

# Why is the EU the home of high and severe unemployment?

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## 要旨

1993年の単一市場の発足以来、EUは高い失業率に苦しんでいる。ヨーロッパでEUに参加していない3カ国や日本・アメリカを含む他の先進国と比較して、失業率が高い。またその期間も著しく長期にわたっている。しかしながら、不幸にして、EUは研究者がその問題を特定し、理解するための証拠を集めていない。本稿では、3つの国際比較資料を考察する。経済協力開発機構（OECD）の雇用保護指標、世界銀行（World Bank）の起業容易度指標、そして国連貿易開発会議（UNCTAD）の海外直接投資指標であるが、これらの資料がEUの問題を説明するのに役立つかどうかという視点から考察する。本稿から示唆されることとして、これらの資料はEUの問題を理解するのに役立ち、また将来の研究への手がかりを与えてくれると考えられる。

**キーワード：**失業、失業期間、欧州連合（EU）、経済協力開発機構（OECD）、世界銀行、国連貿易開発会議（UNCTAD）、雇用保護、起業容易度指標、海外直接投資指標

In recent months unemployment within the EU has made the headlines, especially in September of last year, when it passed 25 million mark, which is 11.6% of the EU labour force. There were marked differences across the Union with Germany and its neighbours Luxembourg, Austria and The Netherlands around 5%, while in Spain and Greece it passed hitherto unthinkable levels of 25%, and with every sign of further increases to come.

Judging by the media coverage, one might get the impression that this is a recent and sudden phenomenon, a further fall-out from the Western financial crisis of the 2008-9, and of the eurozone fiscal crisis that followed. This is very far from the truth. Unemployment has been a chronic problem for the EU from the very beginning of the Single Market in 1993.

In this article, I will examine comparative and historical evidence -from the OECD, the World Bank and UNCTAD- in a search for clues as to why this should be, but will begin by setting out the framework of the investigation and outlining the basic facts.

## **EU unemployment in a comparative perspective**

The peculiarities of the EU can, of course, only be seen and analysed in a comparative perspective. In this investigation we will compare 12 long-term members of the EU with 10 other economies, 9 members of the OECD plus Singapore.

The 12 EU members were selected because they have been members since 1986 or earlier, and all 12 have

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therefore been part of the single market ever since it was inaugurated in 1993. If the EU and the single market have had any effect on unemployment, then it seems likely that it will reveal itself most clearly on those who have been long-standing members. Moreover, the 15 societies that have joined the EU since 1993 are a rather heterogeneous bunch which includes many former socialist societies whose labour markets and employment rates might still be affected by factors arising from their transition to market economies. German reunification in 1991 means, of course, that such extraneous factors may not have been entirely excluded from this comparison.

The 10 non-EU economies in the world with which they are compared are those which seem to be most similar- in terms of their labour market institutions and productivity- to those of the EU 12. A number of OECD countries, Mexico, Turkey, Chile and others have therefore been excluded on the grounds that they are industrializing or newly industrialized, economies with significantly less developed labour markets than the EU 12. Three of these 10 non-EU countries -Switzerland, Norway and Iceland- are European, but opted by referenda to remain independent. They are therefore of particular interest in any attempt to identify the impact of the EU, since comparison with them provide the best chance, indeed the only chance, of distinguishing European characteristics from EU ones. They are, however, only a small proportion of the total labour force or population of the 10 independent countries, and their peculiarities may be easily swamped in weighted means of the group as whole. They are therefore distinguished from the other 7 non-EU countries in the comparisons that follow.

### **The EU's record of unemployment**

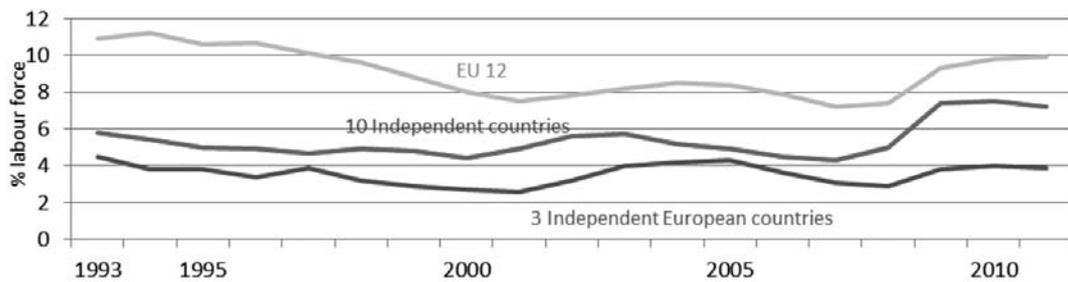
Figure 1 compares the rates of unemployment over the nineteen years from 1993 to 2011 of 12 EU members with 9 other OECD member countries, plus Singapore.

