



Centre of Full Employment and Equity

WORKSHOP

Understanding Unemployment in Australia, Japan and the USA

A Cross Country Analysis

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**Institutions and Unemployment: Australia, Japan and the USA
Compared**

John Burgess

Centre of Full Employment and Equity

University of Newcastle



The UNIVERSITY
of NEWCASTLE
AUSTRALIA

Introduction

Institutional analysis forces us to look at the broader picture in attempting to explain issues such as unemployment. One has to look at the construction of unemployment and what role unemployment plays in the economy. That is, unemployment is more than a residual of labour supply over the demand for labour, it is a construct that reflects something about the way we see employment and unemployment and the way we see the employed and the unemployed. When we take the analysis further and evaluate the unemployment record across three countries it is easy to fall into the trap of taking one construction of employment and unemployment and apply that construction to all countries. This, in part, is one of the fundamental problems with grand cross-country studies of unemployment such as the OECD Jobs Study (OECD, 1994). One construction of unemployment fits all countries and from that construction, one set of policy prescriptions fits all countries.

Samuels (1998, 865) reminds us that institutional economics is embedded in an understanding the impact of institutions on economic performance, systems of control and organisation in the economy, the economic and sectional function of government in the economy, and the role of habits, beliefs and social organisations in shaping economic activity. For institutional economists you need to go beyond supply, demand and abstract constructions such as equilibria in order to understand why such issues as unemployment arise and persist. The OECD Jobs Study itself gave a central role to institutions in determining unemployment differences across economies but the analysis was largely constrained within a neoclassical paradigm. Institutions were largely identified as different forms of market imperfections that impeded market clearing and were therefore potential explanations for disequilibria such as unemployment.

Contemporary institutional studies (Hall and Soskice, 2001; Whitley, 2000) attempt to identify the different forms of Capitalism and apply such typologies across countries in order to better understand an array of questions concerning the evolution of individual country systems but also facilitate comparisons across systems. How firms are organised, the relationship between business and government, whether wage setting is co-ordinated, the relationship between finance capital and production etc enable some classification of the “system” of regulation, co-ordination and control. The point of these attempts to develop a typology of Capitalism is to highlight both the diversity and the similarity in institutional arrangements across countries. An important theme is that of the adaptability and transformation of institutions through time in response to crisis, shocks and structural developments in countries.

This chapter attempts to identify how institutions shape the observed differences in unemployment across the three countries and through time. The first section asks what exactly does unemployment mean in the three countries and whose responsibility is it to address the problem. Previous institutional research on unemployment, especially that located in a neoliberal framework, is then reviewed in terms of its assumptions and limitations, in particular there is an ongoing amnesia concerning Japan, it either does not exist or it is a special case. The particular case of systems of wage determination and wage co-ordination is then examined. Then follows the identification of the key features of the comparative unemployment experience of the three economies. Following the

discussion then considers the broad institutional features of the three economies. This then leads to a consideration of the important institutions in shaping the observed unemployment differences. Finally, a general discussion ensues regarding the analytical and policy implications of the discussion.

Constructing Employment and Unemployment

The chapter by Ellen Carlson evaluates in detail the differences across the three countries in terms of the conceptualisation and measurement of unemployment. To explain the “facts” regarding the differences across the three countries first requires an investigation of how those facts were arrived at. As the chapter by Ellen Carlson demonstrates the “facts” can evaporate or new facts can be derived if an attempt is made to regularise both the concept and measurement of unemployment across the three countries and through time.

However, the trilogy of employment, unemployment and not in the labour force are themselves a construction based on the labour force framework which is the foundation for labour force statistics (Burgess, Mitchell and Watts, 2001). The history and derivation of the framework is outlined elsewhere (Burgess, Mitchell and Watts, 2001). The boundaries between the three categories are not precise and the hierarchy of priority is questionable. Employment takes precedence over unemployment; and not in the labour force takes priority over unemployment. Beyond the labour force framework there are other assumptions and institutional arrangements that are assumed or conveniently hidden. It contains assumptions about how we view work and not having work. Five such assumptions and conditions are identified. All of these have a bearing on how unemployment is defined, measured, interpreted and approached for policy purposes.

First, work itself is narrowly interpreted. It has a national accounting market sector bias, it excludes many socially relevant activities and it makes no allowance for the preferences for working arrangements or the motivations and rationale for work. These are well known problems of the labour force framework but they do bias and cloud the facts. For example, if the public sector is active in the financing and employment of community sectors activities from childcare through to sporting activities then such production and employment is included in the employment count. If voluntary workers in the third sector perform such activity then those employed are not included in the employment count. How activities are financed and how employment is remunerated (paid v. voluntary) can influence the labour force framework outcomes through time and across countries. Similarly, employment counts for fractional hours and unemployment is not counted if workers, despite their preferences for full-time work, are employed for fractional hours.

Second, there is the system of social reproduction and how it influences the work count and the labour force participation decisions of women. This includes the gender construction of work and the gender biases included in the labour force framework. In general, the framework takes no account of choices and options for exercising work preferences. Unpaid domestic work and domestic activity do not count. If the state or business provides for childcare facilities, if transitory arrangements are available for flexible employment arrangements to support caring activities, then employment

participation decisions are more likely to come to fruition. Differences in labour force participation rates between men and women will not only reflect the dominant assumptions surrounding social reproduction they will also reflect the differences in the construction of work for men and women together with differences in the choices available between men and women (Lee, Burgess and Strachan, 2001).

Third, the policies of the State towards the unemployed will reflect dominant views about work and the responsibility for work, but also affect the measured number of unemployed. We know that the State intervenes in the labour market in many ways that impact on the labour force participation decision, the firm's ability to employ workers and the individual's ability to survive without work. Such policies as compulsory schooling and retirement ages will define what age groups in the population would be expected to participate in the labour force. The use of disability and age based benefits can conceal certain groups from the labour force who have difficulties accessing work (eg older workers) (See O'Brien, 2001). Conditions governing the availability, access, level and duration of unemployment benefits will also impact on labour search and labour participation decisions, and on the unemployment count. These can interact with systems of social reproduction in that women may be denied access to benefits and employment search. Policy changes to access, benefits and conditions can reflect on measured unemployment rates through time and across countries.

