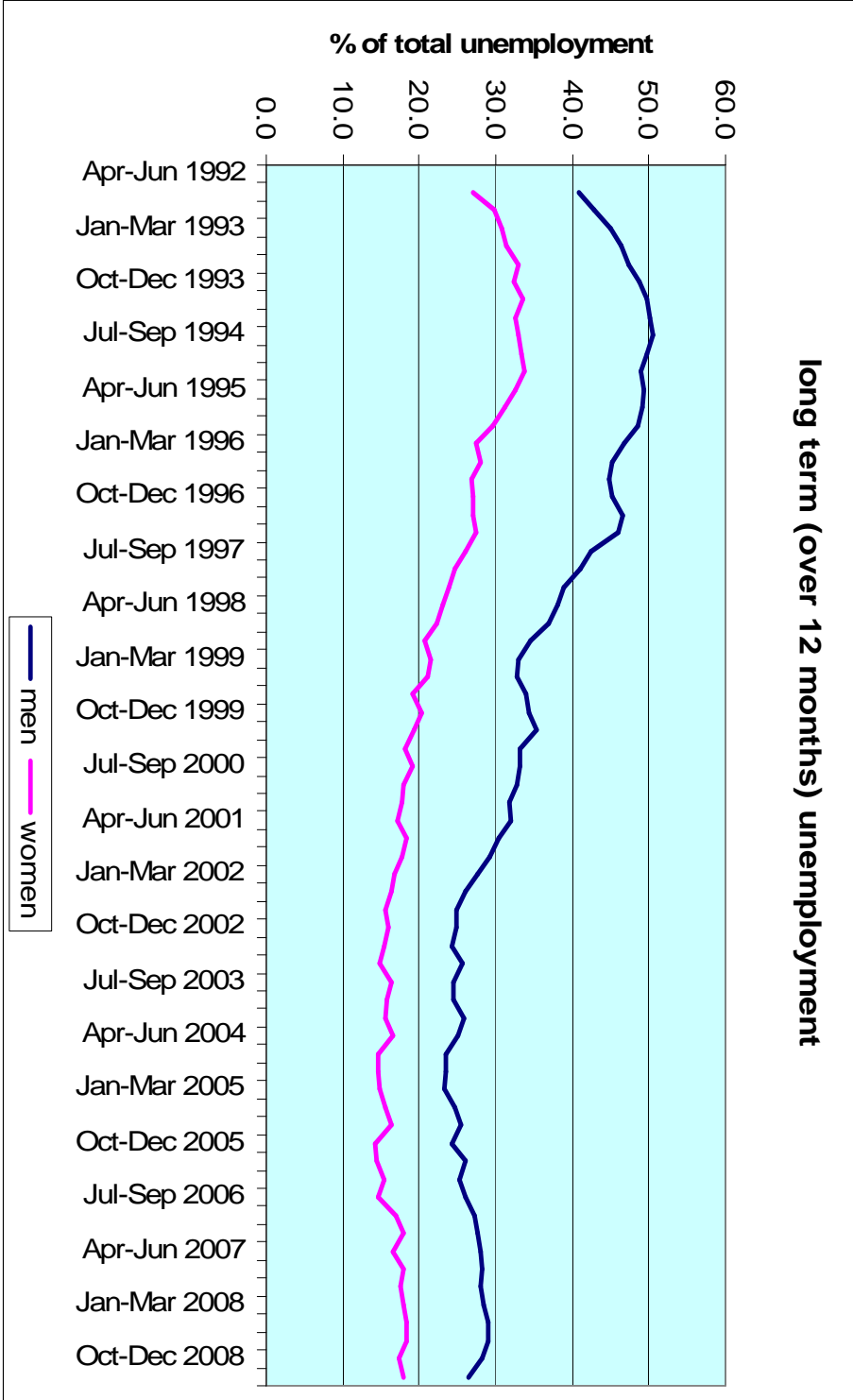
The Beveridge curve is shifting out a little
probably due to redundancies
(compare 2005-06 with 2007-08)



