THE THEORETICAL APROACH OF JOBLESS GROWTH

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ÖSSZEFOGLALÓ

A tanulmányban a főként kilencvenes évektől hosszabb távon jelentkező ún. „munkahelytelen növekedés" (jobless growth) kérdésköréből kiindulva elsősorban a kibocsátás, illetve a foglalkoztatás és a munkanélküliség látszólag meglazult kapcsolatára koncentráltunk.

Vizsgálódásaink során arra a kérdéskörre kerestük a választ, hogy a gazdasági növekedésre miért kevésbé érzékenyek a munkahelyteremtésben bekövetkezett változások. Úgy találtuk a vizsgált időszakban és az OECD országokban, hogy a munkapiac kvantitatív oldala nem áll szignifikáns kapcsolatban a reálkibocsátás növekedési ütemével. A lehetséges elméleti magyarázatok mellett, kitértünk még különböző korábban elvégzett kutatásokra is.

SUMMARY

In our study we mainly focused on the so-called jobless growth labour phenomenon in medium run. During our analysis in the OECD countries after the middle of 90's, we found that the employment output link has changed. Hence the employment, unemployment growth rates, and the changes in inactivity are less responsive to real GDP growth.

We also mentioned various theoretical explanations as the sectoral shifts in labour, the causes of fiscal loosening, and the role of the institutions, and also some other researching studies.

JEL Classification: J64, J24, O49.

Keywords: *Unemployment, Employment, Economic Growth.*

1. INTRODUCTION

In recent decades in most countries of the world major economic growth took place. The real income has increased since generations, which ultimately made possible for people higher living standards. The primary task of our research is to understand the connection between the factors of production and labour in dynamic approaches.

The economics of the latest issue of macroeconomic theory mainly try to find the answer, whether could policy maintain the longer-term sustainable economic growth, and also creating jobs? Unfortunately, the findings of relevant theories are still unclear in practices, and some questions remained in the control of decision makers [Mankiw, 1999]. Thus we accepted the fundamental assumption of the neo-Keynesian approach that the former market-clearing models are not able to give unambiguous explanation of the cyclical fluctuations, so in the longer-term processes it may not be also used.

The starting point of our researches is the labour market imperfections, which might cause the unreasonably low intensity of employment, and the long-term and/or involuntary unemployment problems. These unfortunate economic policy failures sometimes could couple with the so-called jobless growth (recoveries), as the relationship between growth and job creation seems to loose in the last decades.

Though, this relationship couldn't consider as a new phenomenon. Examining the U.S. economy fallback decades empirically proved that in the '70s and '80s, as well as the '90s, and in the millennium recession, after the initial expansion periods the employment increased lower as the growth rate of output would be required [EC, 2005]. Actually the original jobless growth thesis criticized the traditional macroeconomic postulate of output and unemployment in the short-term cyclical relationship. In any case, though the Okuns law [Okun, 1962] have been checked empirically many times, but the findings of negative correlation were appropriate up to now.

However, I also accept that the correspondence between the two factors changes over time. This supported by the statement of [Knotek, 2007] study, which examined the coefficient in long-term until the last decades, and found that the current unemployment less respond to the changes in output than values of the past.

Thus in recent years, apart from the fluctuations, it also appeared that the impact of increased labour demand, and employment needs, as well as unemployment and inactivity change were less responsive to economic growth. Hence the definition of jobless growth for us means that *the sensitivity of the economic output in terms of employment, unemployment and inactivity has been reduced*, so in the recovery phases of job-creating must not be given similar to that in the past. But how pervasive phenomenon we are dealing with?

Table 1.: Correlation matrix of some labour market criteria and real output growth between 1995 and 2008.

	Real GDP growth	Employment growth	Inactivity growth	Unemployment change
Real GDP growth	1.000			
Employment growth	0.015*(0.747)*	1.000		
Inactivity growth	-0.068*(0.162)*	**-0.357***(0.000)*	1.000	
Unemployment change	-0.045*(0.350)*	**-0.505***(0.000)*	0.071*(0.141)*	1.000
Real wage growth	**0.209***(0.000)*	**0.168***(0.005)*	**-0.260***(0.000)*	**-0.216***(0.000)*

Source: EC AMECO Database

Note: p-values are in italic

If we examine the following period (1995-2008) most important changes of quantitative criteria of labour market (employment, unemployment and inactivity), and also the growth in real output and wages, we could find the following correlation matrix results [Table 1.].It seems to be firstly for us, that the expectations of the direction of relations meet. Namely the aggregate level of real output growth is likely to increase employment and real wage growth, as well as reduce the unemployment and the changes of inactivity. On the other hand surprisingly the only variable that significantly correlated with the growth rate of output is the real wage growth. The other factors apparently *do not differ significantly* from zero, so it may conclude that in recent years the impact of growth in the labour market "quantitative side" would not be sensitive.

