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The effect of labor policies on the unemployment rate in the 1990's

<Summary>

Labor policies in the 90's can be broadly categorized into two types: policies aimed at stabilizing cyclical unemployment and policies aimed at addressing structural unemployment. Temporary fluctuations in the unemployment rate resulting from the business cycle, cyclical unemployment, is stabilized through the use of government subsidies earmarked for that purpose ("policies for maintaining employment"). Structural unemployment is addressed through deregulation aimed at increasing the flexibility of labor markets through strengthening the matching function. Examples include deregulation of the temporary help industry or job placement services ("policies for strengthening the matching function"). This report evaluates the effect of these policies on the unemployment rate, providing quantitative estimates of how effective these policies were at reducing cyclical and structural unemployment.

Structural unemployment was equal to actual unemployment in the beginning of the 90's but it has continued to increase through the 90's, reaching nearly 3.5% in the latter half of FY98. The cyclical unemployment rate was zero in the beginning of the 90's but by the second quarter of FY98 it had grown to more than 1%. This report shows that policies aimed at stabilizing cyclical unemployment effectively reduced the unemployment rate an average of 0.2% in the mid-1990's. Policies aimed at addressing structural unemployment reduced the unemployment rate by 0.2% in the first half of 1990, and increased effectiveness in FY98 due to the progress of deregulation, reducing unemployment by 0.3%.

The comparison of these policies shows that counter-cyclical policies were effective in the mid-90's, while policies aimed at structural unemployment were effective throughout the 1990's and had a particularly large effect in FY98. Although caution should be used in comparing the aggregate effects of these policies due to their different purposes, it can be concluded that policies directed at structural unemployment had overall a larger effect on the aggregate unemployment rate.