

# **The Great Recession**

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Panel Discussion EALE-SOLE

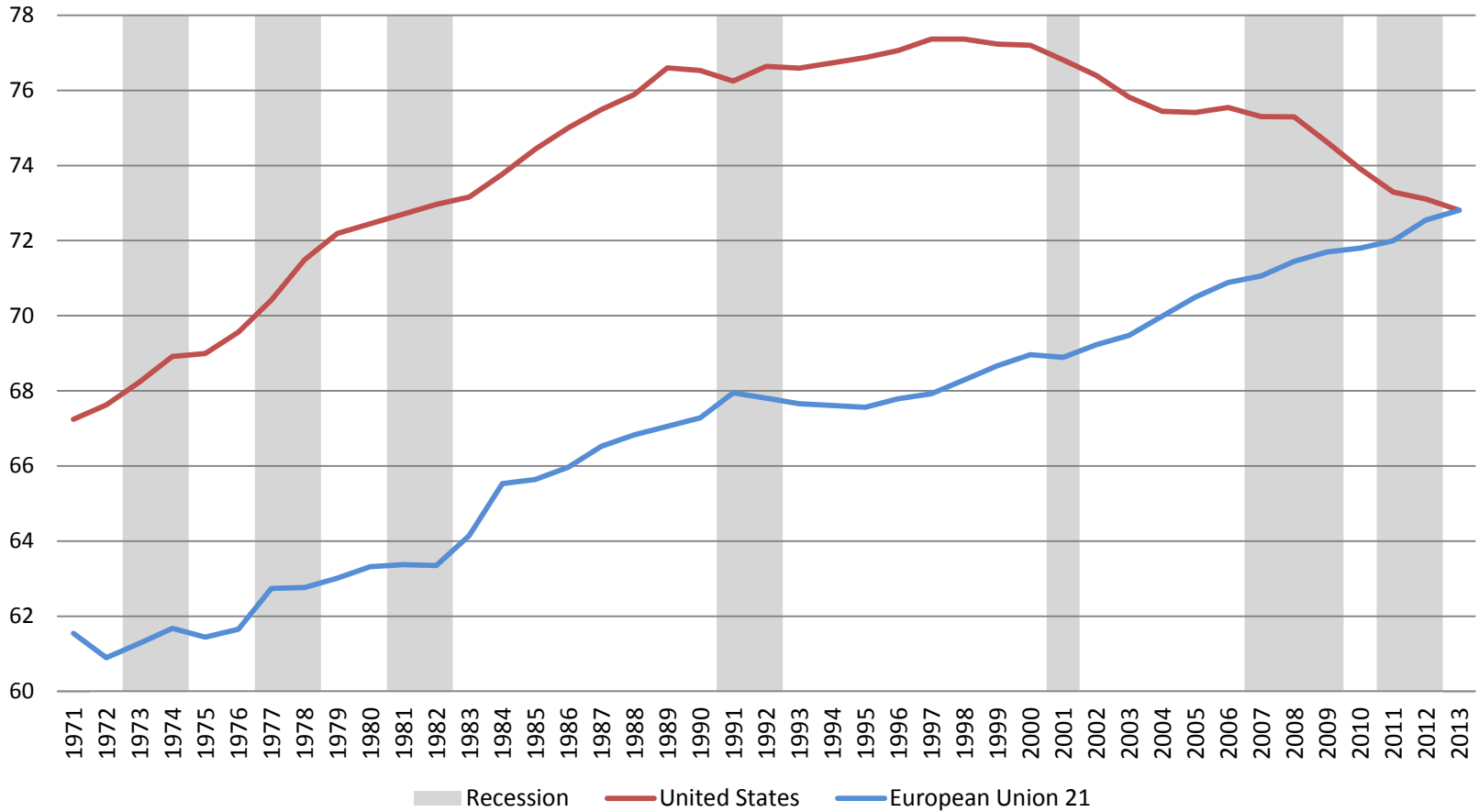
Montreal, June 26 2015

# European Perspectives

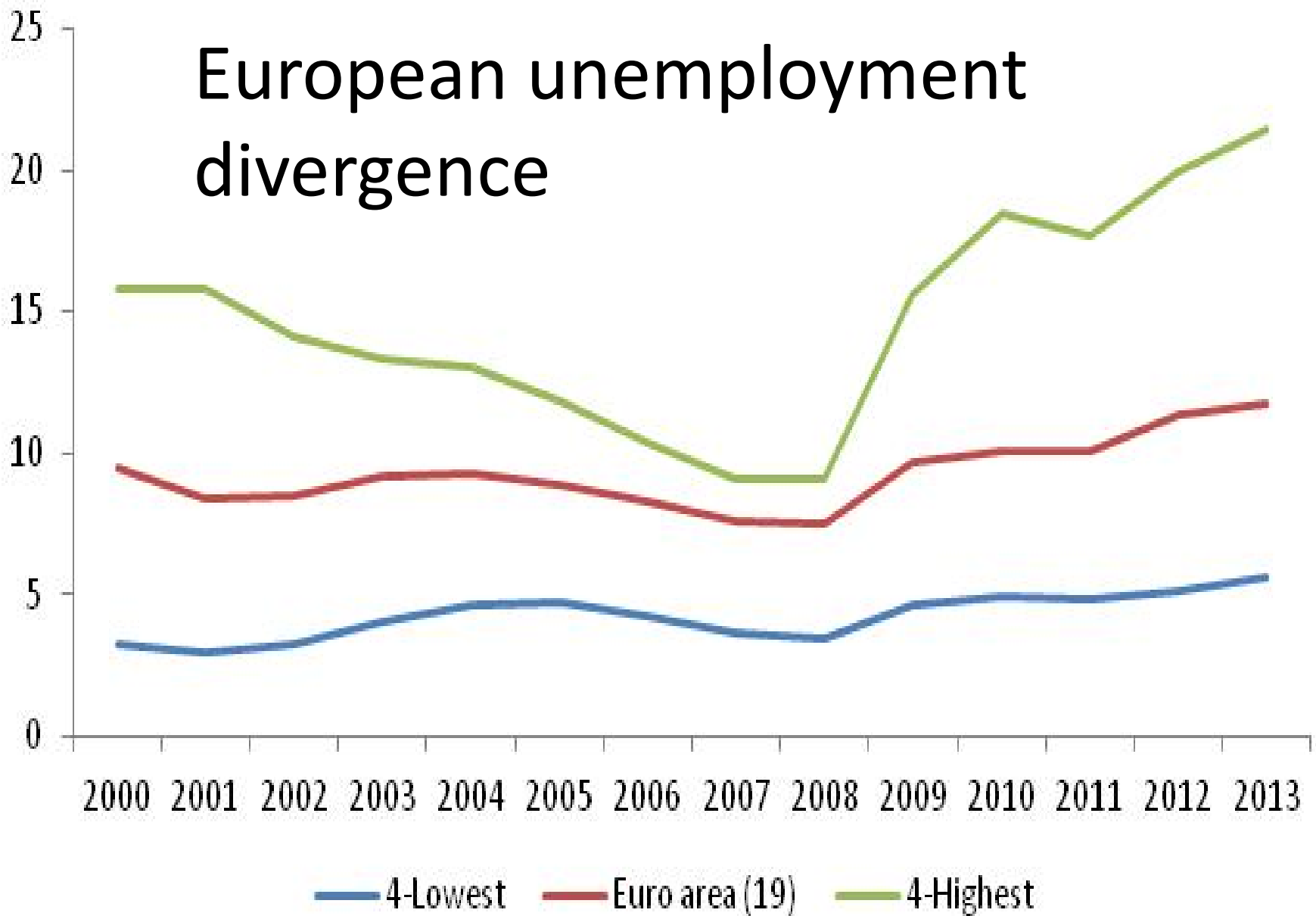
- Heterogeneity in Unemployment Response:
  - Institutions
  - Size of Shocks
  - Nature of shocks
- A stress test of Social Europe(s)
  - Poverty and safety nets
  - Generational profile
- Designing supra-national labor/social institutions

