

rigidity and disincentives for active job search, but also the deterioration of the skills of those out of work for long periods. For these reasons, in this account the unemployment problem should be concentrated among the least skilled. This section addresses three dimensions of this part of the Unified Theory.

Unemployment Rates by Skill

If an important part of the unemployment problem is skill-biased demand shifts in rigid labor markets, we should see at least two empirical patterns. Across countries, unemployment among the least skilled should be greatest relative to those with higher skills in those countries with the most rigid labor markets. After all, workers in countries like the US have, supposedly, adjusted to the new economy with wage cuts. Within countries, if skill-biased technological change is the fundamental problem, we should observe a rising ratio of low-skilled to high-skilled unemployment over time, caused by rising low-skill rates and stable or declining high-skill rates.³

Evidence pertaining to the first of these predictions has already been presented. Figures 7.4 and 7.5 show that the probability of being unemployed for low-skilled workers relative to their high-skilled counterparts is greatest in the US, widely regarded as the country with the most flexible labor markets. This result appears to directly contradict the demand shift/rigid labor markets prediction. Other data confirm this result. For example, the OECD *Jobs Study*, perhaps the most authoritative voice of the conventional wisdom, compares white-collar and blue-collar unemployment rates from the mid-1970s through the early 1990s for eight nations (OECD, 1994). The report finds that lower skilled workers in the US have consistently had far higher unemployment rates relative to skilled workers than has been the case in France or most other northern European nations. The blue- to white-collar ratio remained unchanged from 1982 to 1991 in France (at 1.51) while increasing slightly from 1979 to 1990 in the US (2.08 to 2.28). Given the growth in US earnings inequality by skill group over this period, the unemployment ratio should have declined rather than increasing, according to conventional wisdom.

Like the results for blue- and white-collar workers, the unemployment rate for poorly educated workers was far higher relative to that for highly educated workers in the US than in any other OECD nation examined save the UK, whose labor market is on the US side of the flexibility spectrum. Despite substantial downward adjustments in wages, low-skilled US workers appear worse off in unemployment relative to high-skilled workers than in most other major OECD nations. Depending on the measure, this unskilled-skilled ratio was either stable or worsened in the US over the 1980s. (ibid.,

table 1.16). These data offer no support for the conventional view; in contrast to Europe, wage flexibility should have protected low-skilled US workers from relatively high unemployment.

Nor does the evidence support the related prediction, that the unemployment problem is driven by the less skilled. While the OECD *Jobs Study* concludes that 'the labour market situation for low-skilled workers, as measured by educational attainment, declined over the 1980s relative to that of more skilled workers' (ibid., p. 41), the same data show that high-skilled unemployment rates also increased over the 1980s for every nation they consider except Japan, for both men and women. For example, the unemployment rate for high-skilled ('upper secondary or higher') workers in France increased from 2.6 in 1979 to 4.1 per cent in 1990; in Germany, the increase in this rate was even sharper, from 1.8 in 1978 to 5.0 in 1987 (ibid., table 1.16).

There is even less support in the more comprehensive data for male workers assembled by Nickell and Bell. Seven of the eight nations for which they present data do not even show an increase in the ratio of low- to high-skilled unemployment over the 1979-93 period, and where low-skill unemployment increased, so did high-skill unemployment (Nickell and Bell, 1996, table 1). France shows an upward trajectory in the skill ratio through 1990 and in the low-skilled unemployment rate over the entire period. But even here, in the rigid labor markets of France, the level of low-skilled unemployment is comparable to or below the rates of the more flexible markets of Canada, the UK, and the United States (the high overall unemployment rate in France is due to exceptionally high rates for women).

Of course, as Glyn and Salverda emphasize, low-skilled workers are undoubtedly made worse off relative to high-skilled workers when both experience increasing unemployment rates, since the probability of getting a job for low-skilled workers becomes much lower (Glyn and Salverda, 1999). But this fact does not support the conventional view that the unemployment problem is due to rigidities in low-skilled labor markets. Comparing unemployment rates by education level, an International Labor Organization (ILO) report concluded that

While it is true that unemployment affects the least skilled workers disproportionately, it is difficult to attribute this phenomenon to a shift in the demand for labour towards higher skills, for if this were so the rise in unemployment of the unskilled should have been accompanied by a real shortage of skilled labour. But this has not been in evidence, since the rise in unemployment of skilled workers has also been observed . . . *Skill shortages do not appear to have contributed significantly to the rise in unemployment* (ILO, 1997, pp. 52-3, emphasis added).