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Episodes of Unemployment Reduction in Rich, Middle-Income and Transition Economies

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Abstract: This paper studies the incidence and determinants of episodes of drastic unemployment reduction, defined as swift, substantial, and sustained declines in unemployment. We identify 43 episodes over a period of nearly 3 decades in 94 rich, middle-income and transition countries. Unemployment reductions often coincide with an acceleration of growth and an improvement in macroeconomic conditions. Episodes are much more prevalent in countries with higher levels of unemployment and, given unemployment, are more likely in countries with better regulation. An efficient legal system that enforces contracts expeditiously is particularly important for reducing unemployment. The results imply that while employment is largely related to the business cycle, better regulation reduces likelihood of high unemployment and facilitates a more rapid recovery in the event unemployment builds up.

Key words: unemployment, labor markets, regulation

JEL codes: J23, J64, J65, K20, L20

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