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Trends in European labour markets and preferences over unemployment and inflation - Speech by David Blanchflower

In this speech, David Blanchflower, an external member of the Bank of England's Monetary Policy Committee, considers the similarities and differences between European labour markets and the implications of unemployment for wages. Speaking at a seminar organised by Dresdner Kleinwort Bank in the City of London, Professor Blanchflower notes that unemployment in Europe is higher than it is in the United States. Whilst Western Europe has more job protection, higher unemployment benefits, more union power and a more generous welfare state, this does not explain the observed crossing of US and European unemployment rates in the 1980s. Professor Blanchflower looks at data that indicate a positive correlation between unemployment and changes in rates of home ownership.

"Unemployment rates have grown most rapidly in the nations with the fastest growth in home ownership." He goes on to talk about the impact of unemployment on wages and happiness and looks at the correlation with inflation. "As part of its remit, the Monetary Policy Committee is responsible for achieving the government's target rate for inflation. I am pleased to say that both inflation and unemployment have fallen in recent years, but individuals seem to have rather different preferences over unemployment and inflation."

He concludes that the unemployment/inflation rate trade-off is much stronger for poorer countries in Southern Europe, which seem to have a stronger preference for lower unemployment and to worry less about inflation. He also acknowledges the similarities between European labour markets.

Note to Editors

Professor Blanchflower's speech text refers to a paper released today at 4.00pm on the speeches pages.

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2007/speech323.pdf>