

From the 1970s, unemployment across Europe increased substantially. Research by **Jean-Baptiste Michau** argues that a declining work ethic is key to understanding this rise.

# European unemployment: how significant was a declining work ethic?

**U**nemployment increased substantially across the world after the sharp oil price rises of the 1970s and the collapse of the Bretton Woods system of fixed exchange rates. But unlike many other parts of the world, unemployment in many European countries never returned to the low levels seen during the Golden Age after the Second World War.

Why did European unemployment remain stubbornly high? The standard explanation is that industrialised economies became more unstable and more frequently subject to shocks – such as oil price rises or exchange rate fluctuations – from the 1970s onwards. Those countries with flexible labour market institutions – such as modest

unemployment benefits, light employment protection legislation and a low degree of union power – managed to absorb the effects of these shocks much better than those with rigid institutions (Blanchard and Wolfers, 2000).

The rise in the number of jobless in most European countries is therefore attributed to the interaction between shocks and institutions. But it remains difficult to identify the precise nature of these shocks. In recent research, I argue instead that a decline in the work ethic, induced by the expansion of the welfare state, is key to understanding European unemployment.

It has long been recognised that generous unemployment benefits create ‘moral hazard’ – workers are partly protected against the consequences of

being unemployed, so they are less likely to search for jobs with the same intensity. But the size of the moral hazard problem depends on the values that individuals hold.

People with a strong work ethic would find it unacceptable to rely on benefits without actively looking for jobs, while others with weaker values try to remain on benefits for as long as possible. So the average values in a country have an impact on the size of the moral hazard problem and hence on the cost of providing generous unemployment benefits. We would expect countries where workers have a weaker work ethic to have a lower ‘replacement ratio’ – the level of benefits relative to wages.

To measure the work ethic in different countries, I use the World Values Survey,



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which consists of harmonised questions asked in every decade since 1980 to a representative sample of individuals in many countries. One question is particularly useful for evaluating a country's work ethic: 'Please tell me whether you think it is always justified, never justified or something in between to claim government benefits to which you are not entitled'.

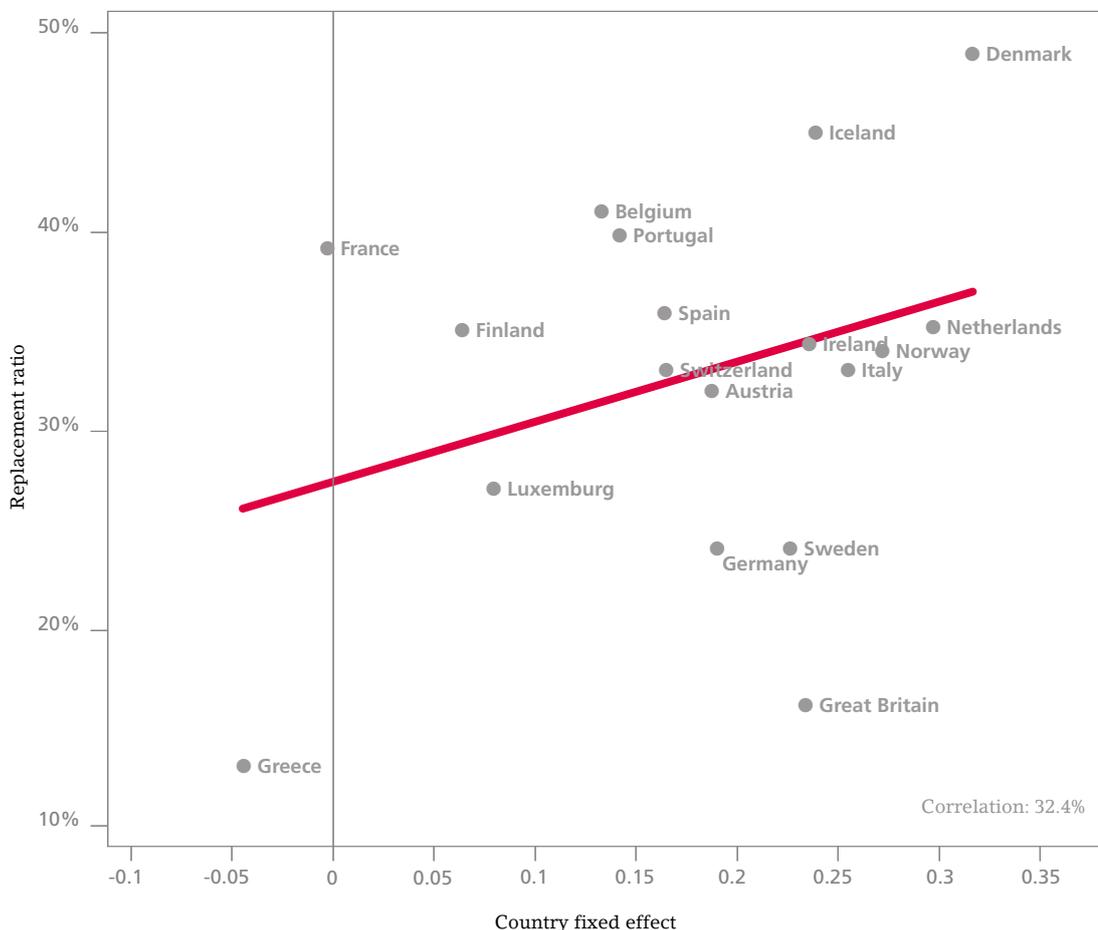
The analysis shows that there are large differences in answers across countries, even within Western Europe. These persist after filtering out the effects of age, gender, political orientation and religion on individual answers. Using France as a baseline, for a person with average characteristics, being Danish rather than French increases the probability of answering 'never justifiable' to the question by 32%. Being British increases it by 24%; while being Greek decreases it by 5%.