# Trans-Atlantic convergence

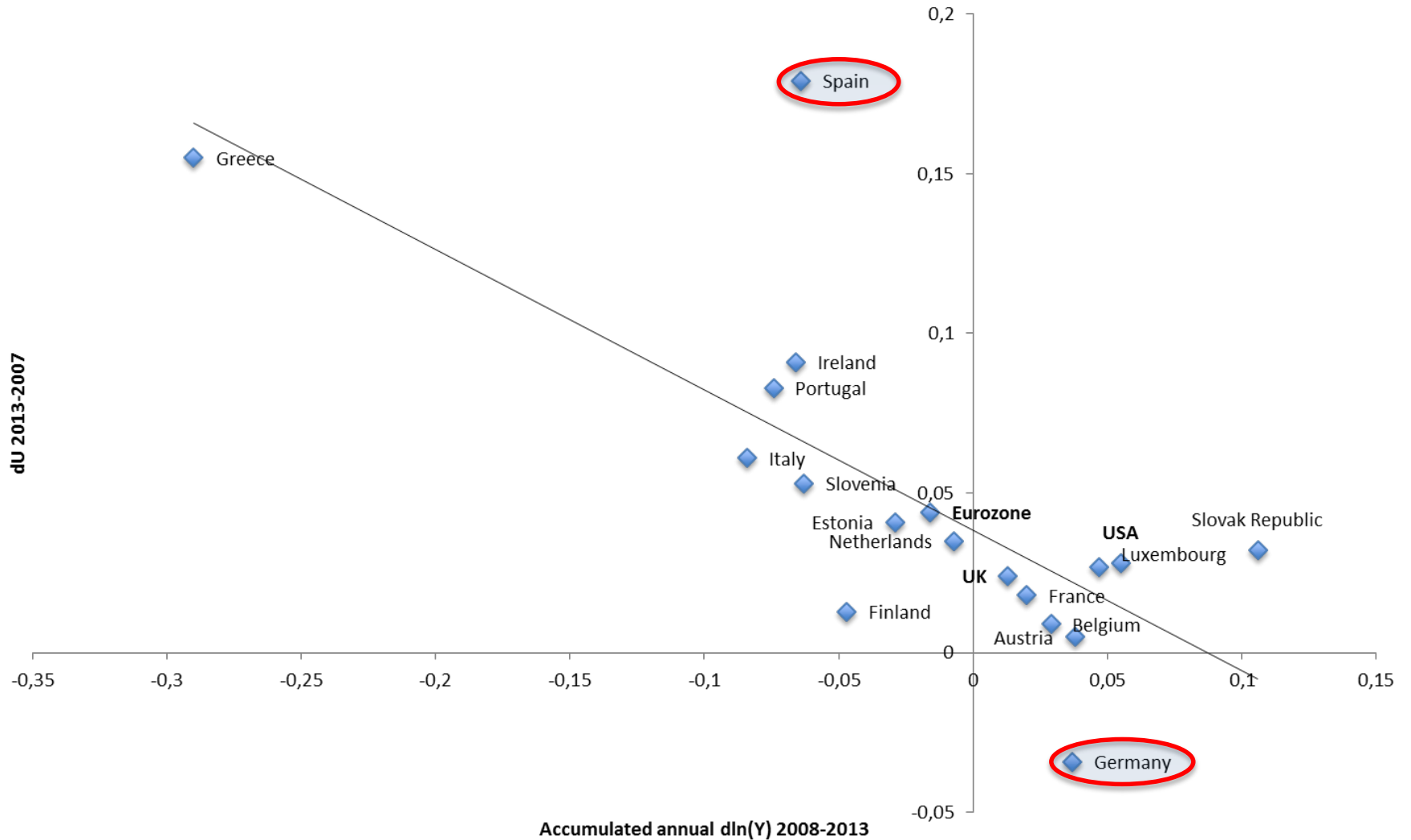
Labor Force Participation rate  
(population 15-64 years old, %)



# European unemployment divergence



# Okun's law



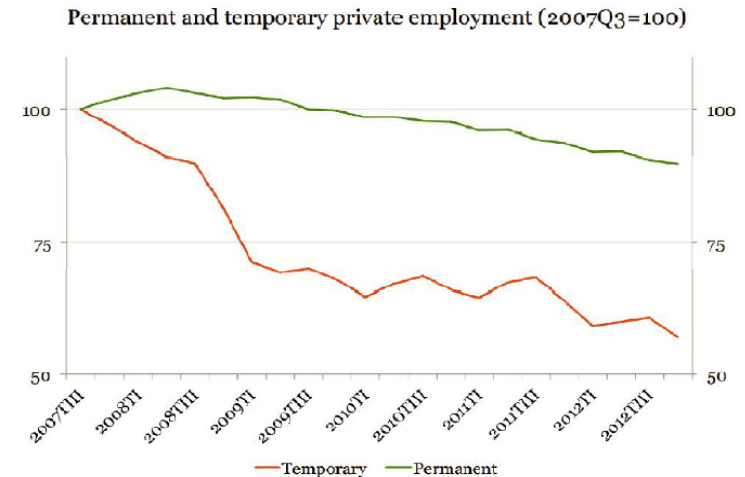
# Learning from the Outliers

## Germany

- Adjustment along hours, multiple jobs, and wages
- Short-time work, working accounts and mini(multiple)-jobs operating along intensive margin
- Collective, but decentralized bargaining allowing to trade wage reductions with less layoffs

