

In sum, while the least skilled have borne the brunt of rising unemployment, the trends by skill level do not, by themselves, demonstrate that a 'collapse in demand' for low skilled workers is at the heart of the European unemployment problem. Countries with rising unemployment tend to also experience substantial increases in high-skilled unemployment. As Stephen Nickell has concluded: 'Overall, therefore, there is no evidence that these skill shifts have made a substantial contribution to the rise in European unemployment . . .' (Nickell, 1997, p. 55). Indeed, the data are perfectly consistent with an alternative story, recently advanced by the International Labor Organization, that 'in an environment of widespread unemployment, trained workers apply for jobs for which they are overqualified and, given the choice, firms recruit them first, with the natural outcome that unemployment is transferred to the least skilled workers' (ILO, 1997, p. 53).

Employment Rates by Skill

Drawing conclusions from changes in unemployment rates can be misleading because, faced with worsening job prospects, workers may drop out of the labor force altogether. For this reason it may be more revealing to evaluate the demand shift/rigid labor markets hypothesis by comparing the growth in employment-population rates by skill across countries. Employment rates should be lowest among the least skilled, which is generally true and not something particularly new. But the demand shift/rigid labor markets prediction is different: it suggests that the less-skilled will tend to have the lowest employment rates, and the gap in employment rates between the least and most skilled will tend to be the greatest in countries with labor market institutions that prevent downward wage flexibility. The reasoning is, again, that without wage adjustments, the least skilled will be priced out of their jobs.

Comparing employment rates by skill across different OECD countries using different methodologies, both Nickell and Bell and Card, Kramarz and Lemieux found little support for this fundamental prediction of the conventional wisdom. Comparing growth in employment rates for 'skill' groups defined by age and education for the US, Canada, and France, Card et al. leaves no doubt about the lack of support for the conventional view: 'Taking the evidence for the United States, Canada, and France as a whole, we conclude that it is very difficult to maintain the hypothesis that the 'wage inflexibility' in Canada and France translated into greater relative employment losses for less-skilled workers in these countries' (Nickell and Bell, 1995, pp. 40-62; Card et al., 1995, p. 3). Similar results have been found for Germany and Sweden (Edin et al., 1996). Indeed, Krueger and Pischke point out that 'If demand fell for less skilled workers, we would

expect to find employment declining most among the lowest wage groups; instead, there appears to be little relationship' (Krueger and Pischke, 1997, p. 13).

These studies attempt to compare skill groups using educational attainment levels, a difficult task - after all, how comparable is a 'high school degree' in France, the UK, Sweden, Germany, and the US? To deal with this problem, Andrew Glyn has examined employment rates for different quartiles of the education distribution. Again, the employment rate gap between the most and least educated should be greatest in the most rigid labor markets. Glyn's (2001) analysis of employment differences using this measure of skill shows that for 25-64-year-old men, the employment rate skill differential (the most skilled quartile rate less the least skilled rate) for the US was 14.6 percentage points in 1999, lower than that for France (19.3 points in 1998) and the Netherlands (17.7 points in 1998), but higher than Switzerland (11.9 in 1998), Sweden (13.4 in 1997) and West Germany (14.3 in 1996). Usually placed at the flexible end of the spectrum, the UK shows a much higher employment rate gap than many European welfare states (23.2 in 2000).⁴ In sum, Glyn's results show that, while the employment rate for the less educated is relatively high in the US, it is also quite high for the most educated workers, and there seems to be little association across countries between employment rates by 'skill' and the strength of protective labor market institutions.

EUROPEAN UNEMPLOYMENT: THE WELFARE STATE AS CULPRIT

Central to the conventional wisdom is the view that what distinguishes the US unemployment experience from the European is the relative rigidity of the European labor market. This rigidity is blamed on 'labor market institutions' that reduce the demand for less skilled labor and reduce the incentives of less-skilled workers to search for jobs. As Blanchard and Wolfers note, 'With the persistence of high unemployment for now more than two decades, explanations based on adverse institutions ('labor market rigidities') have become steadily more popular' (Blanchard and Wolfers, 2000).

A critical problem with the simple rigidities account is that most countries suffering high unemployment in the 1980s and 1990s had these adverse institutions back in the 1960s, when unemployment was well below that of the United States. The solution in the mainstream literature has been to explain the general evolution of unemployment over time by shocks (e.g., the productivity slowdown, oil price hikes, and declining labor demand due to