The graph presents the weighted means of the rate of unemployment in the three groups of countries over

the years 1993-2010. It shows first of all that the 12 EU countries have had a significantly higher rate of unemployment than the 10 independent countries, though the rate of the latter rose towards the higher EU rates at the turn of the century, and then quite sharply in 2008-9. The contrast between the unemployment rate of the EU 12 and the three independent European countries is still more marked. The EU 12 rate has been *more than double* that of these three countries in every year but one -2005. This comparison does not therefore support the idea that there is that there is a peculiarly European high unemployment profile. High unemployment seems to be a distinctive and enduring EU characteristic, not a European one.

Weighted means of groups will, of course, hide variations within groups, and these may best be seen in the full chart of all the data from which this graph is drawn attached at the end of this article. Some EU countries have had unemployment rates equal to, or lower than, the mean of the ten independent countries: Luxembourg and the Netherlands in 12 of the 19 years, and Denmark in eight of the 19 years- but these are a deviant minority - of just over 6 per cent of the total labour force of the EU 12. Other EU countries have also equalled or been below the mean of independent countries in a few years. Portugal did so in six, the UK in five, Ireland in three and Germany just once. In all, in 48 of the 228 individual years measured, EU members have had unemployment rates equal to or lower than the mean rate of the ten independent countries. These years are shaded in the full table in the Appendix.

Deviance on the other side -meaning one of the 10 independent countries having an unemployment rate equal to, or higher than, the mean rate of the EU 12- is far less common. Clear blue water separates them from the EU over most of this period, the exceptions being Australia and Canada in 1993, and the United States, in 2009 and 2010. Considering this data as a whole, however, could reasonably lead one to think that these two groups of countries have been run by different principles or on separate tracks over these 18 years. At first glance, it is



OECD Stat database Unemployment rate *Key Tables from OECD*, No. 1. doi: 10.1787/unemp-table-2012-1-en

difficult to think of anything that distinguishes them *as groups* other than membership of the EU.

We can delve a little further into these figures by comparing the rates of long-term unemployment in the 12 EU countries with the nine of the independent countries for which data is available, that is over the years 2000 to 2010. The results are given in Table 1. Long-term unemployment is here defined as being unemployed for a year or more, and is expressed in the middle column of the table as the proportion of the total unemployed in the two groups of countries.

The proportion in the EU 12 is slightly *more than double* the proportion in the 9 independent countries, reinforces the impression that we are dealing with some fundamentally different set of economies. True, Japan and Switzerland are higher than a few EU countries, and both Denmark and the UK have lower proportions of long term unemployment than both of them. However, not a single EU country, not even Denmark, is below the weighted mean of the 9 independent countries, and not a single independent country, not even Japan, reaches the mean of the EU 12, a rather remarkable contrast. The EU has, we may say, not only suffered from a higher rate of unemployment than independent countries, but its unemployment has been doubly severe.

The third column in the table gives the proportion of the long-term unemployed who might be especially scarred by this unpleasant experience, the 15-24 age cohort. It is of a similar overall magnitude as the proportion for all ages, but there are noteworthy variations within the two groups. Among the 9 independent countries, the contrast between Korea and Japan is astonishing. Korea has very few long-

term unemployed anyway, and only a tiny fraction of them are 15-24 year olds. In sharp contrast, nearly a third of the Japanese unemployed are long-term, nearly a quarter of 15-24 year olds have experienced it, even

Table 1 : Long term Unemployment 2000-2010

% of m&f unemployed for 1 year+	All ages	15-24 year olds
Korea	1.35	0.95
Japan	31.62	22.67
NZ	10.95	4.78
Australia	19.69	11.96
US	12.07	7.81
Canada	9.32	3.06
Norway	8.07	1.93
Iceland	10.51	3.22
Switzerland	32.54	n/a
<b>mean</b>	<b>15.12</b>	<b>6.26</b>
<b>weighted mean</b>	<b>16.38</b>	<b>10.72</b>
Netherlands	27.08	10.90
Luxembourg	26.66	18.13
Denmark	18.63	4.64
UK	24.35	14.78
Ireland*	33.05	23.43
Portugal	44.02	25.84
Belgium	49.55	28.40
Italy	52.45	47.77
Germany	51.19	27.39
France	38.63	23.64
Greece	50.74	43.08
Spain	36.19	25.89
<b>mean</b>	<b>37.71</b>	<b>24.49</b>
<b>weighted mean</b>	<b>34.49</b>	<b>22.56</b>

OECD iLibrary, 'Labour Market Statistics: Unemployment by duration', *Employment and Labour Market Statistics* (database). doi: 10.1787/data-00320-en

though the mean rate of unemployment rate is rather low, 4.68%. The U.S. profile is also distinctive. It has a relatively high unemployment rate by comparison with other independent countries, but this is combined with a relatively low proportion of long-term unemployment. This combination is consistent with the widely-held view that the U.S. has rather responsive labour markets, with employers who are quick to fire, but also quick to hire.

The proportions of the 15-24 age group suffering long-term unemployment in the EU 12 are more than twice as high as that of the 9 independent countries – a startling and appalling statistic. Getting on for half of young Italian men and women have had this wretched experience, as have 43% of young Greeks. In six other EU countries - France, Germany, Spain, Ireland, Belgium and Portugal - around a quarter of young people have endured it.