Fourth, there is the stigma and responsibility attached to employment and unemployment. Work, in a particular form, is viewed as gainful and worthwhile in its own right. In a welfare state context unemployment largely reflects the failure of the government to manage aggregate demand so that sufficient jobs can be created for all those who wish to work. In this context the unemployed are the victims of policy failure and they are provided with a safety net by the state to offer support between jobs. In the increasingly individualistic US and Australian communities, unemployment is depicted as a personal failure. It reflects insufficient investment in skills, insufficient work experience, having too high a reservation wage, or not searching intensively or long enough. State and business are absolved from responsibility and it is up to the individual to search harder, justify welfare support or offer labour in return for welfare support under the mutual obligation rubric (Burgess, Mitchell, O'Brien and Watts, 2000). The unemployed can become stigmatised and forced out of the labour force or into low paying jobs if they wish to survive. As an individual's problem and as an indication of an individual's failure in the market unemployment is no longer a collective responsibility.

Finally, there is the issue of what role unemployment plays in the economic system. Is it, within the Marxian context, a means of disciplining labour and facilitating extraction of the surplus product of labour? Unemployment can increase labour compliance, enhance managerial prerogatives and reduce labour resistance at the workplace. It becomes an essential component for the functioning of the Capitalist mode of production. For these functional reasons unemployment is both necessary and acceptable. In a perverse way we can also see the similar functional requirement for unemployment in the NAIRU equilibrium models of inflation. Unemployment is necessary to ensure a stable and sustainable rate of inflation and increasing inflation requires an increase in the unemployment rate. Here unemployment becomes the policy variable for reducing the inflation rate and in Australia we have experienced episodic deep recession and large

increases in unemployment over the past two decades largely as a policy response to unsustainable inflation rates (Mitchell, 2000). Unemployment becomes identified as being “natural” or in an “equilibrium” state, hence it is not a problem for macroeconomic policy. Indeed, it becomes a problem if policy makers attempt to reduce unemployment below the NAIRU, for the consequence will be a higher inflation rate and in the longer term a higher unemployment rate (Mitchell, 2000, 50). If unemployment does perform a functional task within the economy, then it really is not an issue. The only policy question is how much unemployment is necessary to discipline labour or to maintain price stability. We then may explain unemployment differences through time or across countries in terms of different degrees of labour resistance and compliance or differences in the natural rate of unemployment.

It should be clear that the facts surrounding unemployment are largely manufactured and the interpretation of the facts is largely a construct. There are implied assumptions about work, whether it is liberating as opposed to oppressive, whether it is imposed as opposed to voluntary, whether it is a means to an end or an end in itself (Wolfe, 1997). Behind the evidence is a complex set of assumptions, institutions, policies and beliefs. These are not constant through time or across countries. When evaluating the comparative experience of Australia, Japan and the USA these issues will be examined.

The Limitations of Conventional Institutional Research: Scope, Methods and Japanese Exclusion

Much of the research on the link between institutions commences from an unstated neoclassical paradigm. Institutions are narrowly conceived and analysed in a symplistic fashion. If you adopt a neoclassical paradigm for the purposes of better understanding unemployment, what institutions are important? It is precisely those institutions connected with imperfections in the labour market. Unemployment is the consequence on non market clearing in the labour market hence researchers need to identify and quantify the contribution of these imperfections in the labour market. The standard list of suspects that are identified is included in table 1.

Table 1 Labour Market Institutions Explaining Unemployment Differences Across Countries

Institution	Explanation
Minimum wages	Price the unskilled out of the labour market and compress the wage structure. Reduces nominal wage flexibility.
Centralised bargaining	Compression of wage structure. Inflationary timing of wage increases. Real wage rigidity.
Trade unions	Resistant to the introduction of flexible work arrangements – numerical and functional flexibility impaired. Compress the wage structure.
Unemployment benefits	Reduce job search. May be too close to minimum wages – encourages welfare dependence.
Employment protection	Reduces hiring rates. Leads to use of non-standard employment arrangements.

Imperfections prevent market clearing and inhibit the labour market adjustment process, hence economies that facilitate market clearing processes will have both better unemployment outcomes through time but better macroeconomic outcomes overall. This is a recurring theme emerging from many cross-country comparisons. In the end it basically boils down to an argument for the Americanisation of macroeconomic policy and labour market institutions. The US labour market institutions are seen to be closest to the neoclassical model and the macroeconomic performance of the US is compared with other countries. This is a familiar comparison throughout the 1980s and the 1990s. Europe was identified as being a terminal state of low job growth and high unemployment, labelled as Eurosclerosis (Burgess, 1990). The recurring comparison was between Europe and the USA. A plethora of articles highlighted the relative stagnation of the European labour market and its inability to create jobs against the inherent dynamism of the US economy and the US labour market institutions (Burda, 1988; Emerson, 1984; Millard and Mortenson, 1997). Blien, Litzel and Moller (2000) report on papers delivered at the European Association of Labour Economists. In the report there was a heavy emphasis on regulation and institutions in Europe as compared with the USA. In particular, the comparative unemployment experience is explained in terms of differences in of social security, trade unions, wage bargaining arrangements, the unemployment benefits system and job protection (see table 1). This list covers the main market imperfections identified with inferior European labour market performance.

If Europe was more like the US in terms of its labour market institutions, namely more closely embrace the neoliberal model, then Europe would have better labour market outcomes (Siebert, 1997). Heise (1997) examines the selling of the US model, especially by the OECD. It contains all the neoclassical elements that are believed to be missing from the European model. These features include decentralised wage determination, limited and conditional social security access, low trade union density and minimum employment protection. Hence the outcomes include a greater wage dispersion, increased

labour turnover, greater labour mobility and lower unemployment rates. However, Heise (1997, 53) points out that the US requires higher job growth than Europe simply because it has greater labour supply growth. He also suggests that lower unemployment rates in the US hide various forms of labour exclusion, including incarceration, and that the issue of the quality of jobs generated including remuneration and duration should also be examined. Similarly, Smith and Mishel (1998) argue that when the comparison takes in a broader set of indicators including real earnings growth, working poverty and productivity growth the relative performance of the US economy is not clearly superior to Europe.