## Spain

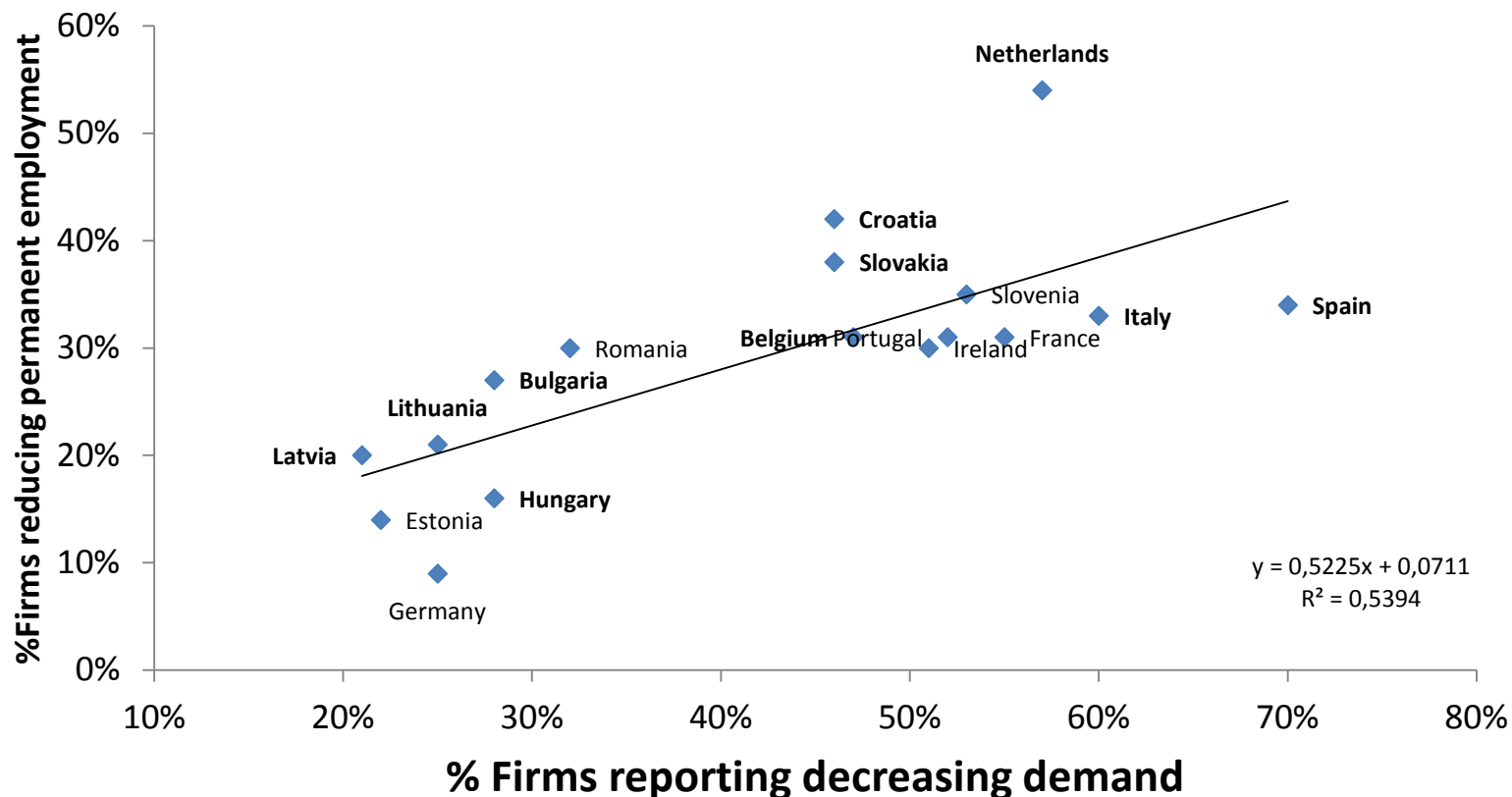
- Adjustment only along one margin: temporary employment



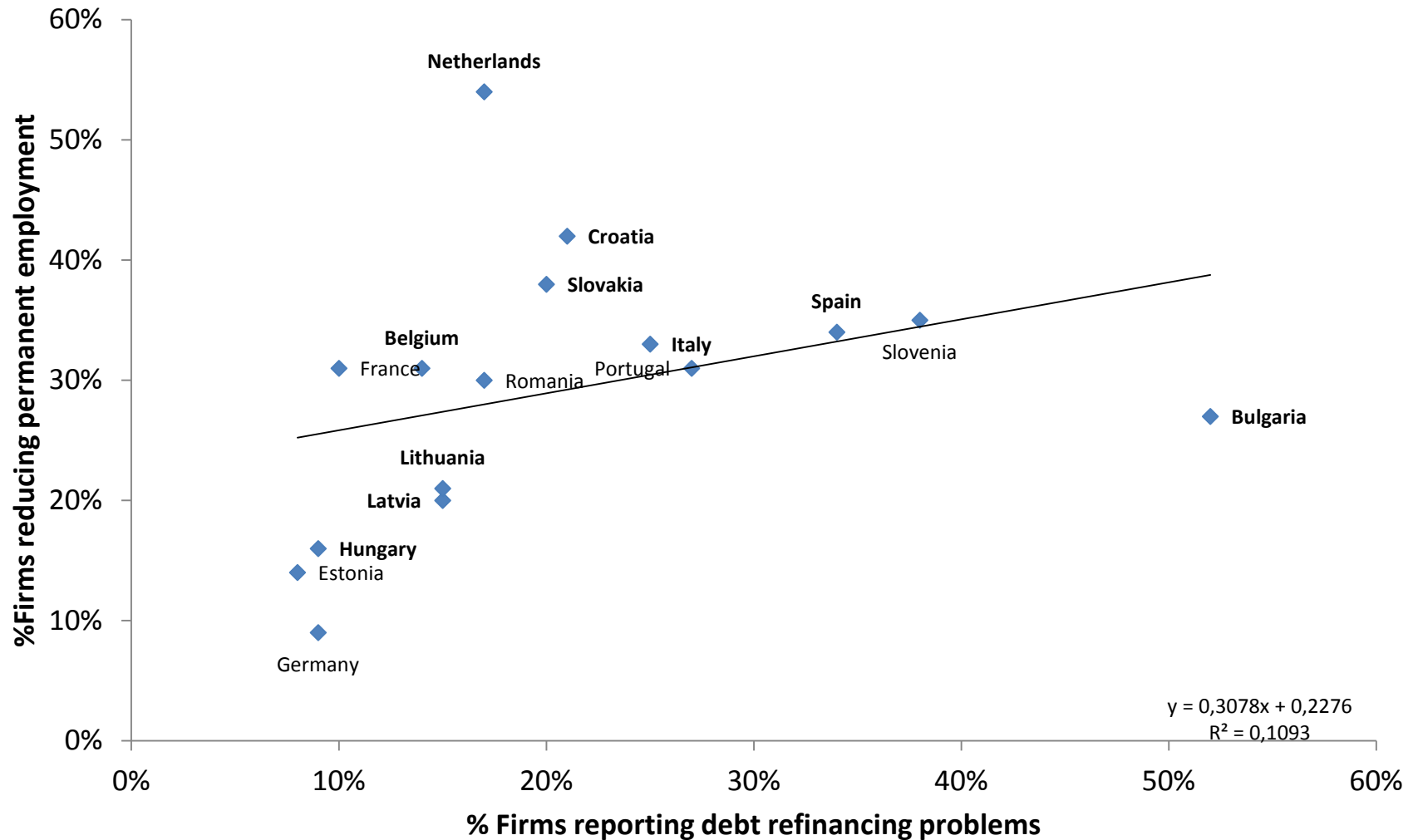
Source: INE, Labor Force Survey.