When considering the overall rate of unemployment we identified a deviant minority within the EU, defined as those EU countries that have as good a record as that of the average independent country. When we consider long term unemployment this deviant minority has shrunk. Taking all ages together, there is not a single EU country that has as low a rate of long-term employment as the mean of the 9 independent countries, and when we look at the 15-24 age group amongst them only one country has as low a proportion as the mean of independent countries – Denmark.

Overall, we can draw one clear conclusion this data: the EU has been for these 19 years a club of high and severe unemployment, with 15-24 year olds especially hard hit by long-term unemployment.

### **How might the problem be explained?**

The data presented merely identify a striking and unpleasant characteristic of the EU and tells us nothing at all, of course, about *why* this should be so. What are the possible explanations for the differences between the EU and independent countries?

It seems unlikely that they could be due to the national economic policies of member countries, and that while the

10 independent countries just happen to have managed their economies competently over these 18 years, the EU 12, or most of them, have been consistently inept. Likewise, it seems unlikely that the EU's unemployment could be due to global competition, or shifting patterns of world trade, since the 10 independent countries were subject to these forces as much as the EU member countries.

One is therefore obliged to consider whether the explanation lies within the EU itself. This causal link might, of course, run in either direction. Perhaps the three European countries opted by referenda to remain outside the EU precisely *because* their unemployment rates were consistently low, and that EU has therefore tended to attract those countries suffering either from high unemployment, or from the fear of high unemployment. This latter fearful category might include the British, who entered at a time of relatively low unemployment, but when many observers were deeply depressed by the failures of British manufacturing industry.

Apart from the fact, that it would be difficult, if not impossible, to get comparative data about the fear of unemployment to test this argument, it does not appear to be a plausible explanation on other grounds. Even if fear of unemployment was a telling factor in the British case, and real unemployment significant in others, they do not appear to have propelled the original six EU members. Fear of a resurgent Germany, or the noble ideal of transcending national rivalries and conflicts, and the not-so-noble idea of Europe recovering its proper status in the world, seem to have been rather more compelling considerations. In any case, high unemployment was not a problem in the early years of the EU. On the contrary, in the 1960s the 'miracle' of low unemployment in Europe was commonly discussed.<sup>1</sup> Moreover, the three deviant countries with the lowest rates of unemployment within the EU have remained among the most ardent drivers of ever closer union to this day.

It seems more likely therefore to that the causal relationship runs in the other direction, and therefore to ask whether membership of the EU entails costs and

obligations that have had a consistently adverse impact on the level of employment in most of its member countries. Is the level of unemployment consistently lower in independent countries *because* they are without these costs, restraints and obligations of EU membership?

### Is the EU itself the cause of the high unemployment rates of its members?

One must first observe that this is a reasonable question or hypothesis in the sense that the scope, scale and duration of EU costs and obligations, seem sufficient to have had a generally adverse impact on the level of employment over the long run. The scope or range of EU regulation is comprehensive, and touches every single industry and service in its member countries, and not infrequently entails micro-regulation of an intrusive and expensive kind. Hence it might well have had an impact across entire economies.

Measuring the scale of the costs this involves to employers is a difficult task, and one which has hardly begun. The most recent, as well as by far the most thorough and comprehensive effort, is that of Tim Congdon on the UK.<sup>2</sup> After reviewing all the earlier attempts, and citing a vast range of evidence, he finally estimated that EU membership cost the UK about £150b per annum in 2012, or 10 per cent of its GDP.

The only 'official' figure available is the European Commission's estimate of the administrative costs of its own regulations. Its *Better Regulation* website observes that 'According to estimates it would be feasible to reduce administrative costs by as much as 25% by 2012. This would have a significant economic impact on EU economy - an increase in the level of GDP of about 1.5% or around € 150 billion.'<sup>3</sup> If 25% of the administrative costs amount to € 150 billion and about 1.5% of GDP, then we may reasonably infer, by the EU's own estimates, that its total administrative costs are €600b *per annum* and about 6% of GDP of the EU.

Reconciling these, and other, attempts to quantify the total and regulatory costs with one another, producing time series of them, measuring their net impact on employment



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Home Sunday 12 February 2012

Impact assessment **Administrative costs**

Implementing regulations and laws entails costs. Some costs are linked to legal obligations to provide information either to public or private parties. They are called **administrative costs**.....

The Commission's Better Regulation strategy is aimed at **measuring administrative costs** and **reducing administrative burdens**. According to estimates it would be feasible to reduce administrative costs by as much as 25% by 2012. This would have a significant economic impact on EU economy - an increase in the level of GDP of about 1.5% or around € 150 billion.

<http://ec.europa.eu/governance/betterregulation>  
This site has now been revised without this estimate.

over time, not forgetting the beneficial impact in net recipient countries, and then offsetting them against the regulatory costs that member countries would have incurred were they not members of the EU, would be a formidable task, and for that reason will probably not be completed in the near future. For the moment, we might say that, if the EU itself is somewhere near the truth in estimating its own costs and their impact on the EU's GDP, then it seems safe to say they are on a scale that could significantly depress the level of employment in member countries.

