

# 3 The crisis, policy reactions and attitudes to globalization and jobs

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## 3.1 Introduction

This chapter considers the effects of the financial crisis and subsequent recession on world labour markets. It begins by cataloguing the adverse effects on output of the sudden collapse in demand brought about by the financial crisis in what has come to be called the Great Recession. Next we look at the labour market and how employment and unemployment have been impacted and document the very different responses by country. We then move on to look at attitudinal indicators of the impact of the rising levels of joblessness that we observe across most OECD countries. We examine data on well-being and on attitudes to employment. We also examine a number of questions about the impact of globalization that respondents across many European countries were asked in 2008 and 2010. Finally, we examine the policy responses of governments, and consider what lessons might be learned from the marked differences in labour market outcomes following the recession.

## 3.2 The Great Recession

The origins of the financial crisis lay with the excessive expansion of credit by financial institutions in some countries in the 1990s and early part of this century. Due to the growth of complex financial derivatives and the global extension of capital markets, it became difficult for governments, regulators and the banks themselves to measure the underlying risks associated with their loan books. Fears that some institutions were holding large amounts of bad debt led to a collapse in the supply of credit as financial institutions tried to rebuild their balance sheets. To remain solvent, some had to be recapitalized by their governments, so jeopardizing the public finances.

The financial crisis led to a rapid contraction of demand. Further, there was a sharp reduction in the availability of trade finance. Banks and suppliers reported that lack of finance was the second major cause of the collapse in trade. However, trade finance recovered rapidly, partly as a result of the US\$ 250 billion additional financing announced at the April 2009 G20 meeting (Mora and Powers, 2009).

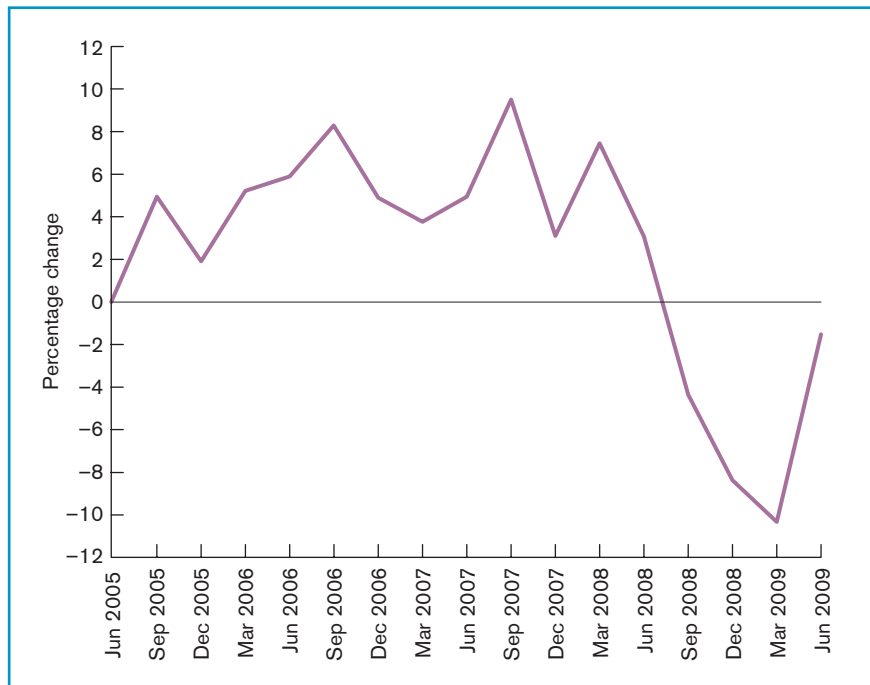
Almunia et al. (2009) and Eichengreen and O'Rourke (2009) compare the severity of the Great Recession with the Great Depression of 1929. They argue that trade flows fell faster in the Great Recession than they did during the Great Depression. The declines in trade across countries were also more synchronized. By the end of 2008, more than 90 per cent of OECD countries had experienced a decline in trade exceeding 10 per cent. Not surprisingly, with largely coincident trade cycles, variations in output during the recession were also broadly synchronized. Araújo and Martins (2009) term this the "Great Synchronization" and argue that it is an outcome of globalization. Brown (2010) argues that this is the "first crisis of globalization". However, the mechanism linking globalization and the Great Synchronization is not clear. Baldwin (2009) argues that the drop in world trade was much larger than the drop in GDP because the fall in demand was particularly concentrated on traded goods which are disproportionately "postponable" compared with other components of GDP. Postponement of orders was a natural reaction to the increased uncertainty associated with the financial collapse. Further, the synchronicity of the decline in trade was not due to the internationalization of supply chains. The structure of these chains was not impacted by the trade collapse. Rather, companies simply cut back on the amount of product that they were selling through these chains: trading relationships remained intact. The globalization of uncertainty may perhaps be the common factor linking declines in trade across different parts of the world.

