

"How far from full employment? The European unemployment problem revisited" by Gokten, Heimberger, and Lichtenberger

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## CONTEXT

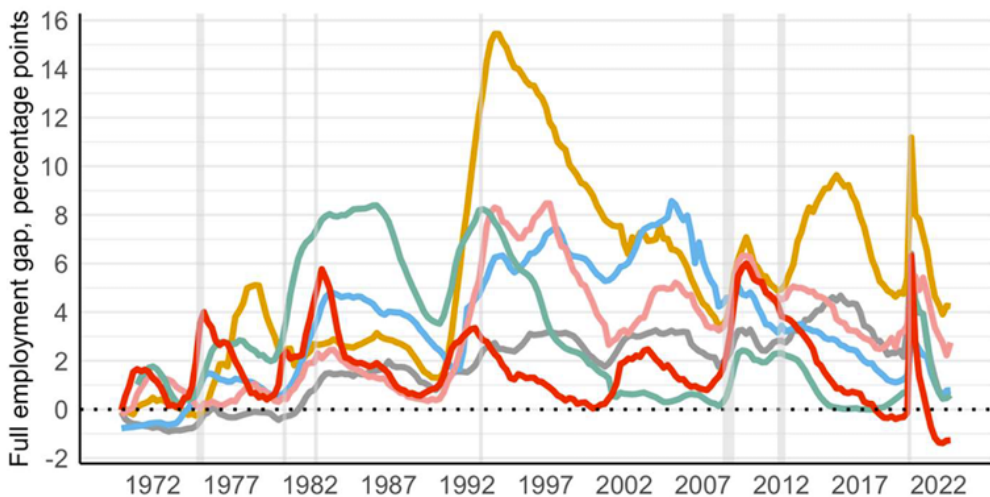
- ▶ This paper examines how far European labor markets differ from full employment by applying a benchmark for labor market efficiency.
- ▶ To understand these changes, it investigates why some European countries experience persistent unemployment gaps, while others recover more quickly from economic shocks.
- ▶ These differences are linked to labor market policies, structural challenges, and macroeconomic conditions.
- ▶ To measure full employment, the paper builds on the FERU framework, a formula that calculates the unemployment rate consistent with an efficient labor market. "The Full-Employment Rate of Unemployment in the United States".
- ▶ The paper adapts this approach by using BECRU, conceptually the same as FERU but with a focus on European economies.

## QUESTION

- ▶ The paper examines how to quantify full employment in European labor markets by introducing a benchmark that measures unemployment gaps over time.
- ▶ It seeks to determine the extent to which unemployment rates in different European countries differ from their full employment level.
- ▶ To answer this, the paper develops and applies the BECRU formula to estimate the unemployment rate consistent with full employment.
- ▶ This measure allows for an assessment of whether labor markets are functioning efficiently or experiencing persistent inefficiencies.
- ▶ Beyond measurement, the paper also explores the stability of full employment over time.
- ▶ It investigates how unemployment gaps have evolved from 1970 to 2022, identifying key periods of labor market slack and recovery.

# ANSWER

- ▶ First, the study relies on multiple labor market datasets to measure full employment gaps across European economies. Data sources includes: national labor force surveys, Eurostat databases, historical data from 1970 to 2022 and comparative datasets.
- ▶ Second, the paper computes BECRU for each country and compares it to actual unemployment rates to determine the size of the unemployment gap.
- ▶ Third, periods of economic downturns and recoveries are analyzed to see how unemployment gaps change in response to external shocks.
- ▶ Lastly, statistical and econometric models are used to assess the impact of structural labor market factors on deviations from full employment.



— Austria — Germany — United Kingdom  
— Finland — Sweden — United States

# POSITIONING

- ▶ Previous research focused on measuring full employment in labor markets, particularly in the U.S. FERU was introduced as a way to estimate the full employment unemployment rate.
- ▶ But it was not known how far European labor markets differed from full employment and while existing studies examined unemployment trends in Europe, they lacked a consistent measure for full employment across different countries. This gap made it difficult to assess whether high unemployment in some European economies was temporary or long term.
- ▶ The paper contributes by introducing BECRU as a European counterpart to FERU. By applying the Beveridge Curve framework to multiple European economies, the study provides a cross country analysis of labor market efficiency and unemployment persistence.

# CONCLUSION

- ▶ European labor markets show persistent unemployment gaps, varying across countries, with BECRU providing a benchmark to measure deviations from full employment. These gaps are driven by labor policies, structural issues, and economic shocks, highlighting differences in labor market efficiency.
- ▶ Policymakers can use these insights to improve labor market efficiency and reduce unemployment, while cross country comparisons with the U.S. and U.K. help identify best practices for employment policies.
- ▶ While BECRU is a useful benchmark, it does not fully account for informal work or wage dynamics.
- ▶ What role does remote work play in labor market efficiency?