EU costs and obligations also qualify as a possible explanation of its member's high rate of unemployment in terms of their *duration*. One of the more curious aspects the high rate of EU unemployment is that it has continued for 19 years, fluctuating no doubt because of changes in government policies in member countries, or in the European or world economy, but continuing nonetheless consistently above that of the 10 independent countries, and far above that of independent European countries. Hence any adequate explanation of the cause of this disparity must be equally consistent and continuous. EU costs and obligations also qualify on that score. They

have been consistent and continuous.

We may therefore conclude that we have an eminently plausible hypothesis that the costs and obligations of EU membership are the reason why the unemployment rate of the EU has been higher than that of 10 independent countries. And it is, difficult to think of anything else that, in scope, scale and duration, has distinguished these 12 EU countries from the 10 independent ones over the past 19 years.

### **Limitations of the available evidence**

Although it is plausible, testing or proving this hypothesis is quite another matter. To do so, we would ideally like to isolate and measure the additional costs and obligations that the EU has already imposed on employers within the single market, alongside the equivalent costs of domestic regulation in a group of comparable independent countries, so that we might then compare their impact on employment. Without such a comparison, an adequate evaluation of the hypothesis is not possible. But no comparative data of this kind has ever been collected. Neither, the Swiss cost/benefit analysis, nor Congdon's study, nor any of those mentioned in it, extend to comparative data from other EU and non-EU countries.

Since 2003 the European Commission has itself made some attempts to measure, individually, the costs of all its proposals, directives and regulations on its members by means of impact assessments of all regulations and directives. By February 2012, it had produced 696 of them, but impact assessments tend, naturally enough, to be *ad hoc*, addressing the specific proposal before them. They do not provide systematic, comparative evidence.

There is therefore no untapped store of data awaiting those who want to discover exactly what the impact of the EU might be on the level of employment in its member countries by comparing it with those of independent countries that are not subject to the same costs and obligations. It is unlikely that the EU itself will provide such data in the foreseeable future. The letter

addressed to the President of European Council and the European Commission by 12 heads of government of member countries on the 20<sup>th</sup> February 2012 included the modest request that the Commission 'publish an annual statement identifying and explaining the total net cost to business of regulatory proposals issued in the preceding year.'<sup>4</sup> Press reports suggested that both Presidents ignored the letter, but even if they had acted instantly on the request, it would only have provided evidence from 2012, told us nothing about the accumulated costs over the past 40 years or more, and nothing of course about the equivalent costs in independent countries.

The absence of such critical evidence means that the hypothesis cannot be tested. The best we can do is to examine the available historical cross-national data about these 22 economies that measure regulatory, institutional and behavioural variables akin to those that the EU imposes on its members, and see whether they are related to the level of unemployment in these economies. If they are, this will not prove the hypothesis is correct, but it will add reliable empirical support, and therefore credibility, to the hypothesis that the costs and obligations of EU membership have themselves contributed to its unemployment problem.

There are three main sources of such evidence: the OECD's *Employment Protection Index*, the World Bank's *Ease of Doing Business* index and UNCTAD's annual reports of the flows of Foreign Direct Investment (FDI) across the globe, which give the total cumulative stock of FDI held by each country at the year's end.

### **Employment protection in the EU**

It is widely believed that the EU countries have higher job security and employment protection than non-members, and it is not unreasonable to suppose that these might impose costs on employers which could affect the rate of unemployment by making them reluctant to hire when they know it is difficult to fire. So it seems appropriate to begin by examining the OECD Employment Protection Index

since this measures individual and collective dismissal procedures, both for full-time and part-time workers, the required notice periods and severance pay, whether secured by legislation or collective agreements, as well as the authorized exemptions therefrom, and compiles them all into a single decimal score between 1 and 6 for every country. Since the scale is still in the process of development, there is at present only one year with a full set of data -2008.<sup>5</sup>

These protections refer, one must note, to dismissal procedures alone, and are therefore a rather limited form of labour market regulation compared to those employment relationships regulated by the European Commission and the European Court, which cover a far wider range of issues such as working time, the posting of employees, the transfer of undertakings, maternity rights and parental leave, part time and fixed term employment, agency workers, protection of employees' personal data, and on works councils and consultation.<sup>6</sup> The OECD measures are used here as a proxy of these EU regulations simply because they are the only cross-national measure of labour regulation, and therefore provide the only chance of comparing its impact on unemployment in different countries.