One fundamental problem with European and US comparisons is the assumption that Europe is homogenous. In fact in terms of the relevant labour market institutions within the neoclassical paradigm there is a diversity of arrangements within Europe in relation to wage setting arrangements and wage co-ordination, trade union presence, minimum wage regulations, dismissal regulations and unemployment benefit access and conditions. Some of these arrangements may be relevant to understanding unemployment; many others may serve a useful purpose unrelated to unemployment (Nickell, 1997). Europe is hardly hegemonic and there are large structural differences in educational attainment, earnings and the wage distribution. Also the political, cultural and economic configuration of Europe is undergoing change through the expansion of the EU and the emergence of new countries in Eastern Europe following the collapse of the Soviet block. Finally, apart from the 1990s the US unemployment performance is far from ideal, with gains in terms of reducing unemployment also associated with an increasingly polarised wage structure and large numbers of working poor (Katz, 1998).

In terms of Australia's relative unemployment and macroeconomic performance, like Europe, the yardstick for measuring performance has been the US. In a series of publications Gregory (1993, 1998, 2000) has tracked the relative performance of the US and Australia for the past 4 decades. Rather than being prescriptive, as in many of the European and US comparative studies, Gregory largely sought to highlight the differences in performance in terms of decomposing various identities in order to compare job creation ability, labour productivity performance, unemployment trends and average living standards. In the early study (Gregory, 1993) highlighted the impact of a real wage shock in Australia in shifting upwards the unemployment rate in the mid 1970s. Apart from this episode, the USA and Australia achieved similar labour market outcomes over the 1970s and 1980s with both experiencing relatively high unemployment rates and a growing wage dispersion. In turn these developments placed pressure on the living standards for those at the lower end of the income distribution in both countries.

In his more recent study (Gregory, 2000) compared the performance of 4 Anglo-Saxon economies that have led the way with respect to neo-liberal reforms: the USA, Australia, the UK and New Zealand (Gregory, 2000). He examines the relationship between employment and economic growth across the four countries. What he finds is that:

- growth rates across countries appear to be independent of the timing or the extent of labour market reforms

- those countries, notably New Zealand, with the most extensive reforms have not grown faster
- there is an inverse relationship between productivity growth and employment growth – this contrast comes out especially for the UK and the USA
- unemployment differences are difficult to explain, being independent of reforms and independent of differences in the rates of economic growth

Gregory suggests that the benefits of reforms tend to be exaggerated in order to garner political support for their introduction and that any gains associated with reforms are often slow to emerge and are much smaller than suggested (Gregory, 2000, 104). Overall, the Gregory review presents Australia and the USA as being similar, as opposed to being dissimilar as in the European and US studies. Higher job creation in the US was offset by lower productivity growth; in both countries wage dispersion increased; the USA was better able to generate full-time jobs; both countries had relatively high labour force growth.

Probably the most influential cross-country study was that of Layard, Nickell and Jackman (1991). This study attempted to explain the rise in unemployment across countries in the 1970s and 1980s. The centrepiece of the analysis was an econometric model to explain the cross country differences in unemployment.

Central to the model was the role of institutional factors in explaining unemployment differences. These institutions included wage-setting arrangements, unemployment benefit systems and the extent of labour market programs. The key features in explaining unemployment differences were identified as the wage determination system and the unemployment benefit system. It follows that moving towards neo-liberal arrangements in both areas was proposed as an important dimension of any program to reduce unemployment.

In their critique of the neo-liberal model and the neo-liberal policy agenda Gregg and Manning (1997) signal out the Layard, Nickell and Jackman (1991) study as being symptomatic of the flawed analyses supporting the neo-liberal agenda. First, there is the obsession with measurement whereby all relevant institutional features can be objectively measured or receive ordinal rankings, often based on vague or unspecified criteria. Second, the modeling itself relies on a vast array of variables and trends in order to produce a good fit. With a trend factor included, it is not surprising that a good fit is obtained for regressions of the upward trending unemployment rate. Obvious structural breaks in the data sets are assigned dummies in order to improve the fit. Third, taking one dependent variable, the unemployment rate, takes on board all the familiar conceptual and measurement problems as well as avoiding more fundamental issues such as variations in employment population ratios, the relationship between economic growth and jobs growth, and rates of non-employment. For Greg and Manning (1997, 410) the strong apriori belief in the labour market deregulation thesis by many economists results in an evaluation process that generates evidence supporting these beliefs. This is despite the fundamental theoretical weaknesses in the deregulation argument – second best problems, externalities and the natural deviation of the labour market from the perfectly competitive product market.

Throughout all of this international comparative evaluation of unemployment outcomes there is a notable absence – Japan. It is conveniently forgotten or is for unspecified reasons a special case. For the period 1970-1990 Japan had an obviously superior unemployment performance than the USA, Europe and Australia. Yet it is difficult to discover comparative evaluations involving Japan. One exception is the volume by Wohlers and Weinert (1988) that compares employment trends in the EU, the USA and Japan. In the OECD Jobs Study (1994) Japan is not singled out as an exemplary performer who provides a model for other countries to follow. Some of the key features of the Japanese employment system are highlighted: a long-term employment relationship, relatively high levels of investment in training and high levels of worker loyalty. However, when it comes to consideration of whether job protection is an “imperfection” that stifles employment growth, Japan should be viewed as a “special case” (Jobs Study II, 79). A similar view can be found expressed in the study by Wohlers and Weinert (1988, 207).

The Layard, Nickell and Jackman (1991, 408) study does highlight that, unlike many other countries, there is no evidence of unemployment hysteresis in Japan and that compared to other countries employment and unemployment are relatively stable (1991, 501). This is due to wage flexibility in the small business sector and females exit the labour force during a downturn. Beyond this observation, Japan hardly rates a mention. The same can be said for Switzerland, the most successful European country in terms of the unemployment record. The Swiss “success” is acknowledged but it is not proposed as a role model, unlike the USA.