In our opinion, the theme of jobless growth is not purely macroeconomic problem, so it should be also examined in institutional perspective. Thus the traditional neo-Keynesian perception of different types of market failures explanations essential to the understanding of economic processes. At the common starting point of the Keynesian approaches the economic fluctuation did not reflect the Pareto-efficient solutions in the choices of consumers and the changes in technology, but they could be much more established by some kind of "market failure" results [Mankiw, 1990].

Following this assumption, the labour market imperfections may be responsible for the jobless growth. The labour market imperfections undoubtedly existed. The *laissez-faire* market equilibrium level could never be reached in reality, because of wage and price rigidities. In practice, the labour market is imperfectly competitive. Just only think of the information asymmetry between employers and employees, as well as the production and consumption externalities, which in no way included to the scope of pure market interactions. As a result, the operation of market barriers could affect the long-term economic development and working relationship.

2. THEORETICAL APPROACHES OF JOBBLES GROWTH IN MEDIUM RUN

Rightly so, we established the following hypotheses to explain the jobless growth phenomenon. Firstly it may causes by the distortions of the state i.e. through the employment effects of the *sectoral-shifts*, and also because of the loosening of fiscal policy and the high real interest rates, which resulted in the *investors uncertainty*, as well as in the *disproportionate wage differentials* at the public and private sectors. These mechanisms could affect separately the loosing relationship between economic growth and employment.

The academic literature is quite divided in connection with the role of the structural shifts in jobless growth [EC, 2005]. Some literature fairly sceptical [Abraham-Katz, 1984], but also others are not [Sakata, 2002] supported by the fact that short-term shifts of employment in certain sectors could influence economic growth. Indeed, in [Groshen–Potter, 2003] study found that after various major economic crises of the boom periods the structural effects play increasingly greater role in the economic changes. However others considered in longer-term and tested the relevance of different monetary and fiscal variables, and also discovered significant impacts especially in unemployment [Loo, 1998]. The [Onaran, 2008] study mainly focused on the new Central and Eastern European member countries and also the manufacturing sectors with static and dynamic panel regressions. The results concluded that in number of countries and industrial sectors the employment and wage changes are less sensitive to the effects of economic growth. Furthermore, regardless of the wage-effect of the FDI, the negative effects of trade could be demonstrated in majority of countries. An additional [Li et al., 2007] research examined the effects of *Schumpeterian* creative destruction phenomenon in various engineering Irish sectors. In this sense, the definition of jobless growth used i.e. the main employment benefits are generated in highly productive export oriented and innovative enterprises but captured outside the manufacturing entities.

The phenomenon of jobless growth could also occur in increased interest rates and loosening fiscal policy in a number of ways [Boeri-Garibaldi, 2004]. This is an important outlet of weakening complementation between the new (*de novo*) investments and workplaces. The high interest rates will reduce investment, so the application of new technologies in production requires the use of less labour and companies refer to more productive use of physical capital. In addition, the fiscal policy changes alter the expectations of private individuals and the government's credibility. But in the future, the loosening of fiscal policy might certainly entail increase of tax burden. In other words, the firms anticipate this as ominous sign, hence they ought to be reducing future investments and employment. The second channel, which is linked to fiscal policy and the jobless growth, resulted from the so-called "crowding out" effect with increased labour costs [Boeri–Garibaldi, 2006]. The disproportionate increase in real wages in the public sector is even more worsening the fiscal balance. The private sector as a result might create less new jobs and because of higher wages the highly skilled labour is also driven out of market.

According to our second hypothesis, because of the indirect effects of labour market institutions and interactions the market actors do not participate in the economic growth to be justified. The question is now how institutions matter. Labour market institutions are a system of laws, norms, or conventions resulting from a collective choice and providing constraints or incentives that alter individual choices over labour and play [Boeri–van Ours 2008]. In our point of view labour market institutions are examined to determine what role to play in market imperfections, and how these affect the relationship between output and labour marker.

The perspective of the endogenous growth theories [Baron–Sala-i-Martin, 1999] pointed out that the most important mechanisms by which the labour market institutions may affect the productivity growth are mainly in physical and human capital accumulation, and technological innovations. In addition, others concludes that [Layard, Nickel, 1999], under certain conditions, notably the impacts of trade unions and institutions of social care systems found plausible in the equilibrium unemployment and on long-term productivity as well.

3. CONCLUSIONS

In conclusion, it is assumed that the bad fiscal arrangements will certainly weaken the direct effects of potential output growth to employment and unemployment. In addition, the decisive state in the context of a result of "distortions" and interactions of certain labour market institutions could also contribute to jobless growth phenomenon in longer term.

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