

Revisiting Okun's Law in European Union countries

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Purpose

– The purpose of this paper is to examine Okun's Law in European countries by distinguishing between the transitory and the permanent effects of output changes upon unemployment and by examining the effect of labor market protection policies upon Okun's coefficients.

Design/methodology/approach

– Quarterly data for 13 European Union countries, from the second quarter of 1993 until the first quarter of 2014, are used. Panel data techniques and Mundlak decomposition models are estimated.

Findings

– Okun's Law is robust to alternative specifications. The effect of output changes to unemployment rates is weaker for countries with increased labor market protection expenditures and it is more persistent for countries with low labor market protection.

Originality/value

– The paper provides evidence that the permanent effect of output changes upon unemployment rates is quantitatively larger than the transitory impact. In addition, it provides evidence that increased labor market protection mitigates the adverse effects of a decrease in output growth rate upon unemployment.

Keywords: [Labour market protection](#), [Okun's Law](#), [Transitory and permanent effects](#)

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