SOCIAL PROTECTION VERSUS ECONOMIC FLEXIBILITY

Is There a Trade-off?

Edited by

REBECCA M. BLANK
National Bureau of Economic Research
Comparative Labor Markets Series

Chicago
Do social protection programs limit the ability of the labor market to adjust to fast-growing segments of the economy, and thus inevitably lead to a decrease in economic growth? This volume compares how such programs as social security, income transfers, and job protection laws in Western Europe, the United States, and Japan have affected labor market flexibility.

Does tying health insurance to employment limit job mobility? Do certain housing policies inhibit workers from moving to new jobs in different areas? What are the effects of daycare and maternity leave policies on working mothers? The authors explore these and many other questions in an effort to understand why European unemployment rates are so high compared with the U.S. rate.

By examining diverse data sets across different countries, the authors find that while social protection programs do change economic behavior, there is little evidence that they create inflexibility with regard to economic adjustment. To achieve useful comparisons among diverse nations, the authors (Continued on back flap)
Social Protection versus Economic Flexibility
NBER Comparative Labor Markets Series
A National Bureau of Economic Research Series
Edited by Richard B. Freeman

Also in the series

David Card and Richard B. Freeman, editors
Small Differences That Matter: Labor Markets and Income Maintenance in Canada and the United States

Lisa M. Lynch, editor
Training and the Private Sector: International Comparisons
Social Protection versus Economic Flexibility
Is There a Trade-off?

Edited by Rebecca M. Blank

The University of Chicago Press
Chicago and London
REBECCA M. BLANK is professor of economics at Northwestern University, faculty affiliate at Northwestern's Center for Urban Affairs and Policy Research, and a research associate of the National Bureau of Economic Research.
National Bureau of Economic Research

Officers

George T. Conklin, Jr., chairman
Paul W. McCracken, vice chairman
Martin Feldstein, president and chief executive officer

Geoffrey Carliner, executive director
Charles A. Walworth, treasurer
Sam Parker, director of finance and administration

Directors at Large

Elizabeth E. Bailey
John H. Biggs
Andrew Brimmer
Carl F. Christ
George T. Conklin, Jr.
Don R. Conlan
Kathleen B. Cooper
Jean A. Crockett

George C. Eads
Martin Feldstein
George Hatsopoulos
Lawrence R. Klein
Franklin A. Lindsay
Paul W. McCracken
Leo Melamed
Michael H. Moskow

Robert T. Parry
Peter G. Peterson
Robert V. Roosa
Richard N. Rosett
Bert Seidman
Eli Shapiro
Donald S. Wasserman
Marina v. N. Whitman

Directors by University Appointment

Jagdish Bhagwati, Columbia
William C. Brainard, Yale
Glen G. Cain, Wisconsin
Franklin Fisher, Massachusetts Institute of Technology
Saul H. Hymans, Michigan
Marjorie B. McElroy, Duke
Joel Mokyr, Northwestern

James L. Pierce, California, Berkeley
Andrew Poselewaite, Pennsylvania
Nathan Rosenberg, Stanford
Harold T. Shapiro, Princeton
Craig Swan, Minnesota
Michael Yoshino, Harvard
Arnold Zellner, Chicago

Directors by Appointment of Other Organizations

Marcel Boyer, Canadian Economics Association
Rueben C. Buse, American Agricultural Economics Association
Richard A. Easterlin, Economic History Association
Gail D. Fosler, The Conference Board
A. Ronald Gallant, American Statistical Association
Robert S. Hamada, American Finance Association

Charles Lave, American Economic Association
Rudolph A. Oswald, American Federation of Labor and Congress of Industrial Organizations
Dean P. Phypers, Committee for Economic Development
James F. Smith, National Association of Business Economists
Charles A. Walworth, American Institute of Certified Public Accountants

Directors Emeriti

Moses Abramovitz
Emilio G. Collado
Thomas D. Flynn

Gottfried Haberler
Geoffrey H. Moore
James J. O'Leary

George B. Roberts
William S. Vickrey
Relation of the Directors to the
Work and Publications of the
National Bureau of Economic Research

1. The object of the National Bureau of Economic Research is to ascertain and to present to the
public important economic facts and their interpretation in a scientific and impartial manner. The
Board of Directors is charged with the responsibility of ensuring that the work of the National
Bureau is carried on in strict conformity with this object.

2. The President of the National Bureau shall submit to the Board of Directors, or to its Execu-
tive Committee, for their formal adoption all specific proposals for research to be instituted.

3. No research report shall be published by the National Bureau until the President has sent
each member of the Board a notice that a manuscript is recommended for publication and that in
the President's opinion it is suitable for publication in accordance with the principles of the Na-
tional Bureau. Such notification will include an abstract or summary of the manuscript's content
and a response form for use by those Directors who desire a copy of the manuscript for review.
Each manuscript shall contain a summary drawing attention to the nature and treatment of the
problem studied, the character of the data and their utilization in the report, and the main conclu-
sions reached.

