BOOK REVIEW

Ramón Gómez-Salvador, Ana Lamo, Barbara Petrongolo, Melanie Ward and Etienne Wasmer, *Labour Supply and Incentives to Work in Europe*, Edward Elgar Publishing, 2005. 424 p. GBP 75.00 (ISBN 1 84542 129 9 HB)

With an aging population and participation rates still below those in the US, the incentives to work and labour supply are important topics for policy makers and economists in Europe. This book is a collection of research papers presented at a workshop in 2003 by labour economists from different European countries. The chapters in the book are not based on a predetermined list of topics or policy issues, but are determined by the input of the participants.

Part I is on incentives to work. Bridgen and Thomas address the phenomenon of observing moderate wage rises in combination with falling unemployment rates, which they attribute to the large pool of inactive people. They formulate a formal matching model and include the search decision to distinguish inactivity from unemployment. This study is the only chapter in the book that uses a structural economic model in the analysis. All studies are empirical, presenting regression and difference-in-differences estimates. Davis and Henrekson address the adverse effects of tax on labour income on participation, by comparing, for different countries, the impact of the average tax rates on employment rates and working hours. The estimates show a negative impact, but do not always show up significantly. Part II starts with two chapters about female labour supply. The studies provide us with information on the trends in female labour supply over the past decades. Dex et al. compare the figures for different countries and show that hours of work of women have increased over cohorts, especially for women with children and lower education levels. Interestingly, for Sweden, a country with high access to child care facilities, the cohort effects are less obvious. Merz shows with German data that average hours of work of women have roughly remained constant in the past decades, but this can be disentangled in an increase in participation rates of women, offset by a decrease in average working hours for those who are participating. Genre et al. address several labour market policies in Europe. In a regression analysis for several European countries, participation rates are related to the replacement ratio and the duration of unemployment benefits, measures for union density and employment protection, and labour taxes. Cipollone et al. analyze a hiring subsidy in Italy for employers that hire workers, older than 24, in an open-ended contract, rather than in a fixed term contract. Their difference-in-difference analysis shows that, rather than young workers, with age just above 24, men in the middle age group, with low education, seem to benefit from the subsidy. The explanation provided is that these workers may switch from the black market to the legal sector. Part III addresses employment relationships. Buddelmeyer et al. provide an overview of the development of part-time employment over time and across countries, where the Netherlands shows up as a peak outlier. As already shown by

Merz, part-time work can induce women to participate, and it is shown that the incidence of part-time employment is larger among women. Most part-time employment is voluntary. Varejão and Portugal address the role of fixed-term employment: does it function as a stepping-stone to a permanent contract, or does it lead to low quality jobs without training and any prospects?

The book is not a review of the empirical literature on incentives in the labour market in Europe. Some chapters clearly have the intention to provide us with a lot of useful information and facts, while others are written in the format of a journal article. The strength of the book is that it carries over the open atmosphere of a workshop, with room for open ends and discussion: every chapter is followed by a short discussion written by a fellow economist, who provides alternative views and suggestions.

The book concludes with a panel discussion addressing policy issues in the European Union, ranging from employment rates in relation to the Euro, the inflow of workers from new EU countries into 'old' EU countries, and the resulting higher demand for social protection. It discusses the 'race to the bottom' where countries may compete with each other, driving down tax rates on capital and profits to stimulate investment. The question is who will pay for this race to the bottom. And, in the end, will it do more harm than good? The panel discussion is in particular interesting, as it took place in 2003, before the vote on the European Constitution in France and The Netherlands, when Europe was still more looked upon as an ideal. Some of the authors show to be visionary, and the problems described are still very up to date.

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