# Some micro evidence on the nature of shocks

- Product demand shocks

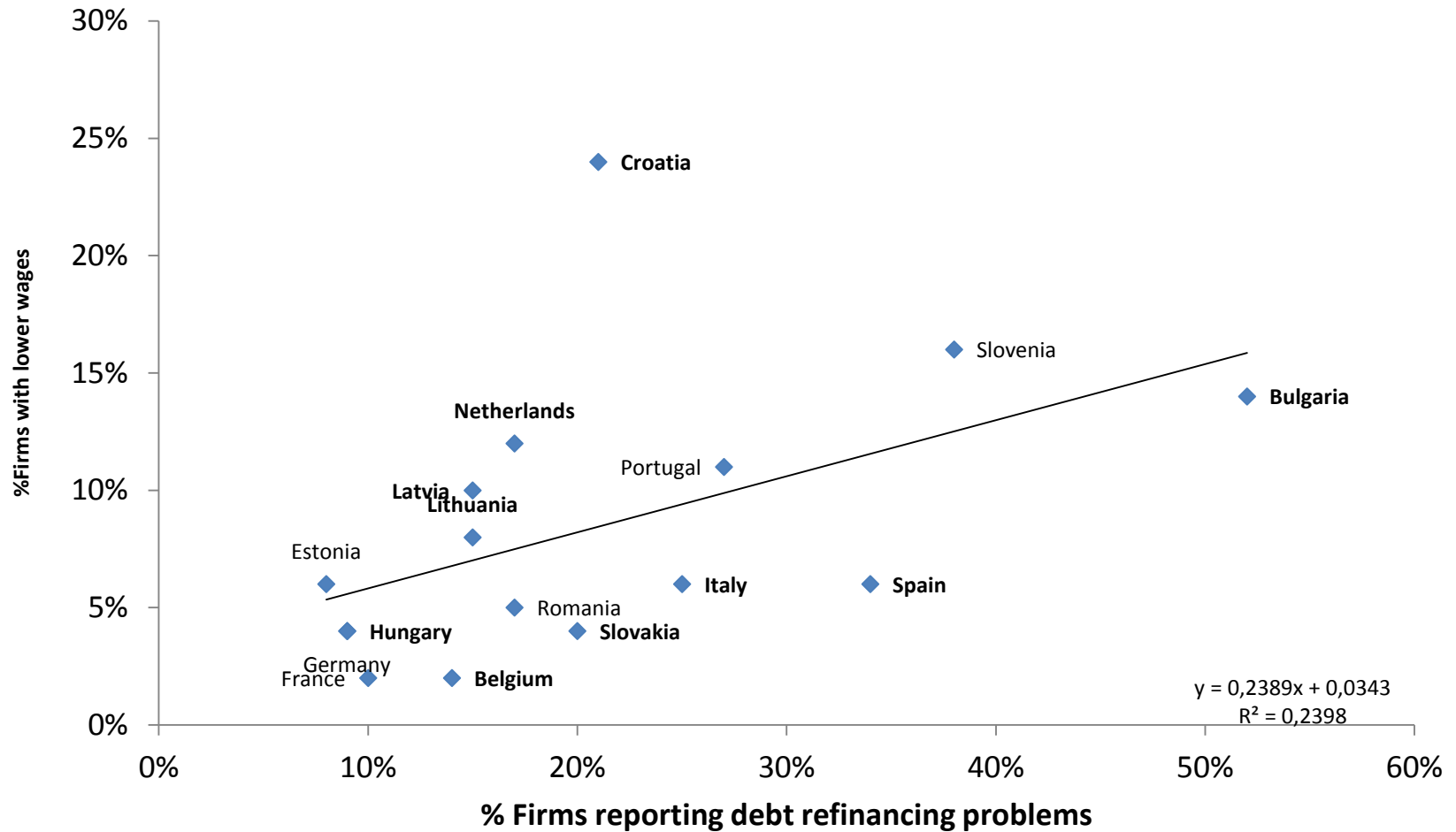


# Employment adjustment and shocks to refinancing





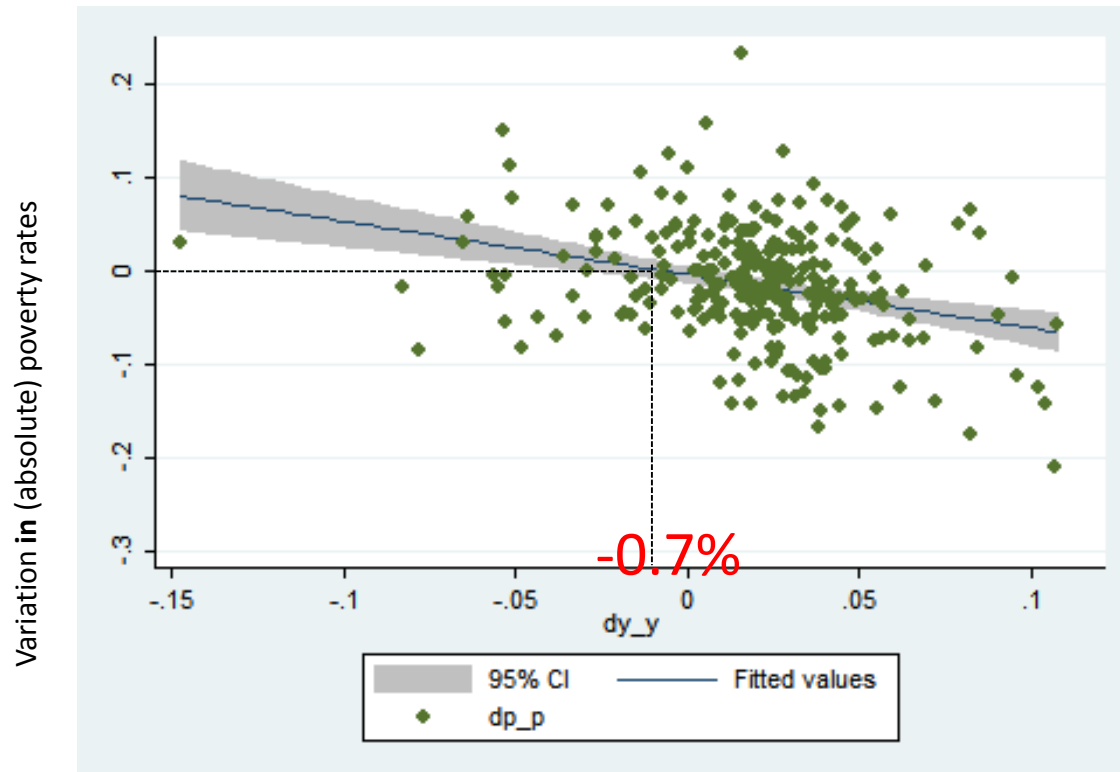
# Borrowing from workers?



# Issues raised by unemployment response (examples)

- Triple interaction between shocks, institutions and nature of shocks
- How do firms react to refinancing constraints in labour markets with hiring/firing frictions?
- Was it right to emphasise macro (rather than micro-level) wage flexibility in EU conditionality?
- How to diversify margins of adjustment under fiscal consolidation?

# By how much should GDP decline for poverty to increase?



Countries:

ES IT PT GR DK FI IS NO NL AT LU DE BE UK EE HU LV LT PL

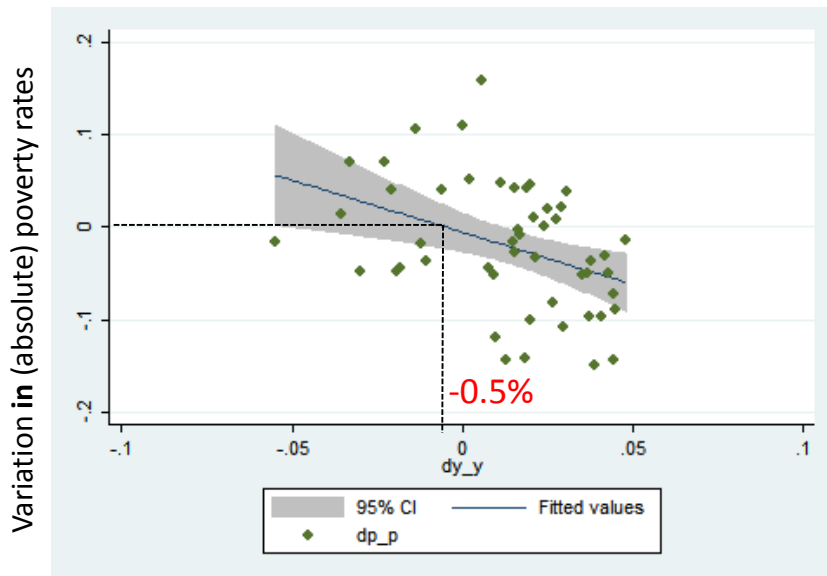
Vertical axis. Variations in absolute poverty rates obtained by fixing in real terms the poverty threshold at 60% of the median income in the initial year.