Gamberoni et al. (2010) argue that there is a significant contrast in the response of employment to debt and banking crises on the one hand and global trade crises on the other. The countries that experienced both a domestic debt crisis and the global downturn experienced much larger falls in employment than did those who "only" experienced the downturn in world demand. This may partly explain why Europe and the United States have experienced more adverse labour market consequences of the recession than have the rapidly growing economies of Asia. An additional influence, they argue, concerns the openness of the economy. Relatively open economies (for example, Germany and the Netherlands) are immediately affected by the downturn in global demand, but are capable of recovering rapidly because their domestic demand is not constrained by debt issues. Thus, relatively closed economies which suffer crises of private or public sector debt take longer to recover. Gamberoni et al. (2010) also argue that higher severance pay mitigates the reduction in employment caused by a downturn in demand and may induce employers to adjust their labour input more on the intensive (hours) margin than the extensive (jobs) margin. In addition, they suggest that countries with higher unemployment benefits experience a greater decline in employment growth, perhaps because benefits set a floor on real wages. However, the empirical support for this proposition is mixed and may be affected by measurement error in poorer countries where there is a large informal sector.

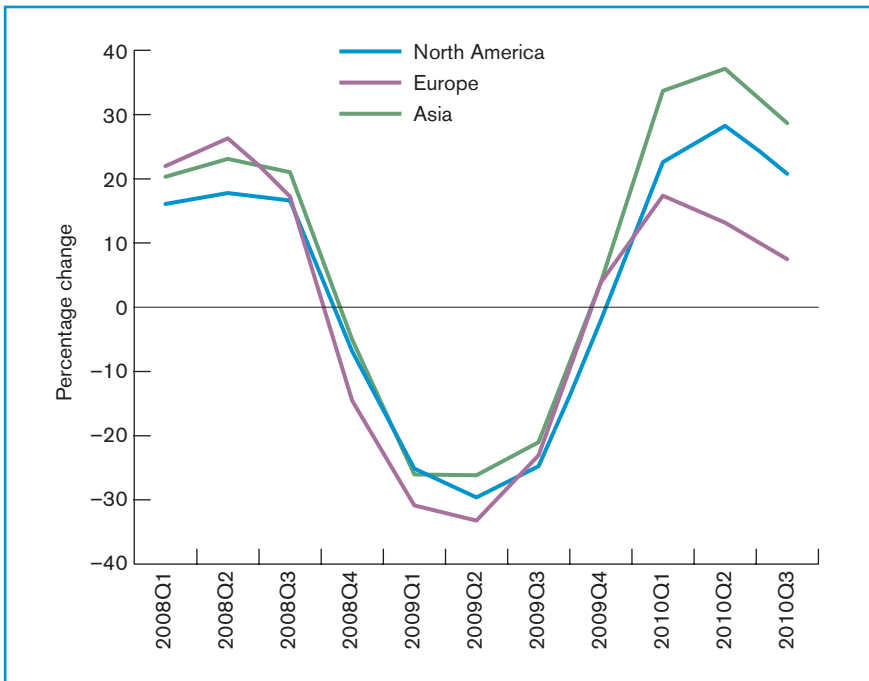
Some of the relevant recent events are captured in figures 3.1, 3.2 and 3.3. Figure 3.1 shows percentage changes in private short-term trade finance in OECD countries from 2005 to 2009. Beginning in 2008, there was a rapid retreat in the supply of private trade finance. However, these figures cannot determine the direction of causality – from trade credit to trade – or vice versa. Figure 3.2 shows the impact of the recession on trade volumes in major trading blocs. World trade declined rapidly through 2008 and early 2009 before recovering strongly from 2009Q3 onward. Figure 3.2 shows clearly that the trade cycles of the major groups of economies shared broadly the same turning points. Although the timing has been common, the extent of the recovery has varied substantially. In contrast to the Asian economies, European trade was still significantly below its pre-recession level in late 2010.

While the slump in trade affected demand, output in countries such as Ireland, Spain, the United Kingdom and the United States was also affected adversely by instability in property markets. This had a negative effect on the construction industry in

**Figure 3.1** Short-term trade finance in OECD countries, 2005–09  
(quarter-on-quarter percentage change)



Source: OECD Factbook (2010).

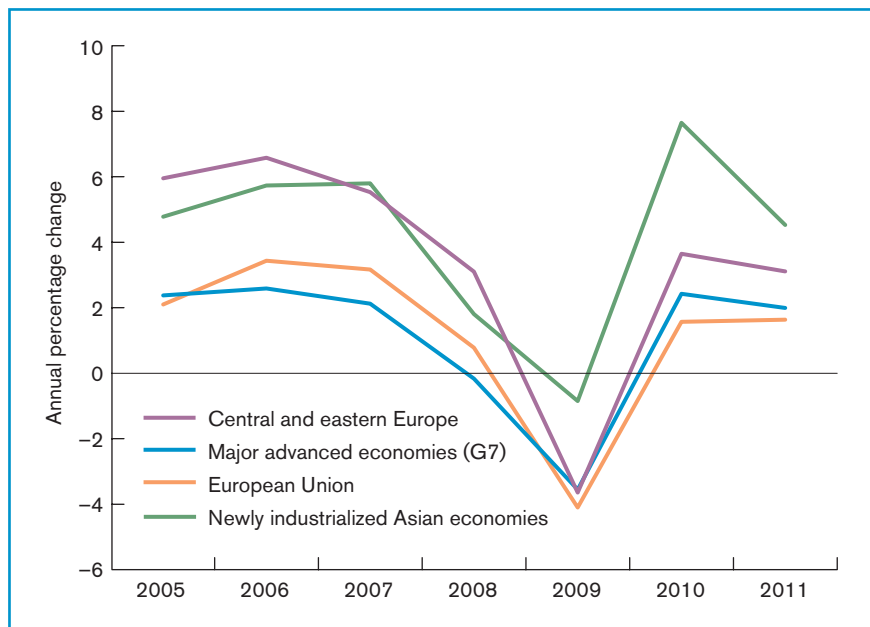
**Figure 3.2** Growth in world trade, 2008Q1–2010Q3

