

Commentary

Nigel Lawson

It seems to me that there are two key facts which we need to bear in mind about high unemployment because they are central to any analysis of possible remedies. One is the striking difference between the experience of the United States and the experience of the European Community (EC)—the great trend rise of unemployment in the European Community, which has not occurred in the United States at all. And the other is the fact that this trend rise occurred quite a while ago, basically from 1974 to 1984, and as far as I can recall, was completely unpredicted. Over the past ten years, if you roughly cyclically adjust, there is no discernible trend rise at all in unemployment from 1984 to 1994, whether you look at the European Community or the Organization for Economic Cooperation and Development (OECD) as a whole. That is no cause for complacency because the level is too high, but it is still something which we need to take into account, I believe.

I think Professor Lindbeck is correct in stating that the rate of start-up of new businesses is an important consideration in preventing high unemployment, certainly in the United Kingdom and even more so in the United States. It is interesting to note the difference between the high start-up rate in the United States and the lower start-up rate in Europe. One reason for this is a cultural difference, which is one of the hardest things to tackle of all. In most of Europe, it's certainly true of the United Kingdom, if someone starts up a business and it fails, there is a social stigma that makes it very, very difficult for them a

second time. In the United States, that is much less true. That cultural difference, I think, has played quite a large part in the better record in the United States than in Europe in business start-ups.

I think privatization in the United Kingdom has undoubtedly added to the flexibility of the labor market in quite a significant sector of industry. This is true whether you look in terms of hiring and firing policies of employers or whether you look in terms of the behavior of the trade union leaders. You don't catch that in studies **looking** at what happened before privatization and what happened after privatization because a lot of the change took place once companies had been identified for privatization, and they were preparing themselves for privatization—preparing themselves for the cold, hard world of the private sector. Those academics that have looked before privatization and after privatization and have come up with no significant increase in flexibility of labor markets are thus **looking** at the wrong thing. Precisely how much effect this has had on the natural rate of unemployment I wouldn't dare to answer.

The high rate of economic growth in the United Kingdom in the late 1980s was something neither predicted nor intended. The economy behaved in a different way from what everybody was forecasting or intending—and indeed from what the statistics at that time showed. I make that point because it does lead me to conclude that the ability of governments to fine tune is rather less than is implied in part of Professor Bean's prescription.

If I were to have the temerity to sum up this morning's proceedings, it would be in a very tentative way. But I think that there is a clear consensus to which Paul **Krugman** alluded in his paper. The consensus is that the unemployment problem which we face generally, and which Europe perhaps faces in particular, is overwhelmingly a supply-side and structural phenomenon rather than a problem with demand defi-

ciency or Keynesian unemployment. Supply-side and structural remedies are, therefore, required to reduce unemployment. There has been some reluctance, which I regret, to spell out these remedies because some of them are uncomfortable — almost by definition, or if they had not been uncomfortable, they would have been introduced long ago. The reluctance to spell out these painful structural remedies is regrettable in part because I don't know where politicians and policymakers are going to get their guidance from if these things aren't spelled out clearly. Certainly this consensus which is here today among the economists is not yet a consensus among policymakers, politicians, and opinion-formers outside the economics profession. So perhaps a little more injudiciousness is required.