Cross-country analysis within the context of the neo-liberal paradigm will come up with the predictable set of policy recommendations: real wage flexibility, a flexible wage structure, minimal employment protection and minimal unemployment income support. Labour market rigidities are the source of unemployment persistence and the inferior unemployment record of Europe relative to the USA (Siebert, 1997). This set of prescriptions, common to many cross-country studies, including the Jobs Study, boils down to a call for lower labour costs, more employer discretion re firing labour and lower welfare benefits (Greg and Manning, 1997, 399). The USA comes closest across the OECD countries in terms of satisfying these conditions, hence it is often represented as being an example for other countries to follow if they wish to reduce unemployment (Siebert, 1997). While institutions are assigned a central role in this comparative research, especially as a source of market imperfection, they are often evaluated in a very crude, partial and simplistic fashion. Also, countries that have been clearly more successful than the USA in terms of their unemployment record are ignored or regarded as special cases.

Wage Setting Arrangements: Demonstrating What You Want to Find in Comparative Institutional Analysis

One of the most commonly cited institutional arrangements that determine cross-country unemployment differences is the system of wage setting arrangements. In all countries there are trade unions and employer associations, there are different degrees of monopsony and monopoly in the labour market and there are rules and conventions governing wage determination arrangements. In terms of explaining unemployment

differences wage setting arrangements should, in terms of the neoliberal model, exhibit real wage flexibility through time, responding to shifts in the relative supply and demand for labour. They should also have a flexible structure, allowing labour to be effectively allocated across industries and according to relative shifts in the demand for different types of skill.

A seminal study by Calmfors and Driffil (1988) suggested that highly decentralised bargaining arrangements and highly centralised bargaining arrangements were capable of delivering favourable macro-economic outcomes, especially unemployment, relative to the intermediate or hybrid case (neither highly centralised or decentralised). In a simple plot of the unemployment outcomes of countries cross ranked along a 'bargaining structure' continuum (with highly decentralised at one end and highly centralised at the other), Calmfors and Driffil found a hump-shaped relationship. In other words, unemployment tended to be lowest in countries which were wage determination arrangements was either more decentralised or more centralised. Unemployment was highest in countries where the bargaining structures were neither highly centralised nor highly decentralised.

The finding was explained in terms that wage increases secured at the industry or sector level are more likely to highlight the trade-off between wage increases and job losses. A number of negative externalities may be associated with the wage bargain secured by a group of well organised workers (OECD, 1997, 65). Such organised workers may be able to secure relatively large wage increases but at the cost of higher inflation, job losses for some workers, a reduced ability of the unemployed to secure jobs and overall the consequence will be higher rates of inflation and unemployment.

In a centralised wage determination system with strong co-ordination the national parties would set wages that were compatible with national macroeconomic policy objectives. The negative externalities associated with industry and sector wage bargains can be internalised to generate more moderate wage outcomes since the interests of both well organised and poorly organised workers, and high and low productivity sectors can all be taken into account in the wage bargain. Union power could be counterbalanced through wage caps and a strong degree of equity in the wage structure and wage outcomes could be ensured.

Through either competitive pressures or centralised co-ordination lower wage outcomes are generated in either decentralised wage determination systems or in centralised wage determination systems. Intermediate wage determination systems lack both the countervailing competitive pressure and the countervailing centralised co-ordination. In turn the model assumes that lower wage outcomes are associated with improved macroeconomic performance.

However, in a review and empirical assessment of the Calmfors and Driffill model the OECD (1997) were critical of both its theoretical and empirical content. They regarded centralisation as being only one of many key characteristics of bargaining. Other features include the degree of unionisation, the coverage of bargaining and the degree of co-ordination. Moreover, the linkages between bargaining, wages and labour market outcomes are far more complex and dependent on intervening variables than is suggested by the Calmfors and Driffil analysis. The statistical analysis across countries classified

according to different bargaining systems provided no consistent or significant outcomes between bargaining and labour market outcomes. The only exception being that more decentralised bargaining systems consistently have greater earnings dispersion than centralised wage bargaining systems.

The institutional wage setting arrangements analysis is weak when it comes to explaining different unemployment outcomes through time. There is a transposition problem, systems of wage regulation explain cross-country differences in unemployment outcomes, then why do unemployment outcomes change through time in the one country? There are institutional changes in wage setting arrangements through time, as in Australia, but these changes are generally incremental and piece meal.

The process of classifying countries according to wage setting arrangements is largely arbitrary and subjective. The OECD Jobs Study (vol.II, 1994, 19) contained a table with a three times three system to classify bargaining and co-ordination. Co-ordination was classified into lacking, limited and high. Bargaining was classified into central, sectoral and enterprise/plant. Why three grades of classification for each criteria? What was the process of classification? Attempting to reduce and simplify, largely for empirical purposes, imposes a construction that provides empirical outcomes but may completely misrepresent differences across countries and through time.

The system of bargaining and the degree of co-ordination in Australia is diverse. There is no one system but a number of different systems operating side by side across industries and enterprises. Some workers bargain individually with employers, others bargain collectively through trade unions. Other do not bargain at all but are covered by industry specific awards. Some bargains are co-ordinated across industries by unions on an enterprise by enterprise basis known as pattern bargaining. An implicit wage cap is centrally imposed by the Reserve Bank. Aggregate wage outcomes outside of the inflation comfort zone will be disciplined through restrictive monetary policy, unemployment will be the policy variable used to impose discipline on wage settlements (Stegman, 1996). Bargaining in the public sector is conditioned by global expenditure limits placed on division and workplace managers – there is freedom to bargain individually and collectively as long as projected wage increases do not exceed the imposed expenditure limits (Fells, 2001). Overall, strong co-ordination co-exists with no co-ordination, implicit central wage capping co-exists with individual wage bargaining. A linear and static classification system has difficulty in conceptually and empirically capturing the diversity of institutional arrangements and the degrees of co-ordination that apply to wage setting in the one country. In addition, such institutions do shift through time, as Australia's has over the past 15 years. These problems would also have currency if we examined the arrangements in Japan and the USA.

What Do We Have to Explain?

Table 2 presents a very aggregate and summary overview of labour market developments across the three countries over the past three decades. The detailed data comparisons have already been set out elsewhere. The descriptive data, as previously pointed out, does represent a framework of assumptions. The selection of the 1970 starting date is largely arbitrary, but in general in the 1960s all three countries sustained relatively low

unemployment rates. All three countries slow down in the mid 1970s; both Australia and the USA slow down in the early 1980s and early 1990s.