4. For each manuscript so submitted, a special committee of the Directors (including Directors
Emeriti) shall be appointed by majority agreement of the President and Vice Presidents (or by the
Executive Committee in case of inability to decide on the part of the President and Vice Presi-
dents), consisting of three Directors selected as nearly as may be one from each general division
of the Board. The names of the special manuscript committee shall be stated to each Director
when notice of the proposed publication is submitted to him. It shall be the duty of each member
of the special manuscript committee to read the manuscript. If each member of the manuscript
committee signifies his approval within thirty days of the transmittal of the manuscript, the report
may be published. If at the end of that period any member of the manuscript committee withholds
his approval, the President shall then notify each member of the Board, requesting approval or
disapproval of publication, and thirty days additional shall be granted for this purpose. The manu-
script shall then not be published unless at least a majority of the entire Board who shall have
voted on the proposal within the time fixed for the receipt of votes shall have approved.

5. No manuscript may be published, through approved by each member of the special manu-
script committee, until forty-five days have elapsed from the transmittal of the report in manuscript
form. The interval is allowed for the receipt of any memorandum of dissent or reservation, together
with a brief statement of his reasons, that any member may wish to express: and such memoran-
dum of dissent or reservation shall be published with the manuscript if he so desires. Publication
does not, however, imply that each member of the Board has read the manuscript, or that either
members of the Board in general or the special committee have passed on its validity in every
detail.

6. Publications of the National Bureau issued for informational purposes concerning the work
of the Bureau and its staff, or issued to inform the public of activities of Bureau staff, and volumes
issued as a result of various conferences involving the National Bureau shall contain a specific
disclaimer noting that such publication has not passed through the normal review procedures re-
quired in this resolution. The Executive Committee of the Board is charged with review of all such
publications from time to time to ensure that they do not take on the character of formal research
reports of the National Bureau, requiring formal Board approval.

7. Unless otherwise determined by the Board or exempted by the terms of paragraph 6, a copy
of this resolution shall be printed in each National Bureau publication.

(Resolution adopted October 25, 1926, as revised through September 30, 1974)
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preface</td>
<td>ix</td>
</tr>
<tr>
<td><strong>Introduction</strong></td>
<td>1</td>
</tr>
<tr>
<td>Rebecca M. Blank</td>
<td></td>
</tr>
<tr>
<td>1. Evaluating the Connection between Social Protection and Economic Flexibility</td>
<td>21</td>
</tr>
<tr>
<td>Rebecca M. Blank and Richard B. Freeman</td>
<td></td>
</tr>
<tr>
<td>2. Trends in Social Protection Programs and Expenditures in the 1980s</td>
<td>43</td>
</tr>
<tr>
<td>Peter Scherer</td>
<td></td>
</tr>
<tr>
<td>3. Does Employment Protection Inhibit Labor Market Flexibility? Lessons from Germany, France, and Belgium</td>
<td>59</td>
</tr>
<tr>
<td>Katharine G. Abraham and Susan N. Houseman</td>
<td></td>
</tr>
<tr>
<td>4. Patterns in Regional Labor Market Adjustment: The United States versus Japan</td>
<td>95</td>
</tr>
<tr>
<td>Edward B. Montgomery</td>
<td></td>
</tr>
<tr>
<td>5. Housing Market Regulations and Housing Market Performance in the United States, Germany, and Japan</td>
<td>119</td>
</tr>
<tr>
<td>Axel Börsch-Supan</td>
<td></td>
</tr>
<tr>
<td>6. Health Insurance Provision and Labor Market Efficiency in the United States and Germany</td>
<td>157</td>
</tr>
<tr>
<td>Douglas Holtz-Eakin</td>
<td></td>
</tr>
<tr>
<td>Chapter</td>
<td>Title</td>
</tr>
<tr>
<td>---------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>7.</td>
<td><strong>Social Security and Older Workers' Labor Market Responsiveness: The United States, Japan, and Sweden</strong></td>
</tr>
<tr>
<td>8.</td>
<td><strong>Public Sector Growth and Labor Market Flexibility: The United States versus the United Kingdom</strong></td>
</tr>
<tr>
<td>9.</td>
<td><strong>Does Public Health Insurance Reduce Labor Market Flexibility or Encourage the Underground Economy? Evidence from Spain and the United States</strong></td>
</tr>
<tr>
<td>10.</td>
<td><strong>Social Welfare Programs for Women and Children: The United States versus France</strong></td>
</tr>
<tr>
<td>11.</td>
<td><strong>Three Regimes of Child Care: The United States, the Netherlands, and Sweden</strong></td>
</tr>
</tbody>
</table>

**Contributors**

<table>
<thead>
<tr>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>363</td>
</tr>
<tr>
<td>365</td>
</tr>
<tr>
<td>371</td>
</tr>
</tbody>
</table>
Preface

This volume contains eleven papers that explore and compare the effects of social protection policies on the labor market in the United States with the effects of such policies in Japan and various western European countries. The papers are the result of a larger set of cross-national research papers funded jointly by the Ford Foundation and the National Bureau of Economic Research (NBER). I particularly thank Richard Freeman at NBER for his work in encouraging and supporting this project.

These papers were first presented at a conference held at the Centre for Economic Performance (CEP) at the London School of Economics. I thank CEP for sharing the cost of this conference and handling the organizational details, and I thank the many conference participants, particularly the nine discussants, for their valuable input into this project.