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2009 : December 2009 - Emerging Research Fronts : Stephen Nickell on Long-Term Changes in Labor Market Institutions

EMERGING RESEARCH FRONTS - 2009

December 2009



Stephen Nickell talks with ScienceWatch.com and answers a few questions about this month's Emerging Research Front Paper in the field of Economics & Business.



Article: Unemployment in the OECD since the 1960s. What do we know?

Authors: **Nickell, S**; Nunziata, L; Ochel, W
 Journal: ECON J, 115 (500): 1-27 JAN 2005
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SW: Why do you think your paper is so highly cited?

There are several reasons. First, it is concerned with a topic, namely unemployment, in which there is widespread interest across the Organisation for Economic Co-operation and Development (OECD). Second, there are a number of competing explanations of the differing patterns of unemployment across OECD countries since the 1960s and there are many issues which are far from settled. Third, the analysis concentrates on a difficult question, namely explaining why longer-term changes in unemployment over time differ dramatically across different countries.

This contrasts with the much easier question, which is, why unemployment remains, on average, much higher in some countries than in others. There are many plausible explanations of the cross-section variation, but explaining the different time-series variations has proved much trickier.

SW: Does it describe a new discovery, methodology or synthesis of knowledge?

This is one of the first papers which attempted to explain long-term changes in unemployment by examining long-term changes in labor market institutions. It also demonstrates that, once we allow for long-term changes in labor market institutions, there remains little role for interactions between shocks and institutions. This latter has formed the basis of a strong strand of explanation in the previous literature.

SW: Would you summarize the significance of your paper in layman's terms?

Ever since the dramatic rise in unemployment in the 1970s and early 1980s across much of the OECD, there has been an explosion of research aiming to understand what was going on and to isolate what kind of policies would help reduce average levels of unemployment across the business cycle to more acceptable levels.

One strand of this research, set out in a book which I coauthored with Richard

Layard and Richard Jackman: *Unemployment: Macroeconomic Performance and the Labour Market*, (1991) and subsequently taken up by the OECD, emphasized the notion that some labor market institutions tended to generate higher levels of unemployment.

Examples of this might be the structure of the unemployment benefit system, labor taxes, the structure of employment protection legislation and the role of trade unions in the operation of the labor market.

The aim of this research, as exemplified by this paper, is to indicate what sort of labor market reforms might help reduce unemployment in the longer term. (Reference: R. Layard, S. Nickell and R. Jackman [1991], *Unemployment: Macroeconomic Performance and the Labour Market*, Oxford University Press, Second edition, 2005).

SW: How did you become involved in this research and were any particular problems encountered along the way?

I became interested in various aspects of the relationship between labor market institutions and the workings of the labor market in the late 1970s. In 1984, Richard Layard and I were asked by Her Majesty's Treasury to mount a serious investigation of the very high levels of unemployment then ruling in the UK, with a view toward suggesting policies which might help.

Our investigations ultimately resulted in the 1991 book mentioned above, as well as a great deal of subsequent work. A major difficulty which we faced in the 1980s was the absence of coherent international data which captured the relevant features of labor market institutions. Thanks to many individual researchers and particularly to a group of economists in the OECD, the situation has continued gradually to improve. Indeed, improvements are still being made even to this day.

SW: Where do you see your research leading in the future?

While my own research in this area has been winding down, the overall issues are still very much alive. It is probably correct to say that the general thrust of policy-making in this field is in accord with the ideas I have been involved in developing since the mid-1980s. The weight of research has, however, moved from studying what sort of policies work to studying why it appears to be so difficult to introduce such policies, at least in some countries. So the shift has been away from purely economic considerations to the political economy of labor market reform, a subject area beyond my personal compass.

SW: Do you foresee any social or political implications for your research?

Given the subject matter, the social and political implications are plain. Countries such as Denmark, the Netherlands, and Sweden have been pursuing the sort of labor market reforms consistent with the work described above with considerable success. But, in some European countries, there is plainly a long way to go.

Finally, it is worth remarking that while labor market reforms will help reduce average unemployment over the business cycle, they are not particularly germane when it comes to dealing with the sort of macroeconomic shocks which all countries are currently experiencing. Strong and effective expansionary macroeconomic policy is the only effective answer in this regard.

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Web

KEYWORDS: JOB SECURITY PROVISIONS; DURATION; EMPLOYMENT; COUNTRIES; INSURANCE; BENEFITS.



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