Figure 1 indicates that there is a positive correlation between the number of people who think it is 'never justifiable' to cheat on benefits and the replacement ratio of unemployment benefits. This suggests that the strength of values affects policy and that when the moral hazard problem is too strong, the provision of benefits is reduced.

But values change over time and could be affected by government policies – for example, a work-shy culture could result from high levels of unemployment benefit. To understand the true nature of the mechanism at work, we need to understand why people hold a particular set of values.

Parents play an important role in instilling values in their children. This is exemplified by the fact that a US citizen tends to provide the same answer to the question about claiming benefits as

Figure 1: Correlation between unemployment insurance generosity and the values held in a country (as measured by the probability of finding it 'never justifiable' to cheat on benefits)



**Note:** France taken as reference, for example, being British rather than French increases the probability of answering 'never justifiable' by 24%. Data source: OECD and World Values Survey

someone from his ancestors' country of origin (Algan and Cahuc, 2009). More generally, the transmission of values from one generation to the next can either be vertical – from parents to their children – or oblique – from other individuals of the parental generation to children.

Recent research suggests that cultural transmission is not something spontaneous; rather, it results from the optimising behaviour of parents who weigh the benefits and costs of transmitting desirable values to their children (Bisin and Verdier, 2001). The expansion of the scope and size of the unemployment benefits system that occurred after the Second World War decreased the returns from having a strong work ethic, and this meant that parents put less effort into raising their children to work hard.

In addition, it is possible that some rebellious young individuals, reluctant to learn from their parents, might have been attracted by the lifestyle of those living off benefits for extended periods of time.

The drop in values from one generation to the next was probably magnified by the fact that those of the parental generation survived the Second World War. Many of these people would have been willing to risk their life for their nation, and were particularly reluctant to cheat on government-provided benefits.

Using the World Values Survey, I look at whether the work ethic has deteriorated over time. The challenge is