The Employment Protection scores of the 21 of the 22 countries are given in the third column of the Table 3. Most of the EU 12, it may be seen, score highly on it: their mean score was 2.47 (or weighted by the size of the labour force 2.43). That of the 10 non-members (after adding an exaggerated notional figure for Singapore which was not included in the OECD figures) is only 1.64 (and weighted 1.23).<sup>7</sup>

The contrast can be expressed in terms of the aggregate labour forces of the two groups of countries: 8.9% of the total labour forces of the 10 independent countries work with high employment protection ('high' meaning a score of 2.0 or more) while nearly 80% of the total EU 12 labour forces do so. Correspondingly, 91% of the aggregate labour forces of the 10 independent countries work with low employment protection, while only 20.2% of the EU 12 labour forces do so. There is therefore a significant difference between the independent countries

Table 2 : Unemployment & Employment Protections in 22 countries

	Unemp Rate Mean 2000-2010	OECD <i>Emp Prot'n Index 2008</i> Scored on 1-6
Singapore	2.6	1.5*
Korea	3.63	2.13
Japan	4.68	1.73
NZ	4.89	1.16
Australia	5.46	1.38
US	5.91	0.85
Canada	7.08	1.02
Norway	3.59	2.65
Iceland	3.62	2.11
Switzerland	3.66	1.77
weighted mean 10	<b>4.99</b>	<b>1.23</b>
weighted mean 3	<b>3.40</b>	
Netherlands	3.82	2.23
Luxembourg	3.94	3.39
Denmark	4.85	1.91
UK	5.52	1.09
Ireland	6.10	1.39
Portugal	6.99	2.84
Belgium	7.65	2.61
Italy	8.11	2.58
Germany	8.73	2.63
France	8.75	3.00
Greece	9.85	2.97
Spain	12.11	3.11
weighted mean	<b>8.49</b>	<b>2.44</b>
corr with unemp		<i>r</i> 0.279 <i>p</i> 0.410
Corr with long-term unemp		<b>0.537</b>
OECD iLibrary (2010) 'Employment protection legislation; strictness of employment protection legislation and collective dismissals', <i>Employment &amp; Labour Market Statistics</i> (database) Doi:10.1787/data-00316-en		

and the EU 12 on this index. How far, we may now ask, are these differences in employment protection related to differences in their rates of unemployment?

We may first answer this question by measuring the correlation between the mean rates of unemployment in the 22 countries over the 11 years from 2000 to 2010, with

their employment protection scores. The first and most appropriate measure, a product moment correlation was  $r=0.279$ , which is hardly enough to make us think we might have identified a significant relationship. If we rank the 22 countries, the rank order correlation jumps to an interesting-looking  $p=0.410$ , though ranking standardizes the intervals between the countries, and ignores the more precise discrimination provided by the rates and OECD scores, so there is no reason to pay that much more attention to it.

As with any correlation between two phenomena, it is the 'outliers' which prevent the relationship being any stronger which first attract attention. They are easy to spot. Among the independent countries, Norway, Korea and Iceland stand apart, having rather high employment protection scores, but low unemployment rates, and hence achieve what is, one imagines, the desired goal of public policy almost everywhere. Within the EU, only the Netherlands and Luxembourg have managed it, but together, these five countries contradict the notion that there is a direct and universal relationship between employment protection and unemployment, or that there is an iron, universal law 'when it is difficult to fire, employers hesitate to hire'.

Nonetheless, some countries seem to have long believed that, whether or not it is true universally, it is true for them, and have for that reason been wary of increasing employment protection. Seven of the ten independent countries fall into this category, and three of the 12 EU countries. These three outliers on the EU side -the UK, Ireland and Denmark- might reasonably feel justified in their stance. Their employment protection scores may be low relative to their EU peers, but so also are their unemployment rates, again relative to their EU peers.

Another reason for thinking that there is some kind of relationship between unemployment and employment protection, even if it is not a universal one, is provided by the data on long-term unemployment. The product moment correlation between employment protection and the proportion of the unemployed who have been unemployed for a year or more, (minus Singapore because no data is available) is  $r=0.537$  and of a similar

magnitude for the 15-24 age group on their own, considerably higher in other words than the correlation between unemployment as a whole and employment protection, and therefore to be taken more seriously. This certainly merits further investigation, and raises the possibility that, in some way which we do not understand, higher employment protection tends to increase the duration of unemployment, perhaps by reminding employers of the long-term risk inherent in hiring and rehiring decisions, or by making a period of unemployment on the cv of the applicant more of a stigma.

A third reason why it would be premature to dismiss the notion that 'when it is difficult to fire, employers hesitate to hire', is that correlations cannot tell us whether or not employment protections have a direct impact on the level of employment after they cross a certain threshold. Employment protections in Spain, Italy, Greece and Portugal are still higher than those countries which have shown that high employment protection is compatible with low unemployment, and these four countries have all suffered from consistently high unemployment, well above the EU mean. The low overall correlation hardly allows us to dismiss the possibility of a causal relationship in these four cases.

The conclusion from this first source of comparative evidence is that the employment protections offered by most EU members may have some bearing on their higher rates of employment, and more probably on long-term unemployment, but the relationship is neither a strong nor a universal one. However, until such time as the impact of all EU regulation is measured, we would hardly be entitled to dismiss the hypothesis that the EU regulation has had an adverse effect on the level of employment, simply on the grounds that five countries have shown that some moderately high protection, as measured by the OECD, are compatible with low unemployment.