Sources: EU-SILC, ECHP.

# Is it the same threshold across Social Europe(s)?

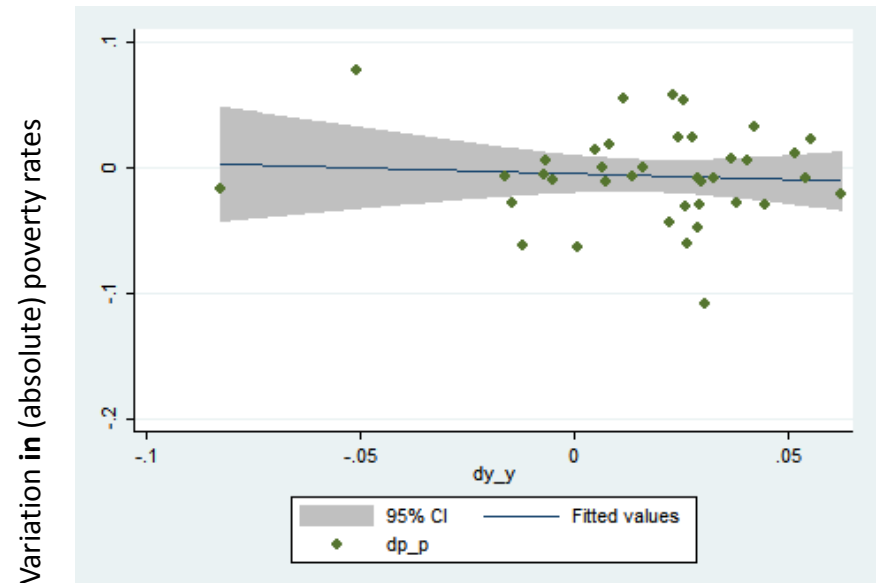
## No higher in Eastern and Southern Europe, no significant correlation in the Nordics