Table 2 Australia, Japan and the USA Compared, Key Labour Market Features 1970-1990

Feature	Comment
Unemployment	Japan has the lowest average unemployment rate for all periods. Australia and USA have similar cyclical pattern. Increases for Japan throughout 1990s, decline in Australia and USA from 1992-2000. Relatively low rates for US and Australia still above the high rate for Japan. Japan has relatively low youth share (under 25 years) of unemployment as compared to Australia and USA.
Employment	Stable employment to population ratio for Japan and Australia. In Australia falling male rate offset by increasing female rate. Increasing employment to population ratio in USA, especially in female rates. Jobs growth lower in Japan on average and throughout the three decades. Falling employment in Japan 1998-2000.
Labour Force	Male participation rates falling in Australia but stable in USA and Japan. Female participation rates stable in Japan but increasing in Australia and USA. Japan has highest male participation rate, USA the highest female participation rate. USA has a growing participation rate, stable for Australia and Japan. Labour force and population growth much lower in Japan as compared to both Australia and the USA. Immigration rates much lower in Japan than in USA and Australia.
Economic Growth	Japanese growth rates highest in both 1970s and 1980s. Mid 1970s slowdown in all 3 countries. Recession hits Australia and US in early 1980s and 1990s. Recession hits Japan in mid 1990s. Average growth rate declining for Japan over three decades, but from very high rate. Pattern of growth similar for the USA and Australia. In 1990s average Australian growth the highest, Japan the lowest.
Labour Productivity	Australia averages 1.7%: slow down in 1980s and pick up in 1990s. Japan averaged 2.4%: slowdown over the 3 decades following growth slow-down. USA averaged 1.4%: pick up throughout 3 decades from 0.8% in 1970s.
Non-standard Employment	Strong part-time employment growth throughout in Australia. One of the highest shares (26%) across OECD. Relatively slight growth in USA and Japan, shares are 19% in USA and 22% in Japan. Australia has large casual (temporary) employment share. Japan has large self-employed share of employment.

Source: OECD Economic Outlook and OECD Summary Economic Statistics.

Japan slows down from the mid 1990s. Over the entire period Japan sustains a lower average unemployment rate than Australia and the USA. Japan has a lower population and labour force growth than Australia and the USA, but on average, it has higher labour

productivity growth. In Australia and the USA the labour force and employment is becoming more feminised, in Japan the gender composition of the labour force has remained relatively stable. For Australia, the male labour force participation rate and male employment to population ratio has systematically declined. In all three countries, and especially Australia, the part-time employment share has been increasing.

Japan was able to sustain relatively high GDP growth and labour productivity growth and a low unemployment rate. Labour force and employment growth was relatively low compared to the other countries. From the mid 1990s Japanese growth and productivity growth rates declined, at the same time falling employment growth was offset by a decline in the labour force. Australia and the USA suffered large unemployment shocks in the mid 1970s, early 1980s and early 1990s. Periods in between were characterised by recovery and strong economic growth in combination with a steady decline in the unemployment rate. In the case of the USA the reduction in the unemployment rate in the 1990s was accompanied by a pick up in labour productivity growth, an increase in the employment to population ratio and an increase in the labour force participation rate.

Overall, the unemployment data clearly favours Japan. The US performance is not that different from Australia. While Australia has shifted its policies towards a neoliberal regime its performance over the last decade re unemployment was not that much different (slightly worse) than the previous decade. It seems that relative to Japan, Australia and the US are capable of both generating many jobs and shedding many jobs. The labour force data for Japan is relatively stable when compared to the other two countries

The above observations are conditioned by the limitations of the conceptual and data comparisons. They also only examine broad labour market features. There is no examination of what lay behind these characteristics in terms of structural changes to industry and the population, the configuration of policy, the relationship between business and government, and the configuration of business activity. It is now time to examine the nature, function and differences in institutions across the three countries.

Institutions and Cross Country Differences in Unemployment

Institutional analysis is rich, complex and varied. The focus of the research can be the individual, the household, the state or business organisations. It often looks at how they interact with each other. This involves examining rules, regulations and systems of co-ordination. Institutional analysis goes for the big picture and attempts to highlight central tendencies. Across countries there are differences in how production is organised, how businesses relate to each other, different forms of government regulation and control, systems of distribution and systems of co-ordination. In their approach Hall and Soskice (2001) use a firm centred approach to examine how firms relate to each other in dealing with co-ordination problems. “Our premise is that many of the most important institutional structures – notably systems of labor-market regulation, of education and training, and of corporate governance -- depend on the presence of regulatory regimes that are the preserve of the nation-state. Accordingly, we look for national-level differences and terms in which to characterize them....”

A similar conceptual framework is developed by Whitley (1999) in his study of the varieties of Capitalism based on different forms of economic organisation. In particular,

the role of business organisation and the nature of sector specialisation is regarded by Quack and Morgan (1999) as the key to understanding differences in economic performance across countries. The focus of this analysis is unemployment. Notably, why are there differences in the unemployment experience between Australia, Japan and the USA. Having examined the record it seems that Japan has a very different record from Australia and the USA, and that Australia and the USA are closer to each other than they are to Japan. What then, in institutional terms, makes Japan so much different from Australia and the USA? Specifically, for the 1970s and 1980s why is the Japanese unemployment experience so superior to the other two economies? Why has Japan come back to the other two economies over the course of the 1990s in its unemployment record?

In what follows the analysis takes on a characteristics approach and draws on what is regarded as being relevant to an understanding of why unemployment differs across the three countries. This is not located within an explicit framework such as regulation, business organisation, systems of co-ordination and control that can be found throughout the institutional literature. Here the specific issue is unemployment, why it differs across countries and through time. To obtain the big picture it is necessary to consider a broad array of determining factors. The relationship between these factors is not apparent, nor should it be necessarily static, and the selection of broad characteristics is largely based on an arbitrary choice of contextual and concrete factors that help us shape the interpretation of unemployment but also determine the unemployment outcomes. Following Thurow (1992) we need to understand how each of the economies is structured, what the operating rules are, and what the relationship is between individuals, households, business and government. There are three broad aspects of unemployment we need to understand:

- the construction of unemployment: what does it mean to be unemployed in each country?
- The causes of unemployment in each country: why does unemployment arise and persist?
- The political economy of unemployment: what function does unemployment play in the system of each country?