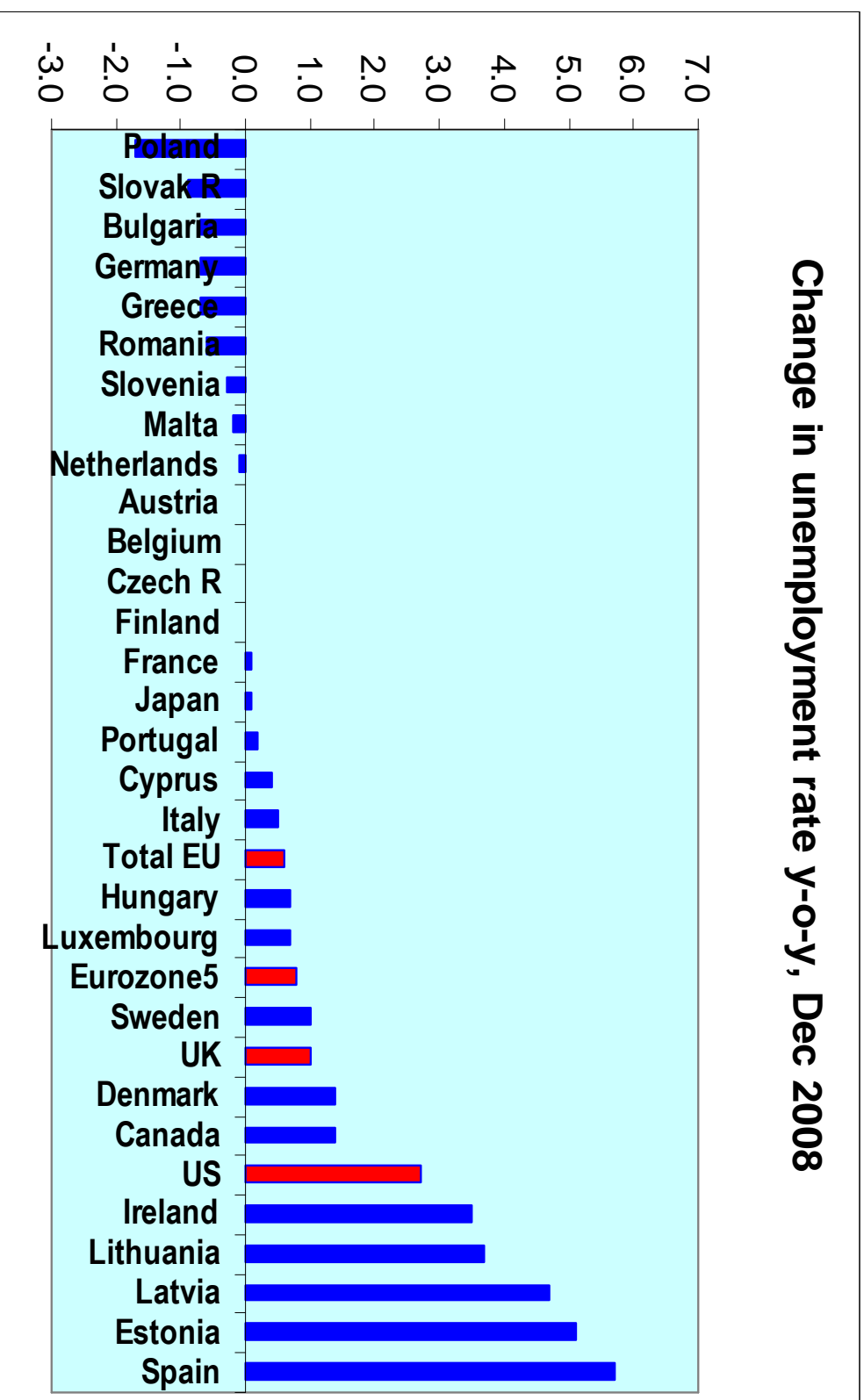
Relation between unemployment rate and long-term unemployment tight but some signs that 2008 is different



Long-term unemployment not rising
(may pick up in 2009 a little because of the rise in u in 2008)



UK not doing too badly, about the same as eurozone, better than US



Conclusion?

- It's a recession
- But not a bad one for labour
- Internationally UK not worse off than comparable countries
- Eurozone still to show worst because of rigidities, slow response, slow recovery
- UK should recover faster