Southern Europe



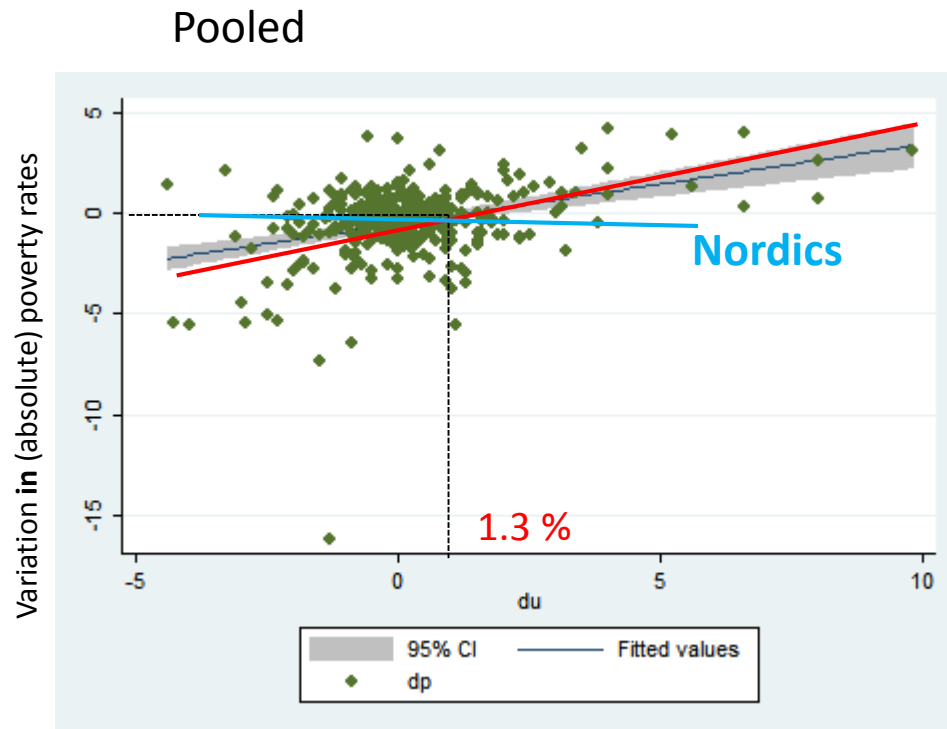
Countries: ES IT PT GR

Northern Europe



Countries DK FI IS NO

# By how much should unemployment rise for poverty to increase?

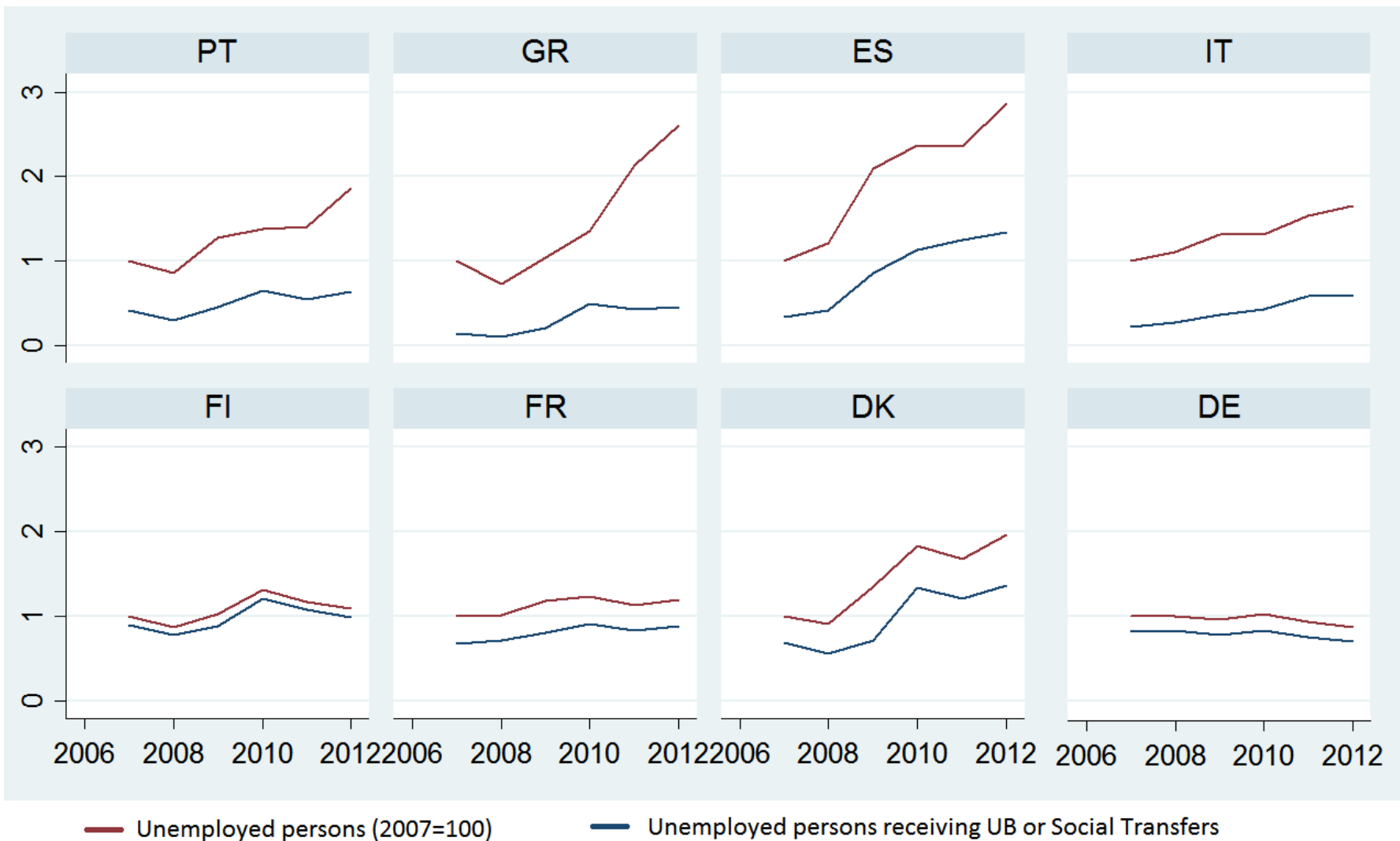


Countries:

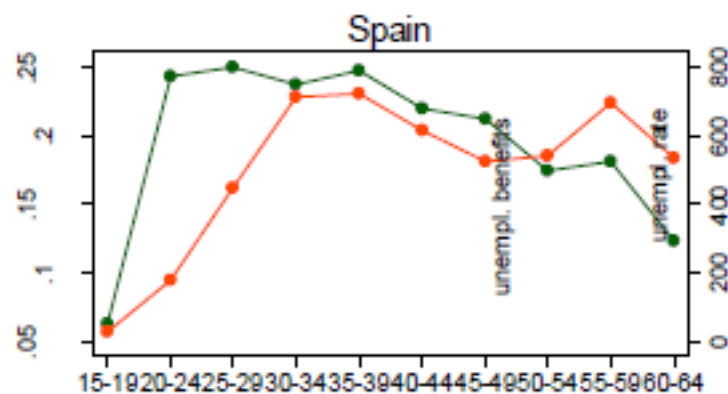
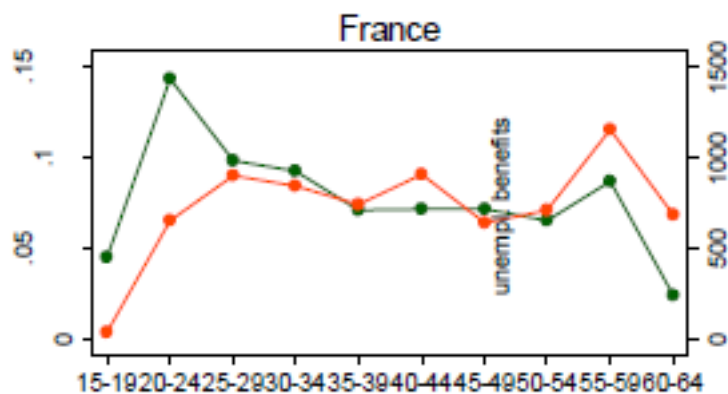
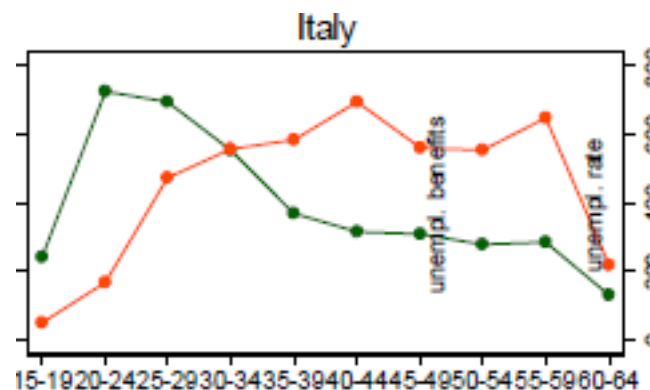
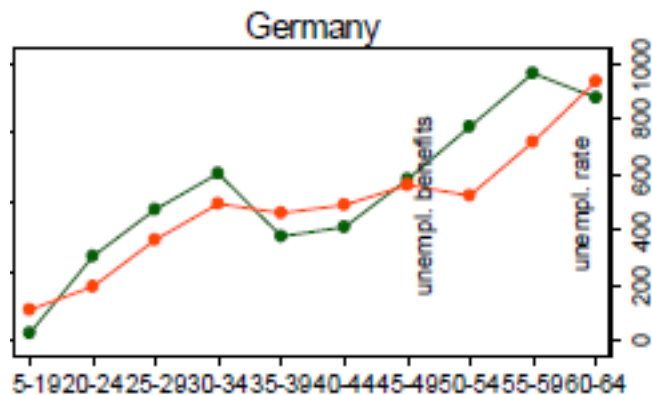
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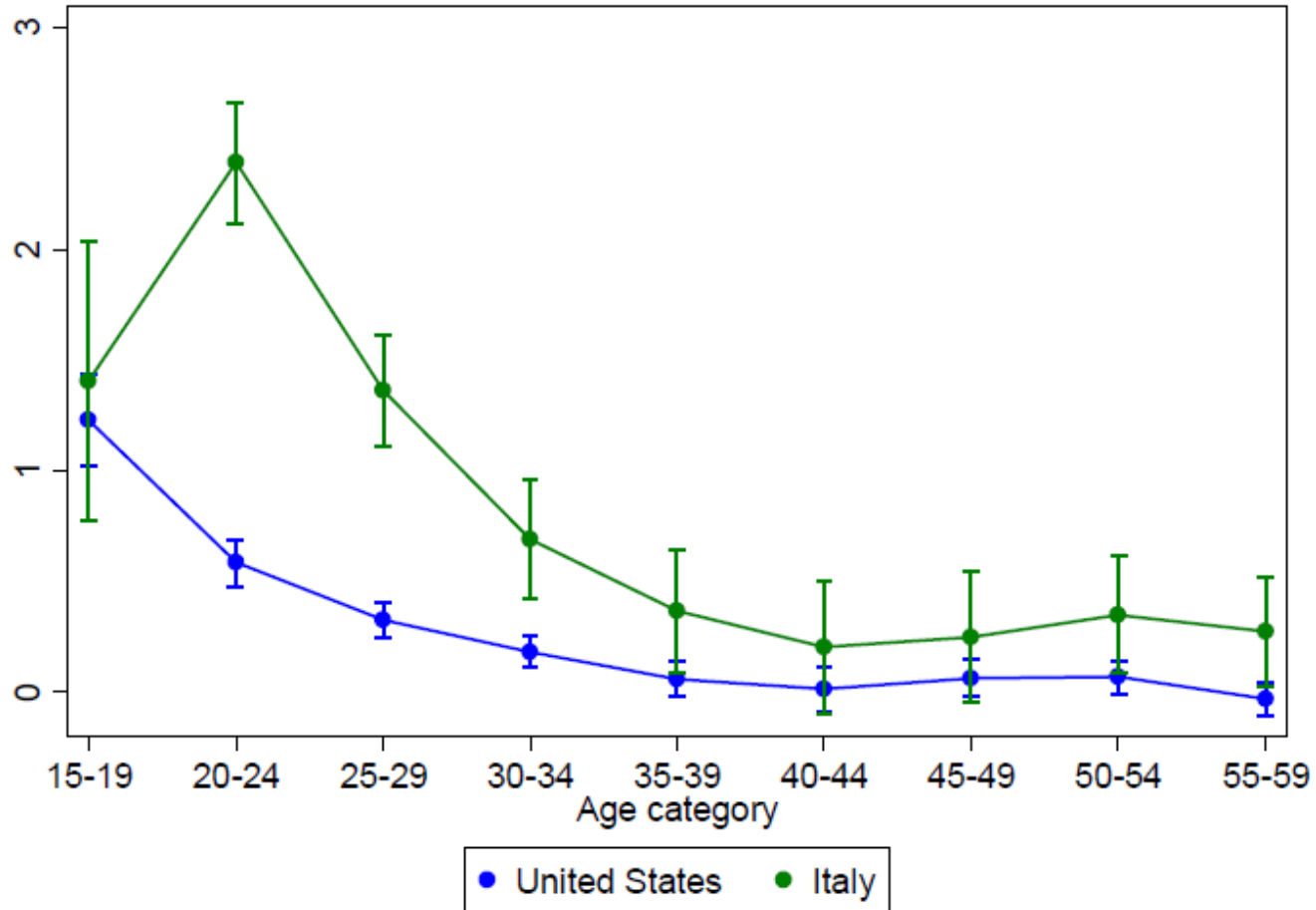
# Coverage of UB and SA