### **The ease of doing business in the EU**

Our second source of evidence that might shed some light on the peculiarities of the EU 12 is the World Bank's *Ease of Doing Business Index*. This ranks 183 countries after assessing each of them on multiple sub-indices, such as the time and cost needed to start a business, to construct premises, to get credit, to protect investors and to enforce contracts, as well as to hire or dismiss employees. There is therefore a slight overlap with the OECD employment protection index, though most of the items it includes are not currently the subject of EU regulation.

The rankings for the 22 countries in the index for 2012 are given in column 3 of Table 4. The mean ranking of the 10 independent countries, is 10<sup>th</sup> while that of the EU 12 is 37<sup>th</sup>. The two sets of countries are to put it simply, worlds apart! The EU12 have three outstandingly poor EU performers by this index, Greece, Italy and Luxembourg, though if we omit these three, the mean EU ranking rises only to 23<sup>rd</sup>, so there remains a significant difference between the two groups of countries. It is, we may fairly conclude, generally easier to do business in the 10 independent countries than it is in the EU 12.

The rank order correlation between this index and the unemployment rankings of the 22 countries is 0.532 (and the product moment correlation, the rather less appropriate measure in this context a similar 0.552). Evidently, therefore, this composite World Bank index, or some of its constituent sub-indices, get rather closer than the employment protections measured by the OECD to institutions and behaviour in these societies that may affect their rates of unemployment.

Once again, it is the outliers that weaken the correlation which attract attention. Among the independent countries, they are Switzerland and Japan, both of which are not among the easiest places to do business, but nevertheless do not have high rates of unemployment. Within the EU 12, only Luxembourg and the Netherlands, have the same combination. The outliers on the EU side are Denmark, the UK and Ireland, -the same three countries that were

outliers in employment protection. They are easy places to do business by world standards, and by EU standards, have low mean rates of unemployment.

If once again we make the (untested) assumption that they are enforcing the same regulations and directives as the other EU countries, then it suggests that EU regulation is not responsible for making it more difficult to do business.<sup>8</sup> If Denmark, and the UK and Ireland, can make doing business easy within the EU, why can't Greece, Italy or Luxembourg? This is, however, not quite the end of the story. As the EU's three most regular 'opters out', Denmark, the UK and Ireland may have, or perhaps must have, grown accustomed to working against the EU grain. It may be that they have had to do so to remain 'easy places to do business', and without doing so, might not have ranked so highly. But without further research, we may only speculate.

The conclusion to be drawn from this data is the simple and expected one: countries where it is easy to do business tend to have a lower rate of unemployment, and that most EU countries are not among the easiest places to do business.

### **The EU as a site of foreign investment**

Our third source of comparative evidence that might shed some light on differences between the two groups of countries are UNCTAD's annual reports on the flow of foreign direct investment (FDI) into each of these countries during the year as well as the accumulated stock of FDI. However, the annual flows are volatile and have been discussed elsewhere, so we will concentrate on FDI stocks, meaning the cumulative result of investment into each country in past years.<sup>9</sup>

This measure differs from the two previous ones in that we know nothing of its constituent elements, that is to say the priorities and criteria which guided investors' decisions. The measure only tells us the final result: when, where and how much was invested. No doubt investors take into account many things of no concern to the OECD and World Bank, or the EU, like tax rates, but it is unlikely that they overlook labour market institutions

Table 3 : Unemployment & the ease of doing business		
	Unemp Rate Mean 2000-2010	World Bank <i>Ease of Biz</i> rank of 183
Singapore	2.6	1
Korea	3.63	8
Japan	4.68	20
NZ	4.89	3
Australia	5.46	15
US	5.91	4
Canada	7.08	13
Norway	3.59	6
Iceland	3.62	9
Switzerland	3.66	26
weighted mean 10	4.99	
weighted mean 3	3.40	
Netherlands	3.82	31
Luxembourg	3.94	50
Denmark	4.85	5
UK	5.52	7
Ireland	6.10	10
Portugal	6.99	30
Belgium	7.65	28
Italy	8.11	87
Germany	8.73	19
France	8.75	29
Greece	9.85	100
Spain	12.11	44
weighted mean 12	8.49	
corr with unemp		$r$ 0.552 $p$ 0.532
World Bank 2012 <a href="http://www.doingbusiness.org">www.doingbusiness.org</a>		

and regulation, even though they probably evaluate them rather differently from OECD and World Bank surveys.

Column 3 of Table 5 lists the stock *per capita* of each country as recorded in 2010, and it will immediately be clear that there are vast differences among the 22 countries. The correlation with the rate of unemployment in column 2 is  $r=0.456$ , a moderately strong negative relationship and when the 22 are ranked ordinally,  $p=0.452$ . This is another not-too-surprising result. Countries which have received above average amounts of FDI tend to have lower rates of unemployment than

those that have received below average amounts.

At first glance, however, it does not appear that this is a variable that could help to explain the EU's higher rate of unemployment, since the weighted means of the stock of FDI per capita of the EU 12 compares very favourably with that of the 10 independent countries \$14,483 v. \$9902 *per capita*. Appearances are, however, somewhat deceptive in this instance. The low weighted mean of the 10 independents is largely due to the three outliers -Japan, Korea and the U.S- all of which, in their different ways, have somewhat unusual FDI histories, leading to low or very low *per capita* rates of FDI.

