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PRESS RELEASE

The relationship between economic growth and employment
(Article for the June 2015 Economic Review)

The question of the relationship between economic growth and employment is highly relevant in the recent economic context dominated by the great recession, in which Belgium stood out from some of its partners thanks to a degree of labour market resilience. The article describes how that relationship has changed over time, i.e. Okun's law in its activity/employment dimension, through various recession episodes, and the underlying trends in GDP, the volume of labour, and productivity.

The article begins with the accounting breakdown of GDP: the extensive margin (employment) and the intensive margin (average hours worked and productivity). Next, it presents the long-term trends underlying each of the elements in this breakdown in order to examine in particular the job intensity of growth, and then to consider the development of the various branches of activity and their contribution to the key trends identified.

After that, the article examines more particularly the quantification of the relationship between growth and employment across the business cycle and through the various successive cycles. Here it only considers the cyclical components of the variables concerned. At that level, the analysis endeavours to measure the sensitivity of the cyclical component of employment to the output gap in Belgium, to compare it with the sensitivity observed in other developed economies and to verify its stability over time. The analysis is first extended from employment to the total volume of labour, and then from the Belgian economy to its sectoral components.

The article finds that productivity has been tending to slow down in Belgium over the past three decades. After controlling for that fundamental tendency, the relationship between persons in employment and economic activity appears generally stable over time across the business cycle and is generally unaffected by recessions. In Belgium in particular, in terms of deviation from their respective trends, a 1 % rise in GDP brings a 0.5 % increase in employment. That figure is in line with the European average.

The downward trend in productivity is accompanied by a shift to the tertiary sector of the economy, i.e. workers are switching from the manufacturing sector to the market and non market services sectors, whereas the sectors' shares of value added are still relatively stable. If that trend persists, it should not in principle affect the relationship between employment and economic activity across the business cycle, since the estimated employment/value added elasticity for the manufacturing sector is the average of that same elasticity calculated for market and non market services.

Although the relationship between employment and GDP is very stable across the business cycle, the recent financial crisis differs from previous recessions in a general tendency to protect jobs, at first, in all twelve economies studied in the article. However, that tendency soon ended and the situation returned to normal; if employment is struggling to pick up, that is essentially because of the weakness of the economic recovery. Finally, it is very clear that firms prefer to respond to fluctuations in the economy by adjusting the hours worked. In Belgium, the elasticity of those hours to economic activity is about 50 % greater than the elasticity of the number of persons employed in all sectors sensitive to the business cycle.

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