# Coverage of UBs by age (2012)



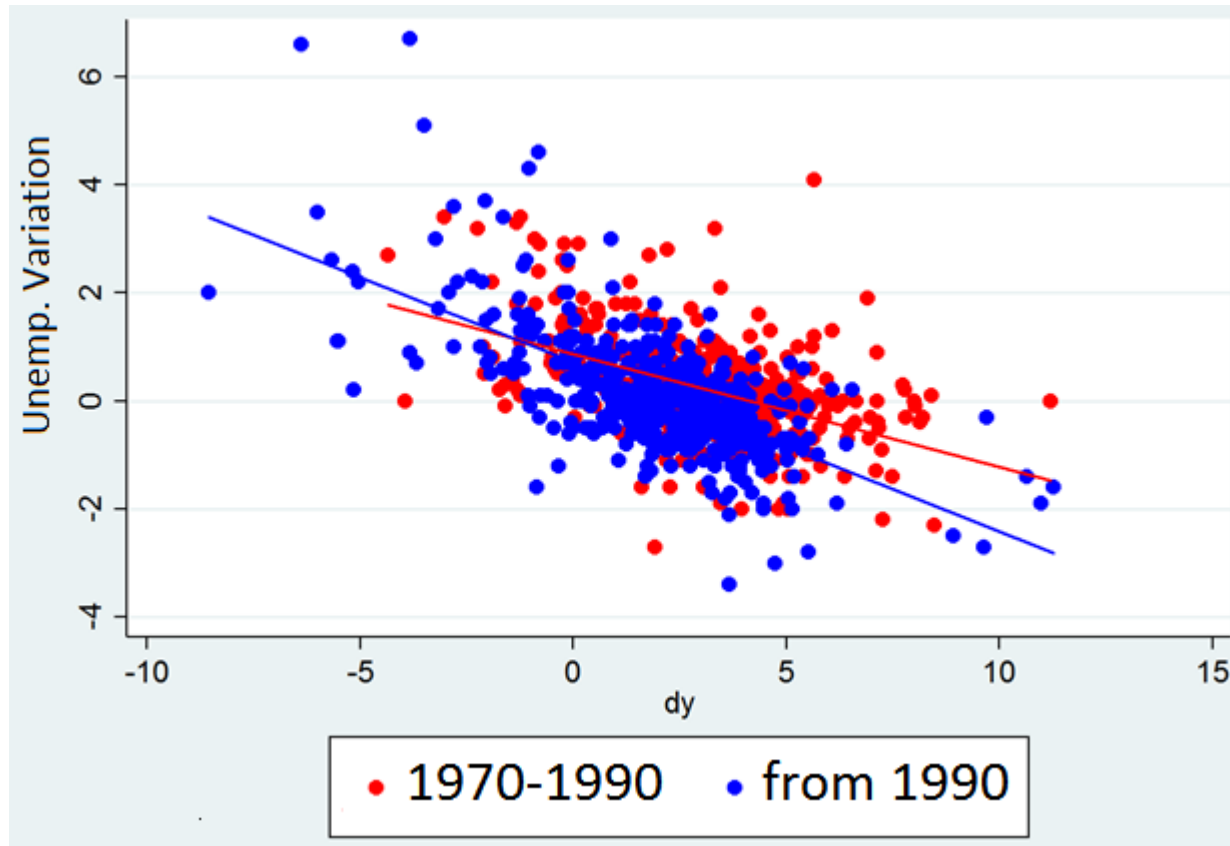
# The age divide



Dummy age in regressions of group specific unemployment against total unemployment as in Hoynes, 2011