## The later people are born, the less likely they are to say that it is 'never justified' to cheat the benefit system



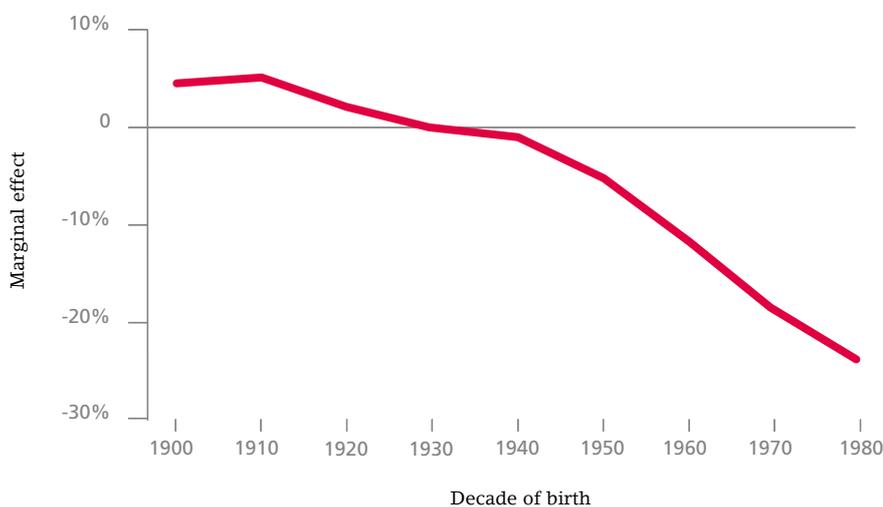
that the data were only collected since the 1980s. The solution is to work with 'birth cohorts' – generations of individuals born in the same year. We would expect individuals born before the Second World War to have a stronger work ethic than those born after.

As Figure 2 shows, the later people are born, the less likely they are to say that it is 'never justified' to cheat the benefit system. This is true after filtering out the effects of age, gender, political orientation, education, religion and nationality. Using the 1930s as a

benchmark, for a person with average characteristics, being born in the 1960s rather than in the 1930s decreases the probability of answering 'never justifiable' by 12%. There has recently been an acceleration in the decline with the corresponding probability reaching 19% and 24% for those born in the 1970s and 1980s, respectively.

The trend over time is of comparable magnitude to the effect of nationality and much more important than other factors such as gender or education. Men are slightly less likely to answer 'never

Figure 2:  
Impact of decade of birth on the probability of thinking that it is 'never justifiable' to cheat on government-provided benefits



**Note:** Individuals born in the 1930s taken as reference group, that is, their marginal effect is set equal to zero (for example, being born in the 1960s, rather than the 1930s, decreases the probability of answering 'never justifiable' by 12%). Data source: World Values Survey.

justifiable' than women but the difference is small, only 3%. The more educated you are, the more you believe that it is 'never justifiable' to cheat on benefits, but again the effect is minor: university educated people are only 1% more likely to answer that it is 'never justifiable' to cheat on benefits than people who left school as soon as they could.

This decline in the work ethic could be one of the major factors explaining the evolution of European unemployment since 1945. When workers from the baby boom generation entered the labour market in the 1970s, they had a weaker work ethic than their parents and the moral hazard problem of unemployment benefits became much more severe.

This led to an increase in the number of people living off unemployment benefits for extended periods of time. In other words, the rise in European unemployment can be explained by a generation-long lag between the introduction (or expansion) of unemployment benefits and the behavioural response of workers.

Changes in values may also explain the decline in European unemployment prior to the recession. As the share of people willing to cheat on benefits increased, providing generous unemployment benefits became ever more expensive. So governments were forced to curtail the level of benefits relative to wages. This created an incentive for the new generation of workers to look for work.

Recently, European countries have

tried to monitor the unemployed to ensure that they are looking for work, alongside an expansion of active labour market policies designed to help workers find jobs. Both of these developments certainly contributed to the reduction in the number of jobless in Europe.

A decline in the work ethic is arguably one of the key factors behind the evolution of European unemployment since the Second World War. It explains why policies that have not changed much over time (such as unemployment benefits) have had distinctly different effects over time. This study suggests that policy-makers should not neglect the potential impact that their policies could have on the transmission of values from one generation to the next.

This article summarises 'Unemployment Insurance and Cultural Transmission: Theory and Application to European Unemployment' by Jean-Baptiste Michau, CEP Discussion Paper No. 936 (<http://cep.lse.ac.uk/pubs/download/dp0936.pdf>).

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## More generous benefits may have meant that parents did not bring up their children to be hard workers



### Further reading

Yann Algan and Pierre Cahuc (2009) 'Civic Virtue and Labor Market Institutions', *American Economic Journal: Macroeconomics* 1(1): 111-45.

Alberto Bisin and Thierry Verdier (2001) 'The Economics of Cultural Transmission and the Dynamics of Preferences', *Journal of Economic Theory* 97: 298-319.

Olivier Blanchard and Justin Wolfers (2000) 'The Role of Shocks and Institutions in the Rise of European Unemployment: The Aggregate Evidence', *Economic Journal* 110: C1-C33.