Japan seems never to have quite recovered from the antipathy towards foreign investment that followed the pilot FDIs in the early years of the Meiji Restoration. FDI is either not welcome, not needed or encouraged or perhaps too daunting for the foreign investor. In any event, over the entire 42 years of UNCTAD's annual returns, Japan has remained at or near the bottom of the rankings of both inflow and stock of FDI in industrial societies, usually accompanied by Korea. In the past decade or so, both countries have begun to encourage FDI, as may be seen from their rankings in the World Bank ease of doing business in Table 3. It will, however, be a long time before either of them approach the levels of FDI stock found across Europe.

Oddly enough, the U.S., though now the world's top recipient of FDI in absolute terms, is also a relative newcomer. During its industrialization, and all the way through it, the U.S. imported of labour from Europe rather than capital, and much of the stock of FDI accumulated by European investors, and especially British investors, was eliminated, one way or another, during World War II. For several decades thereafter, the US was seen as, and saw itself as, solely as an exporter of capital and rarely as an importer. Substantial inflows of FDI from diverse sources are therefore relatively recent. They were led by the Japanese in the 1980s, though given the size of the U.S. economy, it will take several more decades of active encouragement of FDI to equal the *per*

Table 4 : Unemployment & FDI stock *per capita*, and rank *per capita*

	Unemp Rate Mean 2000 -2010	FDI stock \$ <i>per capita</i> 2010	Un emp rank of 19	FDI rank of 19
Singapore	2.6	92378	1	1
Korea	3.63	2637		
Japan	4.68	1698		
NZ	4.89	16055	8	13
Australia	5.46	22818	9	10
US	5.91	9715		
Canada	7.08	16495	13	12
Norway	3.59	35189	2	8
Iceland	3.62	36769	3	6
Switzerland	3.66	69990	4	2
whtd mean 10	4.99	9902		
whtd mean 7	5.66	29,210		
whtd mean 3	3.40	56,009		
Netherlands	3.82	35504	5	7
Luxembourg	3.94	40102	6	5
Denmark	4.85	25081	7	9
UK	5.52	17442	10	11
Ireland	6.10	55280	11	4
Portugal	6.99	10327	12	16
Belgium	7.65	62548	14	3
Italy	8.11	5572	15	18
Germany	8.73	8192	16	17
France	8.75	15569	17	14
Greece	9.85	2954	18	19
Spain	12.11	13336	19	15
whtd mean	8.49	14683		
corr with unemp of 22		$r$ -0.456 $p$ -0.452		
corr with unemp of 19			$r$ -0.602 $p$ -0.731	

UNCTADStat Inward & Outward Foreign Direct Investment Stock, Annual 1980-2011. Luxembourg was omitted because of the lack of data over the period.

*capita* stock of long-standing European recipients.

Together these three countries, Japan, Korea and the U.S., constitute nearly 75% of the population of the group of 10 independents, and it is their presence that makes the EU 12 compare rather favourably in terms of

FDI. If they are removed from the calculations, the mean FDI stock *per capita* of the seven remaining independents jumps to \$29,210, which is about double that of the EU 12. If the comparison is confined to the three European independent countries it increases to \$56,009, which is almost four times the mean *per capita* 2010 stock of the EU12. Compared either to these seven independent countries, or to their three European neighbours who have chosen to remain outside the EU, the EU 12 are evidently rather unattractive to foreign investors.

If we re-calculate the correlation between the rate of unemployment and the FDI stock *per capita* for the remaining 19 countries, it jumps to  $r=0.603$ , and in rank order  $p=0.731$ . This is the strongest relationship we have discovered thus far, and makes it reasonable to suggest that one reason why the seven independent countries have less unemployment than the EU 12 is that foreign investors have been willing to invest \$14,527 more in every one of their citizens than they have been willing to invest in the inhabitants of the EU 12, and *a fortiori*, the reason why the three non-EU countries have still less unemployment is that foreign investors have been willing to invest \$41,326 more *per capita* in every one of their citizens than they have been willing to invest in the inhabitants of the EU 12.

We have now identified two variables which are related to the rate of unemployment, 'ease of doing business' ( $r=0.552$ ,  $p=0.532$ ) and the stock of FDI ( $r=0.603$ ,  $p=0.731$ ). This immediately leads one to ask whether these are really two variables, or simply two measures of much the same things in a country's economic environment, since foreign investors would probably, one guesses, invest most in countries where it is easy to do business. Surprisingly, this is not the case. They are independent variables, slightly related to one another but with a rather low negative correlation of  $r=0.22$  or  $p=0.28$ . Their considerable degree of independence tells us that FDI decisions are influenced but not decisively determined by the ease of doing business, and vice versa.