The first set of issues surrounds interpreting, measuring and assuming responsibility for unemployment. If unemployment is individualised and associated with personal failure and responsibility, then there is pressure on the individual not to be unemployed, to leave the labour force or to engage in some form of disguised unemployment. If it is collectivised then there will be forms of social support that ease the personal and social burden of unemployment and unemployment will be explicit.

What is unemployment?

Unemployment is desiring a paid job and not being able to get one. Official definitions and measures also impose search and activity tests before they desired who is unemployed, who is in the labour force and what the unemployment rate is. What we have been comparing is a particular set of conditions associated with unemployment. To be counted as unemployed requires a conscious act to be identified as not being employed

and to engage in search activity. However, there may be behavioral and institutional norms that mediate in and determine this decision. Some persons may choose to work even though productivity is close to zero, other may choose to work a few hours even though they desire a full-time job, others may choose not to work because benefit programs are preferable to employment. Some employers may retain labour with low productivity. We have to examine systems of social reproduction, business organisation and welfare systems in order to understand what unemployment is in each country and how we interpret differences across countries.

What happens if you do not have a job?

You can be stigmatised, ostracised and identified as a failure or supported as a victim. If stigmatised you may choose to stay outside of the labour force or to undertake any work. As a victim you can expect support and encouragement and some assistance to facilitate transition between jobs. Do you acknowledge unemployment or do you seek refuge in forms of unregulated employment or remain outside of the labour force.

Who supports the unemployed?

There are a variety of forms of support from personal savings through to family and government transfers. In part the support of the unemployed reflects the responsibility for the unemployed. If it is a policy failure, then a social security safety net provides support, if it is personal failure than individual, family and community support is required.

Unemployment measures in all three countries understate forms of workforce exclusion and processes that support the under-reporting of unemployment. In Japan, unemployment has an enormous personal and family stigma, even though forms of formal collective support are limited. The welfare state structures are strongest in Australia and the degree of collective responsibility is strongest in Australia. However, both Australia and the USA are dismantling welfare state structures and placing greater individual responsibility and stigmatization on unemployment. The emergence of workfare programs in both countries is symptomatic of this development. These shifts would suggest that unemployment in the 1990s for the USA and Australia understates unemployment as compared to the 1970s. In Australia's case the use of special labour force exit assistance for unemployed older workers reinforces this for both the 1980s and 1990s (O'Brien, 2001). In the USA it is the rate of incarceration that performs a similar task. In Japan the role of a sheltered domestic service sector, self-employment and the variations in female labour force participation would also suggest the 1990s rates are understated as compared to the 1970s and 1980s.

When making comparisons across countries it is more difficult to compare forms of exclusion and disguised unemployment. However, the relative magnitude of labour force growth, GDP growth and labour productivity growth across the three countries would suggest that even allowing for different constructions of unemployment the record of Japan is on average superior to Australia and the USA. The USA and Australia have a similar record, and that following substantial job loss in the early 1990s, both the USA and Australia performed well relative to Japan. Given the intensity of the late 1990s recession in Japan and the stigma attached to unemployment in Japan the expectation is that unemployment rates in Japan are effectively now on par or even above those in the

USA and Australia. In all three countries the coming decade could be the decade of immiseration with respect to job opportunities and unemployment.

Table 3 Construction of Unemployment Across Australia, Japan and the USA

Dimensions	Country Characteristics
Unemployment	Market sector bias across the 3 countries. Forms of disguised unemployment across the three countries: Australia, under-employed part-time workers; USA, the incarcerated; Japan, the self-employed. Role of social reproduction in relative female employment exclusion, especially in Japan.
Being Jobless	Australia has gradually shifted from welfare state and collective responsibility towards personal responsibility, as unemployment has become more intractable. In the USA, and in Australia, welfare being replaced by workfare. It is the responsibility of the unemployed to exchange labour for welfare. In Japan unemployment as both a collective and an individual failure; Australia and US moving away from collective responsibility and welfare state structures.
Support of the unemployed	In Japan and the USA the extent of social support is both limited and truncated as compared to Australia. The welfare support system in Japan has remained relatively limited throughout the period. Forms of support in Japan largely through stable employment and an implied social contract that protects employment. Both the USA and Australia are moving towards a more restrictive regime and shifting the onus of responsibility onto the individual, the family and community support mechanisms. Females are likely to face forms of exclusion in both Australia and in Japan. In Australia, older workers are an “exception” when it comes to welfare support.

The second set of questions look at the organisation of production, the systems of business organisation, the management and co-ordination of labour, and the role of the State in managing the economy. In particular the interest is in whether there is some co-ordinated arrangement to generate jobs and to limit unemployment. We need to extend the study of institutions beyond the labour market. The conventional analysis of institutions with its neoclassical framework largely stops at the labour market and assumes that business organisation and co-ordination is largely homogeneous. This point is relevant to the systems of Capitalism analysis of Hall and Soskice (2001) and Whitely (1999). The purpose is to examine the structure of economic organisation within and between firms, the relationship between firms and government, and how businesses respond to shocks. Hall and Soskice (2001) focus on five spheres in which firms must develop relationships to resolve coordination problems central to their core competencies.

- the sphere of industrial relations where the problem facing companies is how to coordinate bargaining over wages and working conditions with their labor force, the organizations that represent labor, and other employers.

- the sphere of vocational training and education, firms face the problem of securing a workforce with suitable skills, while workers face the problem of deciding how much to invest in what skills.
- the sphere of corporate governance, to which firms turn for access to finance and in which investors seek assurances of returns on their investments
- the sphere of inter-firm relations, the relationships a company forms with other enterprises, and notably its suppliers or clients, with a view to securing a stable demand for its products, appropriate supplies of inputs and access to technology.
- the sphere of employee co-ordination. Their central problem is to ensure that employees have the requisite competencies and cooperate well with others to advance the objectives of the firm.