Source: World Trade Organisation.

these countries. Countries with large financial sectors were also affected badly, for example Iceland, Ireland, the United Kingdom and the United States.

For most advanced countries, the decline in output was substantial. The combined output of OECD countries fell by 3.2 per cent in 2009 and at the end of 2010 was still projected to be below its 2007 level. However, the experience of less-developed countries has been markedly different. While advanced economies were in recession, output in the emerging and developing economies experienced only a temporary slowdown in growth. In 2009 their combined output increased by 2.5 per cent and is projected to have grown by 7.1 per cent in 2010. Although the recession had a significant impact on the world's advanced economies, its impact on developing countries was much less pronounced.

Figure 3.3 shows how GDP varied from 2005 in some major country groupings. Again, while the magnitude of change differs across these groups, the timings are very similar, with the nadir of the recession being reached in late 2009. Consistent with the trade data, the recovery in GDP has been weakest in the European Union,

**Figure 3.3** Gross domestic product by major economic areas, 2005–11

Note: Data for 2010 and 2011 are forecasts based on information available until the end of 2010.

Source: IMF World Economic Outlook Database (2011).

and strongest in the newly industrialized economies of Asia and Central and Eastern Europe. Declines in output were particularly marked in industries with high exposure to international trade – notably manufactured goods. Many of these countries also recovered quickly when trading conditions returned to normal.

The fall in output by country is detailed in table 3.1. Using OECD data, it shows how far output fell from 2008Q1 to the low point of the recession and how much it recovered by 2010Q3. The countries covered are OECD members and others that are monitored by the OECD. Countries are ordered by growth between 2008Q1 and 2010Q3. Those countries which show a zero in the first column experienced no drop in output and therefore no recession. With the exceptions of Poland and Australia, all of these were developing countries. We also separately show growth rates for China for 2008, 2009 and 2010. Its overall growth in this period exceeds 30 per cent. China experienced only a mild slowdown and then returned to rapid rates of growth. India fell some way behind at 15.6 per cent.

In contrast, output did fall in most OECD countries. Thus, at the other end of the spectrum, 2010 output levels in Iceland, Ireland, Hungary and Greece were

**Table 3.1** Change in output 2008Q1 to low point of recession, and from 2008Q1 to 2010Q3

	Change in output (%)	
	2008Q1–low point	2008Q1–2010Q3
India	0.0	15.6
Indonesia	0.0	13.7
Brazil	-2.0	8.1
Poland	0.0	7.4
Korea, Republic of	-4.3	5.9
Australia	0.0	4.7
South Africa	-1.1	1.8
New Zealand	-1.7	1.2
Switzerland	-2.8	0.8
Slovak Republic	-4.8	0.8
Turkey	-12.6	0.4
Canada	-3.2	0.3
Sweden	-6.6	0.0
United States	-4.0	-0.5
Belgium	-3.7	-0.7
Mexico	-8.5	-0.9
Portugal	-3.6	-1.2
Czech Republic	-4.1	-1.8
France	-3.9	-1.8
Austria	-4.8	-1.8
Germany	-6.6	-1.8
Norway	-2.6	-2.6
Luxembourg	-7.9	-2.6
Netherlands	-5.3	-2.8
Denmark	-6.7	-3.3
Japan	-10.1	-3.4
United Kingdom	-6.5	-3.9
Spain	-4.9	-4.5
Russian Federation	-9.9	-5.1
Italy	-6.8	-5.4
Finland	-9.7	-5.5
Greece	-6.8	-6.8
Hungary	-7.9	-7.2
Ireland	-11.9	-11.0
Iceland	-12.1	-11.1

Source: OECD Main Economic Indicators and CIA World Factbook.

substantially lower than at the beginning of 2008. Confirming the data in figure 3.3, relatively few European countries had recovered to 2008 levels of output by 2010Q3.

### 3.3 The labour market

The Great Recession was notable for the diversity of its impacts on labour markets in different parts of the globe. While there may have been a Great Synchronization in

the timing of the trade cycle, labour market responses were notable for their diversity in both timing and scale. The ILO (2011) estimates that the world unemployment in 2010 stood at 205 million, equivalent to a global unemployment rate of 6.2 per cent and 27.6 million higher than in 2007. OECD (2011) estimates suggest that between 2008Q1 and 2010Q3 unemployment in the European Union rose by 5.6 million and in the United States by 6.6 million. During this recession, the performance of the labour market in the developed world has been weaker than in developing countries. Although there has been some recovery in output in the developed world, any associated increase in employment has been limited. Thus far, the recovery has been “jobless”.