This then raises the question of how well they might together explain the variance in the rate of unemployment

in the 19 countries. The adjusted  $r^2$  (or coefficient of determination) is 0.568 and the regression model is highly significant  $p < .01$ , meaning that ease of doing business ranking and FDI stock can together explain 57% per cent of the variance in rate of unemployment of the 19 countries. These two measures do in other words, take us some way to understanding the unemployment problem of the EU.

### **Conclusion: a step towards an explanation**

While the comparative and historical evidence we have examined cannot explain the high, persistent and severe unemployment found within the EU, they strongly suggest that the regulatory and institutional environment of member countries has been a major contributory factor. The three measures we have used refer to only a part of that environment, which overlaps to some unknown degree with the much larger part for which the EU assumed prime responsibility since the start of the single market. It is not unreasonable therefore to suppose that EU regulations have had a similar, if not greater, effect. The hypothesis with which we began -that the EU is itself responsible for the exceptionally high rate of unemployment of its members- therefore receives substantial empirical support and additional credibility from this evidence. The EU therefore has a case to answer, or at the very least to address, by collecting the data which would measure the impact of its regulatory regime, and enable the hypothesis to be tested thoroughly.

In the course of this investigation, we have also learned a little more of the characteristics of long-time EU members that distinguish them from independent countries, even though we have also identified outliers who do not conform to the EU norm on one or other of the variables we have considered. On this basis we can piece together a collective portrait, a photo-fit of the EU, consisting of characteristics that we have found distinguish long-term EU members.

Over the nineteen years of the single market, the EU countries have formed a club of high, persistent

and severe unemployment. They have also provided high employment protection, in which they take great pride. They are not, for the most part, easy places to do business, and we know that over the eight years that the World Bank has been running its survey (2005-2012) they have done little or nothing to make it any easier. They are countries which, on the whole, foreign investors are not especially keen to invest in.

Finally, we know that they are not given to self-analysis and self-criticism, if anything they are inclined to be self-congratulatory, to praise their own achievements. As this is being written, the EU is celebrating the 20<sup>th</sup> anniversary of the Single Market, but none of its leaders have asked themselves why over those 20 years we let unemployment blight the lives of so many EU inhabitants when independent societies have been able to do so much better, and why have we declined to collect evidence so that we, and everyone else, might try to understand our long-standing problem.

This final characteristic, the unwillingness to hold themselves to account, is perhaps the least attractive. It may be that factors not amenable to EU control, such as historical legacies, cultural preferences, and national political restraints, may have played a part in maintaining unwise employment protections and obstacles to doing business, as well as turning foreign investors away. However, the reluctance to collect and publicize the facts about itself, to investigate why the EU performs so badly compared to independent societies, and to respond to the wretched experience of many of its young people, are in altogether different category. These are grievous omissions, are entirely of the EU's own making, self-serving and unforgivable.

#### **Note**

- 1 Olivier J. Blanchard, *Explaining European Unemployment*, NBER Reporter: Research Summary 2004.
- 2 Tim Congdon, *How much does the European Union cost Britain?* UK Independence Party, London, 2012 Available at [http://ukip.org/media/pdf/Cost Of The EU11.09.12.pdf](http://ukip.org/media/pdf/Cost%20Of%20The%20EU11.09.12.pdf)
- 3 It did not date its estimates, but one guesses that it is referring to the study which it had conducted in 2009. Commission of the European Communities, *Reducing Administrative Burdens in*

*the EU*, Brussels 28.1.2009 Com (2009).

- 4 Joint Letter to President Van Rompuy and President Barroso  
20<sup>th</sup> February 2012 <http://www.number10.gov.uk>
- 5 OECD, Danielle Venn (2009) '*Legislation, collective bargaining and enforcement: updating the OECD employment protection indicators*', [www.oecd.org/els/workingpapers](http://www.oecd.org/els/workingpapers)
- 6 For details see the Directorate of Employment, Social Affairs and Inclusion see <http://europa.eu/social> and for summaries and texts of the legislation <http://europa.eu/legislation>. This body of regulation is still advancing. In the EU calendar, 2012 is the year of the 'European Campaign of Psycho-Social Risks at work'. see [osha.europa.eu/en/publications/reports/7807118](http://osha.europa.eu/en/publications/reports/7807118)
- 7 pp.38-44, International Labour organization, *Termination of Employment Instruments*, ILO, Geneva, 2011, See <http://www.ilo.org/wcmsp5/groups/public/>
- 8 In another context the assumption that the same regulations lead to the same behaviour was tested, and found to be false. The UK Department of Business, Innovation & Skills (2011) re-analysed World Bank trading data to discover whether EU regulations led to common procedures and costs in member countries. It discovered a 'huge variation in the costs of trading across EU Member States, all of which operate under a common regulatory framework', and concluded 'Clearly, common rules do not generate common outcomes.' p.16, *Trade Facilitation*, Trade and Investment Analytical Papers, Topic 10 UK Department for Business, Innovation & Skills, London, 2011. see <https://www.gov.uk/government/organisations/department-for-business-innovation-skills/series/trade-and-investment-analytical-papers>
- 9 Michael Burrage, *Does the EU's single Market encourage FDI in the UK?* <http://www.brugesgroup.com> research paper