I Win My European Unemployment Bet

In 2009, the U.S. unemployment rate exceeded Europe's for the first time in decades. Apologists for European labor market regulation rejoiced, so I publicly bet that European unemployment would exceed U.S. unemployment over the next decade. The original authors I targeted turned me down, even after I offered a 1 percentage-point spread. But noted economist John Quiggin took the bait. Our final terms:

> *The stake is $US100 and the agreed criterion is that, for Bryan to win, the average Eurostat harmonised unemployment rate for the EU-15 over the period 2009-18 inclusive should exceed that for the US by at least 1.5 percentage points.*

Ten years later, the bet's results are now in. The average U.S. unemployment rate during this decade was 6.8%. The EU-19 (the original EU-15 plus the Baltics and Slovakia) was 10.3%. Since the EU-15 is no longer widely available, Quiggin would have been within his rights to hold out for slightly adjusted numbers, but via email he has nobly decided to concede. Since the Baltics and Slovakia have low populations, they couldn't sway the final figure much – and in any case, unemployment rates for the Baltics and Slovakia aren't major outliers. The upshot is that I won the European unemployment bet by an enormous margin of 2 full percentage-points (on top of the original 1.5 percentage-point edge).

What does this all mean? To me, this bet is just a small extra piece of evidence in favor of the orthodox and blindingly obvious theory that *Europe has higher unemployment than the U.S. because it has stricter labor market regulation*. Flexible labor markets respond more sharply to shocks, but yield lower unemployment rates overall. As I originally explained:

> *During the dot-com bust, U.S. unemployment remained below Europe's, but it clearly rose faster. Isn't this further evidence that the mainstream case against European labor market regulation is overstated?*
>
> *On the contrary, this is precisely what the mainstream case predicts! Europe makes it harder to get rid of workers, so it's only natural that when a big shock hits, U.S. unemployment rises more. However, precisely because it is easier for American wages to adjust and*

> *American employers to change their minds, our labor market is also relatively quick to recover.*

Disclosure: From the outset, Quiggin argued that the U.S. unemployment rates were artificially suppressed by high incarceration. This has always seemed crazy to me, as I explained back in the day:

> *From a labor market perspective, though, Quiggin's incarceration adjustment would only make sense if you thought that most or all of the people in jail would be unemployed if they were released. That doesn't make sense to me – while the people currently in American prisons might not be model workers, most of them could easily be gainfully employed on the outside.*

Notice: Even if you think that the people in jail have no desire to work, you'd expect this to show up in labor force participation, not unemployment. After all, to keep counting as unemployed, you have to keep trying – and failing – to find a job.

That said, I heartily commend Quiggin for actually making our bet. He towers above all of the apologists for European labor market regulation who refuse to put their money where their mouths are.

Stepping back: Isn't it possible that European-style labor regulation still helps workers, because the extra wages outweigh the lost hours of employment? To be fair, this optimistic story is consistent with standard estimates of labor demand elasticity. However, the optimistic story overlooks a pessimistic truth: Most of the harm of unemployment is psychological, not material. Holding income constant, the employed are much happier than the unemployed. Hence, no sensible person would want to see U.S. workers' wages rise by 10% if the unemployment rate rose 3.5% as a result. And psychology aside, remember that the welfare state forces active workers to support the idle. So when regulation forces wages up, even the lucky workers who keep their jobs ultimately forfeit much of what they gain.

What did I learn from this bet? Back in 2009, I was unaware that Germany had seriously liberalized its labor markets a few years earlier. Since then, German unemployment has fallen from a peak of over 11% in 2005 to 3.3%. The Great Recession barely happened in Germany; unemployment inched up from 7.1% in late 2008 to 7.9% in mid-2009, then continued its free fall. There's no reason all of the other high-unemployment countries in

Europe can't swallow their pride and follow Germany's path to progress. Well, unless "We're too busy debating populism versus socialism" counts as a reason.

By my count, this betting victory brings my record to 19 wins, 0 losses. Yes, perhaps I'll see my first defeat later this month. But even if I do, I'm not afraid to repeat that I have *publicly demonstrated* that my judgment is good. And in my demonstrably good judgment, radical deregulation of Europe's labor markets is long overdue. I'm happy to make the Quiggin bet all over again with anyone who's interested, but what's the point? My homeschooled sons understood all of this when they were 12. Forget ideology. Let's all join hands, admit that labor market regulation is a scourge, and tear down these paper walls.