Table 3.2 sets out recent information on employment, unemployment and the labour force for OECD countries. The numbers largely relate to changes between 2008Q1 (which we take as the starting point of the recession) and 2010Q3. Most OECD countries outside Europe, with the exception of the United States, experienced some employment growth since 2008. In Europe, the picture is less optimistic. For example, in Ireland and Spain, countries both affected by a construction “bubble”, employment fell by 13.3 per cent and 9.1 per cent respectively. In the United States, a very large drop in employment was matched by an almost identical increase in unemployment. But in the United Kingdom, unemployment rose by more than twice the fall in employment, whereas in Japan the increase in unemployment was only around half of the decline in employment. Changes in employment were not necessarily good predictors of changes in unemployment.

Those who are unable to find a job may remain unemployed or leave the labour market temporarily or permanently. In previous recessions, workers have left the labour market in large numbers. The “discouraged worker” effect attenuates increases in unemployment. What is unusual about the current recession is that the workforce has declined in only a relatively small number of countries.<sup>1</sup> This contrasts with, for example, the experience of the 1980s when, in countries like the United Kingdom, there was a substantial rise in inactivity associated with increased unemployment.

In Australia, Canada, Scandinavia, the United Kingdom and the United States the size of the workforce increased over the course of the recession, albeit by relatively small amounts, which is more suggestive of an “added worker” effect. In countries where the recession has had less impact, such as Turkey and Poland, the growth in the workforce has been substantial. This pattern may be reversed if the “jobless” recovery continues, leading to a significant growth in long-term unemployment which may cause workers to drift away from the labour market.

The labour force in Ireland fell by 4.2 per cent over the period, the largest decline in any OECD country. One of the key drivers of this decline has been migration. In the

**Table 3.2** Change in employment, unemployment and labour force  
2008Q1–2010Q3

	Employment			Unemployment			Labour force
	2010Q3	Change	% Change	2010Q3	Change	% Change	% Change
Australia	11,291	534	5.0	591	89	17.8	5.5
Austria	4,148	132	3.3	191	16	9.0	3.5
Belgium	4,488	39	0.9	424	87	25.8	2.6
Canada	17,383	594	3.5	1,543	418	37.1	5.6
Czech Republic	4,897	-46	-0.9	374	130	53.0	1.6
Denmark	2,726	-83	-3.0	214	114	114.8	1.1
Finland	2,479	15	0.6	195	19	11.0	1.3
France				2,596	529	25.6	2.6
Germany	38,915	576	1.5	2,797	-613	-18.0	-0.1
Greece	4,403	-109	-2.4	622	215	53.0	2.2
Hungary	3,798	-13	-0.3	466	133	39.9	2.9
Iceland	170	-4	-2.2	12	8	178.6	2.1
Ireland	1,852	-284	-13.3	294	191	183.8	-4.2
Italy	22,789	-382	-1.6	1,864	103	5.8	-1.1
Japan	62,860	-303	-0.5	3,360	727	27.6	-1.0
Korea, Rep. of	24,120	1,069	4.6	873	72	9.0	4.8
Mexico	44,365	1,375	3.2	2,466	695	39.3	4.6
Netherlands	8,545	43	0.5	368	94	34.0	1.6
New Zealand	2,182	25	1.2	145	49	50.5	3.3
Norway	2,500	19	0.8	92	27	41.5	1.7
Poland	16,199	684	4.4	1,627	266	19.5	5.6
Portugal	4,940	-216	-4.2	609	182	42.7	-0.6
Slovak Republic	2,335	-56	-2.4	384	104	37.1	1.8
Spain	18,547	-1,856	-9.1	4,575	2,401	110.4	2.4
Sweden	4,639	119	2.6	390	89	29.4	4.3
Switzerland	4,618	113	2.5	210	48	29.4	3.4
Turkey	23,195	3,331	16.8	2,971	294	11.0	16.1
United Kingdom	29,244	-193	-0.7	2,545	943	58.9	2.4
United States	139,923	-4,832	-3.3	14,679	6,612	82.0	1.2
Euro area	141,558	-2,121	-1.5	15,148	3,438	29.4	0.8
European Union	217,923	-1,790	-0.8	22,237	5,605	33.7	1.6
G7	337,028	-4,360	-1.3	29,383	8,718	42.2	0.9

Source: OECD.

Notes: Numbers and changes are measured in thousands. Data for Mexico, the Netherlands, OECD Europe and OECD total relate to Quarter 2, 2010Q2.

year to April 2009, net emigration from Ireland was 65,000. Most of the outflow comprised returning emigrants from Eastern Europe. The Economic and Social Research Institute, Dublin, has forecast that net emigration from Ireland between 2010 and 2012 will average 2 per cent of the population per annum (Barrett et al., 2010) with an increasing proportion being Irish nationals.

