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Summary of
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"The Response of Wages and Labor Supply Movements to Employment Shocks Across Europe and the United States" by Alun H. Thomas

This paper compares the degree of labor market flexibility across geographical regions in the United Kingdom and the United States and across four European countries (France, Germany, Italy, and the United Kingdom). This comparison is motivated by the prospect of European Economic and Monetary Union, within which the ability to vary bilateral exchange rates will be eliminated. This will necessitate a greater reliance on other forms of adjustment for countries within the Union.

The paper uses a multivariate VAR framework to assess the degree to which relative regional and national wages and labor forces adjust to employment shocks. The paper finds that the responsiveness of wages to employment shocks in the United States and in Europe is minimal but that there are large differences in the response of the labor forces in both areas. There is a high degree of interregional migration in the United States, so that when a region experiences a large reduction in employment, a sizable fraction of the labor force moves to surrounding regions. This movement is sufficient to prevent persistent unemployment differences across U.S. regions. In Europe, the German and French economy-wide labor forces and the British regional labor forces adjust to a limited degree to employment shocks, but the magnitude of the adjustment is insufficient to prevent the appearance of persistent unemployment rate differences. There is very little adjustment of the British and Italian economy-wide labor forces to employment shocks.

The paper concludes that Europe must promote measures to stimulate interregional and international migration to facilitate its adoption of a common currency.