They then identify two broad approaches to approaching these problems. In liberal market economies, firms coordinate their activities primarily via hierarchies and competitive market arrangements. In contrast, in coordinated market economies, firms depend more heavily on non-market relationships to coordinate their endeavors with other actors and to construct their core competencies. These non-market modes of coordination generally entail more extensive relational or incomplete contracting, network monitoring based on the exchange of private information inside networks, and more reliance on collaborative, as opposed to competitive, relationships to build the competencies of the firm.

In terms of classifying economies there is a continuum between the two extremes of liberal market and co-ordinated market economies. Some countries such as the USA and New Zealand are located at the liberal extreme while others such as Denmark and Sweden are located at the co-ordinated extreme. Many others are in an intermediate position and of course, Japan is fairly unique. On these questions it is possible to highlight these institutional differences across the three countries.

Table 4 indicates the similarities between Australia and the USA, classified as liberal market economies by Hall and Soskice (2001), and the contrast with Japan, classified as a special co-ordinated market economy. On every form of co-ordination Japan is different from the USA and Australia. In general Japan has strong forms of collectivisation and co-ordination when it comes to corporate organisation, employee organisation, skill acquisition and inter-firm relations. Australia and the USA are more individualistic, with a shorter time horizon and a much looser employment relationship.

Table 4 Forms of Co-ordination in Australia, Japan and the USA

Spheres of Co-ordination	Australia	Japan	USA
Industrial relations	Hybrid from collective awards to individual contracts	Co-ordinated pay bargaining	Enterprise based bargaining, no co-ordination
Skill acquisition	Shift away from firm specific to general education. Contracting in of skills.	Company specific training and skill acquisition	General education. Contracting in of special skills.
Corporate governance	Short-term profitability. Equity market driven.	Long-term growth. Access to long-term finance.	Short-term profitability, Equity market driven.
Inter-firm relations	Weak relations.	Strong vertical relations. Dominant conglomerates.	Weak relations.
Employee co-ordination	Managerial prerogative. Employee voice in a few sectors.	Long-term employment and commitment.	Managerial prerogative. High labour turnover. Limited voice.

The type of issues raised and the questions asked by Hall and Soskice (2001) provide a basis to highlighting some fundamental differences in firm organisation, inter-company relationships, forms of corporate governance and systems of government regulation and co-ordination that are relevant to an understanding of unemployment differences across the three economies. We can go a bit further to tease out the differences across the three countries. On these issues six questions are relevant:

- How is production and distribution organised and co-ordinated? What is the relationship between businesses?
- How does business acquire finance; what is the relationship between business and the providers of finance?
- How is labour organised and regulated?
- What is the nature of the employment relationship?
- What adjustment mechanisms are present in labour markets to deal with shocks?
- What role and function does the government assume in terms of regulation, co-ordination and intervention in the economy?

Table 5 extends table 4 and provides more detail on the nature of the “systems” in each country.

The Japanese business system, employment relationship and co-ordinating role of government is very different from what is observed in both the USA and Australia. Japan has had a long-term growth strategy in key industries connected to export markets and the world market (eg motor vehicles, trucks, electronics, computers, whitegoods etc). The organisational structure of big business (the keiretsu) and the funding and provision of finance is totally different from the USA and Australia. Long-term employment relationships are fostered and expected, loyalty and group identification is very important in Japan. Government intervention in support of business is on a scale and degree that is unrivalled in the USA and Australia (except perhaps for agriculture and defence). Adjustment mechanisms are present in the Japanese system that result in lower labour turnover and greater employment stability as compared to Australia and the USA. Unlike Australia and the USA, an increase in unemployment is not the first manifestation of a decline in the demand for labour. The pay bargaining system has inbuilt flexibility, the dualistic structure of the economy contains inbuilt flexibility and the single-minded pursuit of more export sales offers opportunities for increasing demand. Overall, the long-run strategic goals of business allow for an averaging of short-term variations in demand and profitability. In turn this is supported by long-term access to finance at very low rates of interest.

The essentially dualistic nature of the Japanese economy also reinforces the strategic relationship between business and enables high employment in low productivity sectors. Extensive regulations and cartels are able to protect domestic services and agricultural sectors while offering employment security in these sectors. Japan has a high export ratio and a relatively low import ratio, especially for commodities unconnected to the export sector. Once again government support of anti-competitive practices and monopolistic distribution networks allows for stability in business relationships and some continuity of employment. Thurow (1992) indicates that the implied national settlement requires Japanese households to work hard and demonstrate company loyalty, save considerably (even with low interest rates) and pay relatively high prices for consumer goods and services. Success in export markets translates into a transfer of the surplus to businesses and employees located outside of the export sectors via forms of protection and consolidation that are supported by the government. In Japan the organisation of production and systems of regulation and co-ordination have a clear national development focus that includes full employment as part of the settlement.

Table 5 Production, Regulation and Co-ordination in Australia, Japan and the USA

Feature	Comment
Business organisation	Large conglomerate companies with cross holdings in Japan. Vertical relationships with suppliers and distributors in Japan. In Australia and USA limits on cross holdings and industry concentration. Regulation of competitive behaviour in USA and Australia. Emphasis on long-run investment and market share in Japan. In USA and Australia emphasis on short-run returns and profitability.
Financing business	High household saving ratio and low interest rate policy in Japan to facilitate long-term investment. Strong relationships between banks and large companies. Use of debt financing in Japan, equity financing favoured in the USA and Australia. Intervention by government to support finance and business system eg purchasing equity. In Australia and USA market based interest rates, separation of banking sector from business sector. In USA and Australia business susceptible to short-term fluctuations in interest rates and in equity prices.
Labour organisation	Company based unions in the USA and Japan. Largely industry based unions in Australia. High degree of inter-company co-ordination of bargaining in Japan. In USA minimal co-ordination and low trade union density. Fragmented co-ordination in Australia through safety net wage adjustments and pattern bargaining; but major changes from late 1980s.
Employment relationship	Japan, long-term employment relationship. Low labour turnover as compared to USA and Japan. Strong identification between company and employees. Strong career path and acquisition of firm specific skills. Relatively higher company investment in skill acquisition. Emphasis on multi-skills and productivity growth in trade sector. Australia and the USA have higher turnover and less attachment/commitment than Japan. Emphasis on general skills and competencies, career progression across several employers the norm. Low wage options can compromise skill acquisition and productivity in trade sectors.
Adjustment to demand shock	Assume falling demand for labour. In Japan adjustment in bonus payments, hence real wages. Also adjustment downwards to suppliers, independent contractors and to small business and self-employed sector. In USA and Australia adjustment through labour shedding, substitution of full-time labour by part-time and temporary labour.
Government function	In Japan to support and co-ordinate the business sector in terms of its long-term growth and investment strategies. Forms of planning and co-ordination used. In Australia and the USA government more as macroeconomic managers, regulators of business behaviour and providing partial and selective support (eg regulating trade unions, providing government contracts, especially defence in the USA). In Japan a more active, interventionist and co-ordinating role assumed by the government. Full employment part of the expected responsibility of the Japanese government; no such responsibility assumed in the USA and Australia where some degree of unemployment as "natural".