Worker mobility has been an important equilibrating mechanism for the US labour market, but there has been a significant reduction in worker mobility in the United



States during the Great Recession. Frey (2009) shows that in 2007–08, migration rates within the United States reached their lowest post-war level. The fall was particularly sharp for long-distance moves. Ferreira et al. (2010) argue that negative home equity and high interest rates have a negative effect on residential mobility. Though worker mobility may help to equilibrate the labour market in some jurisdictions, past experience may not necessarily be a good guide to future migration patterns.

Employers in different countries have responded in a variety of ways to a fall in product demand. This has depended on the nature of employment contracts, human capital investment, the existing policy environment and any changes introduced specifically to combat the recession. Employees' responses have also depended on the nature of their contracts, joint investment in human capital and on their valuation of the next best alternative to employment.

Elsby et al. (2010) argue that a rapid fall in employment in the United States during 2009 was associated with a surge in productivity, causing a breakdown of Okun's Law. This outcome is consistent with firms using recessions as an opportunity to enhance efficiency (van Rens, 2004; and Koenders and Rogerson, 2005) but is clearly not consistent with the view that productivity is procyclical. Bauer and Shenk (2009) argue that in eight of the last nine downturns, US productivity fell during downturns due to labour-hoarding behaviour by firms. Reich (2010) suggests that a possible explanation of the very rapid decline in employment is that the willingness of US employers to hoard labour has fallen. During the downturn, employers were shedding workers more rapidly than reducing their output, leading to short-term productivity gains. At the same time, investment was falling, limiting the potential for further productivity growth.

Farber (2007) argues that tenure in private sector jobs in the United States has been falling: fewer workers hold jobs for ten years or more; in 2006, one-fifth of jobs involved tenures of less than a year. If length of tenure is an indicator of firm-specific human capital investment, then one might anticipate a more rapid increase in lay-offs and discharges during downturns. The reductions in tenure may signal some fundamental changes in the skill content of work, perhaps relating to the role of information technology (Autor et al., 2003). Tenure reductions may also be a reflection of firms' increasing efforts to reduce "slack" (Love and Nohria, 2005).

Most developed countries experienced a less dramatic decline in employment than the United States. One possible explanation is the greater use of the intensive (hours) rather than the extensive (jobs) dimension of labour market adjustment. Bell and Blanchflower (2011a) argue that in the United Kingdom, hour adjustments played an important role in moderating employment reductions. Between January

2008 and September 2010, employment in the United Kingdom fell by 1.4 per cent, but aggregate hours fell by 3.2 per cent (source: Office of National Statistics). Part of this change arises from changes in the average hours worked by full-timers. It also stems partly from an increase in the numbers working part time as opposed to full time. Part-time contracts tend to be less stable than full-time contracts. Working fewer hours may also affect eligibility for unemployment benefits.

In those countries that have experienced a substantial inflow to unemployment and low rates of outflow into employment, unemployment durations have increased substantially. The United States has experienced a particularly rapid rise in long-term unemployment. In December 2007, those who had been unemployed for 15 weeks or more comprised 18 per cent of unemployment in the United States. By December 2010, this share had risen to 44 per cent.

Have increasing rates of long-term unemployment resulted from decreasing rates of outflow from unemployment? Elsby et al. (2010) argue that recent unemployment inflow rates are typical of past recessions. Overall job separation rates changed little during the recession, but unemployment was more a result of lay-offs than from people quitting, and accounted for an increased proportion of these separations and therefore the initial rise in unemployment. However, Elsby et al. argue that a decline in the outflow rate is the main explanation for the rapid rise in long-term unemployment in the United States. Potential causes of the increasing dislocation of the long-term unemployed from the labour market include human capital depreciation and duration-contingent hiring practices on the part of employers.

Another key feature of the Great Recession has been how its effects have been distributed across different groups within the population. In previous work (Bell and Blanchflower, 2010a) we have shown that the young, the poorly educated and ethnic minorities have borne a disproportionate share of the increase in unemployment during the Great Recession in developed countries. Table 3.3, which is drawn from harmonized unemployment rates estimated by Eurostat, illustrates the differences in youth unemployment across a variety of European Union and other countries. European countries that experienced financial crises associated with property bubbles, such as the Baltic States, Ireland, Slovak Republic and Spain have particularly high youth unemployment rates.

Unemployment rates for those whose education did not go beyond lower secondary school (column 3 of table 3.3) tend to be significantly higher than the average and reach a maximum of 63.5 per cent in the Slovak Republic. In most countries there is greater excess supply of labour among the poorly educated although there are some exceptions. Greece is an example where the unemployment rates of recent graduates are above average for their age group.

