

Research impact: making a difference

Creating the lower-skilled jobs vital for EU economic revival

LSE economics research influenced the European Commission to shift its employment policy towards creating jobs in the services sectors

What was the problem?

A so-called 'great recession' followed the global financial crisis of 2007-08 – deemed to be the worst recession since World War II.

Policymakers at the governmental and inter-governmental levels were faced with an urgent need to address soaring levels of unemployment as part of their overall strategies for economic recovery.

The European Commission's employment strategy continued to follow the European Union's "Lisbon Strategy" of creating jobs in advanced technology industries.

Some economists expressed concern that, should lower-skilled workers fail to find jobs, the benefits of renewed growth would not be equally shared and poorer sections of society would be forced to rely on government benefits and support systems to maintain their living standards.

What did we do?

Research on employment conducted by Professor of Economics Christopher Pissarides and Associate Professor of Economics Liwa Rachel Ngai demonstrated that the structure of the jobs market changes all the time when the economy is growing, even in post-industrial countries. They found that it is a typical phenomenon in growing economies for some sectors to flourish or grow rapidly while others decline or disappear.

Pissarides and Ngai built an economic model showing that over time jobs move from fast-growing sectors to sectors with low productivity growth, such as the caring services (childcare and healthcare services), retailing and personal services.

Two key findings were particularly relevant to policy formulation. First, employment rates vary widely across sectors of economic activity and countries that fail to achieve high employment are by definition failing in a particular set of sectors. Second, taxation and other forms of regulation had a different impact on employment rates in different sectors, with particular influence in sectors that have a home substitute (e.g. where the activity could be carried out at home, such as childcare, healthcare or unskilled services).

They also found the countries that were failing to meet the European Union's 'Europe 2020' targets were failing mainly in the sectors with home substitutes. They concluded that European countries needed to provide better incentives for 'marketisation' in these sectors, with neither of

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the two leading strategies – subsidies and deregulation – being perfect and more attention and discussion at the national and EU levels being required.

What happened?

European Union

In March 2011, at an event attended by European Commission President José Manuel Barroso and all the Commissioners connected with economic policy, Pissarides argued the importance of labour-intensive services for job creation and urged a shift in emphasis towards those services. In response, the Commission's Growth Strategy 2012 and subsequent documents placed new emphasis on healthcare and unskilled services.

In September 2012 Pissarides gave a keynote speech at the 'Jobs for Europe' summit attended by Barroso, the President of the European Parliament and the President of the European Council. Several members of the Commission staff connected with employment, including Commissioner László Andor, credited Pissarides in their presentations as having influenced this significant shift in emphasis.

Following the Summit, the Commission gave focused attention towards examining the potential of healthcare and unskilled household services for creating jobs. Another summit was anticipated to discuss the next phase and the role that could be played by these sectors in the pursuit of the Europe 2020 employment objectives. Pissarides was invited to participate in the next phase of this work.

Pissarides was also involved in a number of high-level events focused on helping national European governments to shift emphasis towards sectors with the greatest potential to create jobs:

- In October 2012 he outlined his views on youth unemployment and education at an informal meeting hosted by the Cyprus Presidency of the European Union.
- In January 2013 he was invited as an academic expert on austerity and rebuilding Europe's labour markets at the Informal Meeting of World Leaders during the World Economic Forum's annual meetings in Davos, Switzerland.

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- In July 2013, he took part in the European Leaders Summit on youth unemployment in Berlin, attended by the majority of European Union heads of government and employment ministers.
- In October 2013 he was the guest of honour at the 10th annual high-level “State of Europe” summit, where he spoke about the need to shift the emphasis in Europe from the current austerity agenda to job creation.

United Kingdom

With healthcare spending expected to increase rapidly as the demand for healthcare services increased, the UK government has needed to formulate a policy for the future of the National Health Service and determine the extent to which it wished to see an expansion of employment under the public sector umbrella.

The LSE research was of particular relevance in the UK because of the high level of involvement of the state in healthcare service provision and employment via the National Health Service. In a major contribution to the debate Pissarides wrote a comment for the British Academy in which he highlighted the importance of job creation and the need to formulate a policy for the future of the National Health Service.

In October 2013, he was invited to a discussion between a small group of experts and the deputy Prime Minister Nick Clegg. In his remarks he emphasised the role of the NHS in job creation and the dilemma facing the government in terms of the need to ensure that services such as the National Health Service are funded while sticking to targets to reduce the public sector deficit. This topic attracted significant attention in the subsequent discussion.

Sir Christopher Pissarides is the Regius Professor of Economics and the Chairman of the Centre for Macroeconomics. He specialises in the economics of labour markets, macroeconomic policy, economic growth and structural change. His book *Equilibrium Unemployment Theory* is an influential reference in the economics of unemployment that has been translated into many languages. He was awarded the 2010 Nobel Prize in Economics jointly with Dale Mortensen of Northwestern University and Peter Diamond of MIT, for his work on the economics of labour markets, especially his work on markets with frictions and unemployment. Prior to that, in 2005, he became the first European economist to win the IZA Prize in Labor Economics, sharing it again with his collaborator Dale Mortensen. Among his other engagements he is the personal advisor to the President of Cyprus on economic policy, and in 2011 he received the Grand Cross of the Republic of Cyprus, the highest honour of the Republic. He was knighted by Queen Elizabeth II in 2013.

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