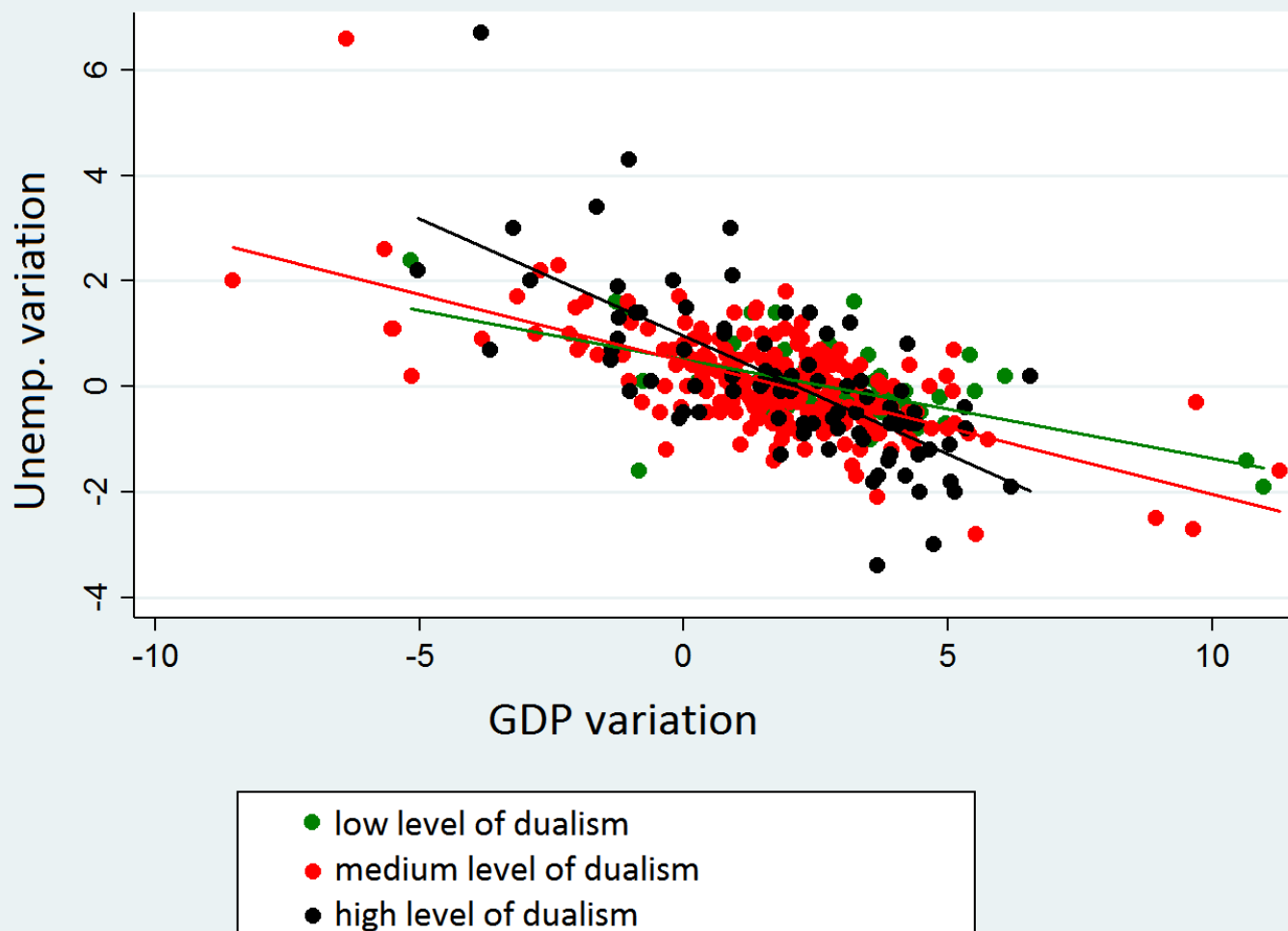


# Responsiveness of youth unemployment to GDP variation



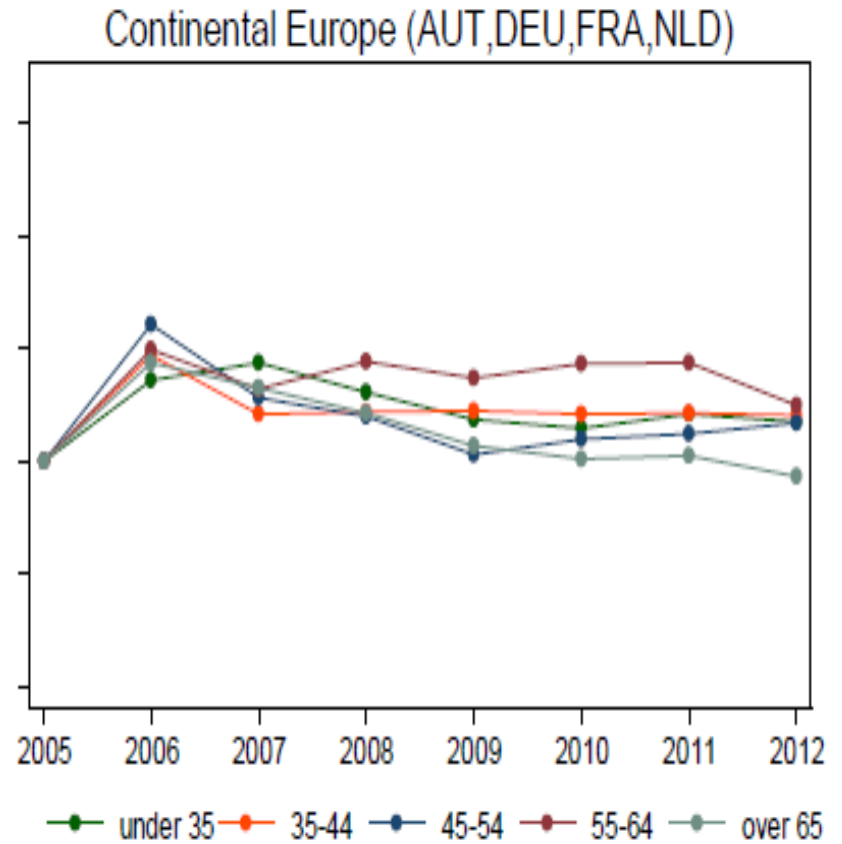
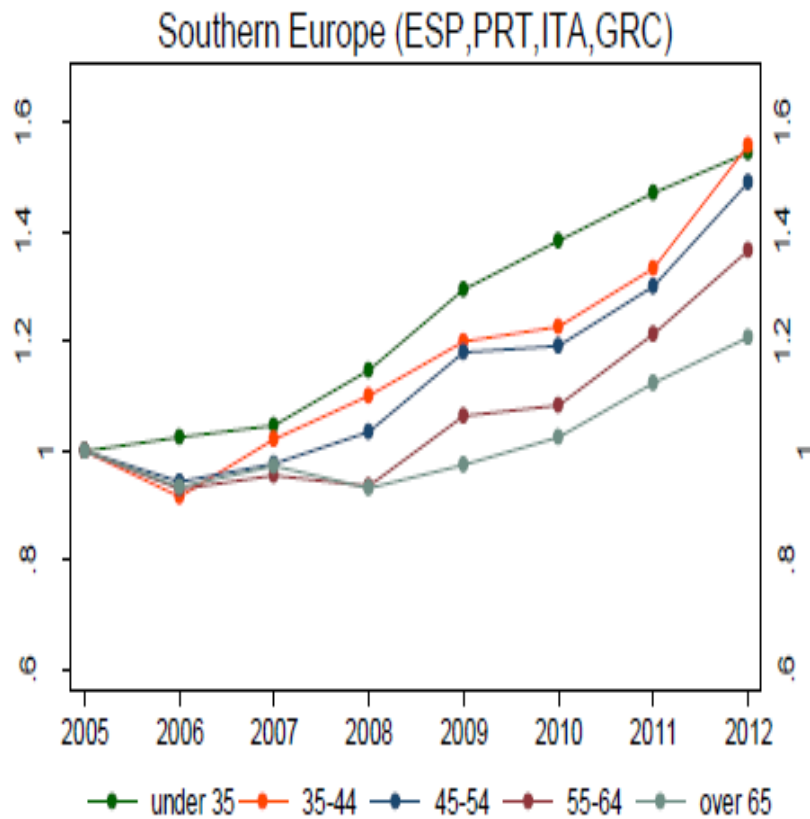
Estimates of Okun's law for youth (15-24) unemployment  
Source: author's calculation on EUSILC

# The role of temporary employment



Source: author's calculation on EUSILC

# Poverty (unmet needs)



# Issues raised by the stress test

## Holes in the safety nets in Southern Europe

- is it labour market dualism?
- is it design of UBs and SA?
- what was the role of fiscal consolidation?

## Scars of the Great Recession on younger generations in the South

- health
- family formation
- fertility
- retirement income

# Designing a EU-wide stabilizer

- Vulnerability in banking is faced by promoting bank mergers. Vulnerability in social policy requires more risk pooling
- A EU wide social safety net?
- A EU wide unemployment benefit?
- How to design a *Welfare Union* rather than simply a *Welfare State*?

# We have good data!

- Visit-Inps programme
- [www.inps.it](http://www.inps.it)
- Access to social security archives (pensioners, 95% of workers, UB and SA registers, etc.)
- Interactions with practitioners
- Limited number of scholarships available
- In Rome