**Table 3.3** Unemployment rates 2010Q3, ranked by youth unemployment rates

	Adults (age 25+)	Youths (age 15–24)	Youths ISCED 0–2	Youth/adult rate
Norway	2.7	8.3	9.4	3.07
Germany	6.5	8.7	14.3	1.34
Netherlands	3.7	8.7	12.0	2.35
Austria	3.8	9.0	12.5	2.37
Malta	5.4	12.2	13.3	2.26
Denmark	6.1	14.7	16.0	2.41
Slovenia	6.6	14.8	18.6	2.24
Luxembourg	3.9	16.3	23.5	4.18
Czech Republic	6.2	18.1	40.4	2.92
United States	8.2	18.2	n/a	2.22
United Kingdom	5.8	19.1	33.6	3.29
Turkey	8.8	19.4	14.7	2.20
Cyprus	5.6	19.5	10.6	3.48
Euro area	8.9	20.1	26.2	2.26
European Union	8.3	20.5	27.0	2.47
Finland	6.6	20.9	20.6	3.17
Belgium	7.1	21.6	33.3	3.04
Romania	5.8	21.7	16.7	3.74
Bulgaria	9.0	22.2	36.8	2.47
Portugal	10.1	23.0	22.7	2.28
France	8.1	23.9	37.5	2.95
Poland	8.0	23.9	27.1	2.99
Sweden	5.8	24.8	31.5	4.28
Hungary	9.9	26.2	39.8	2.65
Ireland	12.2	27.1	44.6	2.22
Italy	7.0	27.1	27.3	3.87
Estonia	14.9	28.0	45.9	1.88
Latvia	16.2	33.3	42.4	2.06
Greece	11.5	33.4	30.6	2.90
Slovak Republic	12.4	34.3	63.5	2.77
Lithuania	16.6	35.2	44.2	2.12
Spain	18.4	42.4	48.7	2.30

Source: Eurostat.

Note: ISCED 0-2 covers those whose highest level of education is pre-primary, primary or lower-secondary education.

Column 4 shows the ratio of youth to adult unemployment rates in 2010Q3. There is a wide variation across countries signalling differing levels of integration of youth within the overall labour market. Germany stands out as a clear exception with youth unemployment rates only 34 per cent above adult rates. This contrasts with countries such as Belgium, Italy, Sweden and the United Kingdom where the youth to adult unemployment ratio exceeds three. The variation in the youth adult unemployment ratio is not correlated with variation in overall unemployment rates and must reflect national differences in education and employment policies and practices.

In Mediterranean countries, an important behavioural response to increased youth unemployment rates is for children to stay longer with their parents. This may lessen the impact of being unemployed (Card and Lemieux, 2000; Chiuri and Del Boca, 2008). Dolado (2010) argues that in Spain the family is the central pillar of the welfare system. Parents and children may have an implicit contract whereby parents provide extended support for their children in return for future care and support when the parents age. This behaviour may partly explain the muted political response to historically high levels of youth unemployment in countries such as Italy and Spain.

There is now widespread acceptance that youth unemployment is an acute policy issue in developed countries. We wish to draw attention to the two further issues that have been less extensively discussed. First, we have argued (Bell and Blanchflower, 2010b) that high levels of youth unemployment at present partly reflect relatively large current youth cohorts. This argument may have some validity for developed countries, where the most recent United Nations (UN) population projections for 2010 suggest that the cohort aged 15–24 is 18 per cent larger than those aged 5–14. Interestingly, in China, the older cohort is 26 per cent larger than those aged 5–14, which must in part reflect the Chinese “one child” policy. In other parts of the world, the younger cohorts predominate: among the least developed countries the 5–14 cohort is 20 per cent larger than those aged 15–24. In sub-Saharan Africa that figure increases to 23 per cent. In the world as a whole, the differences between the age groups broadly balance, so that there is no significant difference in the numbers aged 5–14 compared with those aged 15–24.

Despite the growth in the size of the youth cohort, figures from the United Nations Population Database shows that Europe still has the lowest share of its population aged under 25 and this share will probably fall further over the next decade. It is notable that the median age of the population in Egypt is 24 and 29.7 years in Tunisia compared with 44.3 years in Germany; 39.7 years in France; 39.8 in the United Kingdom and 36.8 in the United States.<sup>2</sup> Asia and South America have relatively high proportions of young people but their share in the overall population is expected to decline by 2020. In contrast, Africa has more than 60 per cent of its population, aged below 25 and although this share will decline slightly, the absolute number of those aged less than 25 in Africa is projected to increase by 17 per cent between 2010 and 2020. Africa does not have the extensive education and welfare support that is available in the developed world. Unless effective policies are put in place to increase employment among the young, there is a danger of increased political instability as has recently been evidenced in Tunisia and Egypt.

Second, youth unemployment data only partly capture the difficulties that young people are facing in the labour market. Our previous work (Bell and Blanchflower, 2011a) has indicated that young people are more likely to be hours constrained.

We used evidence from the United Kingdom Labour Force Survey, which asks employees whether they would wish to work more, less or the same number of hours. There is a clear contrast in responses by age. Older workers would prefer to work fewer hours, whereas the young express a strong desire to work more hours. In this sense, many of the young people who are employed are contracted to provide fewer hours than they would wish: they are underemployed.

We now establish a further result, which illustrates another aspect of the difficulties that young people face in the recession. We focus on job matches and whether the young have been disproportionately recruited into lower-skilled jobs during the recession. This adds to recent literature on the harmful effects of entering the jobs market during a recession. Kahn (2010) shows that the labour market consequences of graduating from college during a recession have large, negative and persistent effects on wages. Lifetime earnings are substantially lower than they would have been if the graduate had entered the labour market in good times. However, we particularly focus on her finding that cohorts who graduate in worse national economies tend to end up in lower-level occupations.