The final mosaic in this analysis is to consider the political economy of unemployment. What functional purpose does unemployment play in the respective systems? From a Marxian context the function of unemployment is straight forward, but if it is accepted

that there are different varieties of Capitalism then it is likely that unemployment serves a different purpose within each variety of Capitalism.

In Australia and the USA unemployment is in part the result of period cyclical slow-down in the system. It is accepted as something that is normal and expected. It also has a functional role to contain inflation and inflationary expectations given the inflation first bias in both countries. The persistence of unemployment largely reflects labour market imperfections and/or the personal limitations of the unemployed. In political terms, constituencies have been conditioned for nearly three decades to accept unemployment and to increasingly apportion personal responsibility to the unemployed. There has been no revolution as a relatively large proportion of the population have been isolated, ostracised and immiserised. Governments do have responsibilities as economic managers to minimise unemployment but this managerial function gives primacy to inflation control and price stability. The NAIRU provides a convenient way out of for justifying this approach. In some instances (Australia in the early 1990s) unemployment was presented as necessary to diminish inflationary expectations. Central Bank governors have also suggested that unemployment is necessary to discipline the behaviour of trade unions and wage tribunals in seeking wage increases for the low paid (Stegman, 1996).

In Japan there is an implied and elaborate social contract that guarantees full employment. Stability of employment and the maintenance of relatively low unemployment rates is part of the national settlement whereby national goals subordinate personal and household goals. In exchange for commitment and loyalty to the company and the products produced by the company, job continuity is guaranteed. In exchange for high savings, low interest rates and relative less choice and higher prices than would be experienced in Australia or the USA. A co-ordinated system of regulations and protection sustains low productivity jobs in the non-trade sector. In Japan increasing unemployment is a manifestation of systems failure, a breach of the implied collective contract. As we have seen over the past five years, governments go all out to reflate the economy via expansionary fiscal and monetary policy to make up for job losses in the trade and non-trade sectors. Rising unemployment challenges the political establishment and places pressure on the social contract. At the moment it is clear that the Japanese social contract is close to collapse and the system of co-ordination, structures and regulations that have supported the contract are also in a state of terminal stress.

Conclusion: Institutions and Unemployment Compared

A consideration of how unemployment is viewed, how production is organised, the co-ordinating and regulatory role of government and the degree of integration and harmony in the economic and political system provides us with some insights into explaining unemployment differences between Australia, Japan and the USA. Of the three countries, Australia and the USA share a similar experience. Unemployment is increasingly being pushed from collective towards individual responsibility. Job loss is accepted as an inevitable consequence of the periodic crisis or business slow-down in each economy or the structural rigidities present in the labour market. There is a fragmented and competitive organisation of business, and there is separation between the finance and other sectors of the economy. The system is not co-ordinated centrally and there is an emphasis on short-term profitability. Unemployment is increasingly being moved outside

of the responsibility of government and it is even regarded as a necessary development in order to discipline inflationary pressures.

In contrast, Japan does have a collective national consensus regarding the organisation of production, a long-term plan based on export market success and personal dedication to hard work and savings for the collective good. Unemployment is a manifestation of deep personal failure but also the failure of the system to deliver jobs as part of the implied social contract. Redundancies are not the immediate response to an economic slowdown and there is a long-term employment relationship based on shared goals and commitment to the corporate and national cause. There is an implied paternalistic relationship between business and worker. Commitment to the organisation is rewarded through security in employment. Flexibility in the system is achieved via a bonus wage system in the large firm sector, protection of the non trade sector and the existence of a low productivity small business and self employed sector offering a shelter from unemployment. The government is committed to assisting business, maintaining the demand for labour and facilitating long-term business and infrastructure investment. Conglomerate business arrangements dominate the economy and there is no arms length relationship between finance and the large business sector.

An economic system like Japan is based on long-term planning and investment, an extensive system of national support and shared national goals that foster a long-term employment relationship. With stable employment levels improvements in productivity become the focus of the longer-term corporate development program. Extensive household savings are channeled to business at low interest rates in order to support long-run investment and development.

In Australia and the USA it is short-term profitability being increasingly driven by equity markets and pension funds that counts. Job turnover and job losses become part of the ongoing process to reduce costs and improve the bottom line. Job attachment becomes more tenuous and skills are skewed towards general skills. Business turnover is high, and changes in the ownership of corporations are much more frequent as compared with Japan. Government in both countries have no commitment to full employment. Indeed, unemployment may be necessary to discipline inflationary expectations and excessive wage claims. Both countries are exemplary examples of the neo-liberal agenda being applied, unemployment is increasingly an individual not a collective responsibility. Many jobs can be created, but equally many jobs can disappear in the short-term.

A consideration of the construction, institutions and political economy of unemployment enables us to gain some insight into what is behind the “facts” on the unemployment differences between Australia, Japan and the USA. These structures and institutions are fluid and changes through time mean that the individual country story is even more complex than the one suggested here. To date much of the institutional comparative analysis has used a neoclassical paradigm to compare various labour market imperfections across countries. Apart from the reductionist and positivist way institutions are incorporated into the analysis there is also an unrealistic emphasis on measuring institutions. The broad based approach adopted here is not positivistic nor does it lend itself to measurement, it does provide an overview to complement the more systematic

analyses contained in other papers and the important assessment of the politics of unemployment across the three countries.

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