Giuliano and Spilimbergo (2009) suggest that the period of early adulthood (between 18 and 25) seems to be the age range during which people are more sensitive to macroeconomic conditions. They find that being exposed to a recession before age 17 or after age 25 has no impact on beliefs about life chances. However, youngsters growing up during recessions tend to believe that success in life depends more on luck than on effort; they support more government redistribution, but have less confidence in public institutions. Recessions seem to affect youngsters' beliefs adversely.

Specifically, we investigate whether job matches according to skill level change during a recession, particularly for the young. In particular, we model whether the young accept jobs that require lower skill levels during a recession. We use quarterly data from the United Kingdom Labour Force Survey (LFS) for the period from 2005Q1 to 2010Q2, a time period which encompasses the Great Recession. The LFS occupational classification (SOC, 2000) divides employment into four main skill groups – level IV (corporate managers and professionals), level III (associative professionals and skilled workers), level II (administrative and service occupations), level I (elementary trades and service occupations). We use this four-way classification of skill as the dependent variable in an ordered logit model, which includes individual characteristics as controls as well as time dummies, which capture whether the skill level of matches, conditional on individual characteristics, is changing through time. Skill levels are numbered from one (least skilled) to four (most skilled). A positive coefficient on a variable therefore implies that it is associated with higher levels of skill.

We divide the sample by age group, 16–24, 25–49 and 50+ and use gender, qualifications, region and ethnicity as controls. Quarterly time dummies are included to determine whether, conditional on their characteristics, individuals find a job match at a higher or lower skill level during a period of recession. Our results in table 3.4 show that the young were more prone than other age groups to accept lower-skilled jobs during the Great Recession. Education, ethnicity and gender are also important influences on the skill level associated with job matches. As might be expected, more education, being white and male are each associated with higher skilled occupations. However, our main result is that the trend in the time dummies since 2008 has been negative for all age groups, indicating that workers were accepting lower-skilled jobs in 2010 than in 2005, conditional on their characteristics. Figure 3.4 shows this result by plotting the full set of time dummies from 2005 to 2010. A downward trend occurs for all age groups, implying that workers of all ages are accepting lower-skilled jobs than they might have previously when the labour market was more robust, but the effect is strongest for those aged 16–24. If the state of the labour market

**Table 3.4 Skills demand and the recession: Ordered logit results (OLS)**

	Ages 16–24	Ages 25–49	Ages 50+
Gender	-0.463 (45.1)	-0.833 (113.6)	-0.849 (181.0)
First degree	-1.548 (30.7)	-0.736 (37.99)	-0.882 (82.36)
HNC/HND equivalent	-2.411 (44.9)	-1.501 (79.23)	-1.734 (151.7)
NVQ Level 3	-2.967 (60.3)	-2.395 (129.1)	-2.408 (222.9)
Trade apprenticeship	-2.064 (36.8)	-2.775 (139.9)	-2.591 (189.6)
O-level or equivalent	-3.212 (65.2)	-2.983 (161.5)	-3.004 (280.8)
Other qualifications	-3.541 (68.4)	-3.546 (186.0)	-3.411 (287.8)
No qualifications	-3.867 (73.2)	-3.860 (201.9)	-3.786 (289.3)
2008Q1	-0.020 (0.58)	-0.052 (2.11)	-0.021 (1.31)
2008Q2	-0.021 (0.61)	-0.034 (1.40)	-0.023 (1.44)
2008Q3	-0.048 (1.37)	-0.024 (0.96)	-0.013 (0.80)
2008Q4	-0.057 (1.63)	-0.036 (1.46)	-0.017 (1.09)
2009Q1	-0.002 (0.06)	-0.051 (2.07)	-0.023 (1.45)
2009Q2	-0.054 (1.49)	-0.061 (2.46)	-0.034 (2.13)
2009Q3	-0.084 (2.31)	-0.067 (2.7)	-0.044 (2.71)
2009Q4	-0.097 (2.67)	-0.087 (3.51)	-0.057 (3.51)
2010Q1	-0.113 (3.09)	-0.085 (3.44)	-0.064 (3.92)
2010Q2	-0.127 (3.48)	-0.081 (3.28)	-0.072 (4.47)
cut1	-5.020	-6.103	-6.126
cut2	-2.684	-3.761	-3.794
cut3	-0.780	-2.169	-2.146
N	141,232	310,893	717,591
LR chi <sup>2</sup>	18,311	115,505	240,500
Pseudo R <sup>2</sup>	0.054	0.141	0.129

Source: UK Labour Force Surveys 2005–2010.

Notes: HNC and HND are college-level qualifications approximately equivalent to associate degrees in the United States. Omitted categories – males, higher degree, whites, north-east of England and 2005Q1. Only the time dummies from 2008Q1 to 2010Q2 are shown. The values of the full sets of time dummies are shown in figure 3.4.

**Figure 3.4** Time dummies by age group in skills regression, 2005–10



causes better qualified applicants to accept lower-skilled jobs, there are two important consequences. First, the difficulties of unqualified job applicants increase since they find themselves in direct competition with the better qualified. Second, following Kahn’s argument, if young people accept a lower-skilled job initially, there may be long-lasting negative effects on their labour market experience.

Combined with our previous work, this result leads us to the conclusion that the Great Recession has particularly affected the young through: (a) higher unemployment rates, (b) higher levels of underemployment and (c) increased willingness to accept lower-quality jobs. In recent work (Bell and Blanchflower, 2011b), we have discussed the issue of the “scarring” effects of youth unemployment. Scarring means that adverse labour market experiences when young lead to further negative market outcomes well into the future. The evidence for such scarring relies largely on cohort studies where youth unemployment is used to identify those at risk of later adverse labour market outcomes. Youth unemployment episodes are used as the marker to identify subsequent scarring. As far as we are

aware, no research has tested alternatives such as underemployment or suboptimal job matches when young to identify later scarring effects.

### 3.4 Happiness and attitudes to employment and globalization

In this section we examine how attitudes have changed during the financial crisis. It is rather early in the crisis to determine the impact of the recession. One way is to see how individuals' attitudes have changed and how that varies across countries.<sup>3</sup> To do so we make use of micro data at the level of the individual across the EU27 plus Croatia, Iceland, the Former Yugoslav Republic of Macedonia and Turkish Cyprus. These data are taken from two Eurobarometer Surveys conducted for the European Commission, No. 68.1 from September to October 2007 and No. 73.4 conducted in May 2010.

Comparable questions are available in both surveys on life satisfaction, employment and expectations for jobs over the following twelve months. In 2010 a special component was also included on the crisis itself and individuals reported on whether they thought the crisis was over and whether they favoured public intervention to create jobs. Finally, we examine evidence on individuals' views on the impact of globalization, on a number of outcomes including growth, inequality, prices plus its impact on citizens compared to large corporations.

What we find is that happiness and well-being has held up reasonably well to this point, but has dipped sharply in several countries including Greece. We further find evidence that the unemployed are especially unhappy and that shows no sign of improving. Over time the unemployed are becoming less optimistic about the employment situation in their country. They are especially likely to report that they expect the crisis to worsen, and unsurprisingly want the government to create jobs.

In table 3.5 we report the results of estimating a life satisfaction or happiness equation for both 2007 and 2010 (see Blanchflower and Oswald, 2004, 2011). The responses are ordered and are coded 1–4 as described in the notes to the table. The appropriate estimation procedure here is ordered logit but for ease of exposition we make use of Ordinary Least Squares (OLS). Fortunately results are broadly similar whichever procedure is used.

Happiness levels in Portugal, Spain and especially Greece have fallen sharply as well as in Latvia and Lithuania that have also seen big increases in unemployment. This is true both in the mean scores reported at the end of table 3.5 and in the regressions. The coefficient on the Irish dummy declined between 2007 and 2010 although the



**Table 3.5** Happiness and jobs, 2007 and 2010 (OLS)

	Life satisfaction		Employment satisfaction	
	2007	2010	2007	2010
Age 15–24	0.1327 (6.86)	0.1803 (9.23)	-0.0120 (0.68)	0.0247 (1.47)
Age 25–34	0.0488 (3.39)	0.0587 (4.12)	-0.0064 (0.49)	-0.0138 (1.13)
Age 45–54	-0.0552 (4.00)	-0.0703 (5.10)	-0.0388 (3.10)	-0.0450 (3.79)
Age 55–64	0.0034 (0.23)	-0.0216 (1.42)	-0.0205 (1.49)	-0.0271 (2.08)
Age ≥65	0.0843 (4.60)	0.0619 (3.36)	0.0175 (1.05)	0.0274 (1.72)
Male	-0.0117 (1.39)	-0.0216 (2.56)	0.0513 (6.64)	0.0513 (7.03)
ALS 16–19	0.1244 (10.35)	0.1110 (9.12)	0.0750 (6.85)	0.0434 (4.10)
ALS ≥20	0.2645 (19.63)	0.2818 (20.78)	0.1729 (14.07)	0.1180 (10.01)
Still studying	0.2811 (11.79)	0.2777 (11.79)	0.1996 (9.16)	0.1211 (5.92)
No FT education	-0.0264 (0.61)	-0.1753 (3.89)	-0.0391 (0.96)	0.0702 (1.73)
Politics 3–4	0.0072 (0.43)	0.0282 (1.59)	0.0633 (4.06)	0.0719 (4.66)
Politics centre	0.0555 (3.56)	0.1056 (6.52)	0.0582 (4.08)	0.0952 (6.77)
Politics 7–8	0.0822 (4.71)	0.1439 (8.05)	0.1249 (7.83)	0.1535 (9.90)
Politics right	0.1516 (7.69)	0.2019 (9.74)	0.0993 (5.52)	0.1319 (7.31)
Origin other EU	-0.0222 (0.83)	-0.0233 (0.96)	0.0800 (3.24)	0.1457 (6.70)
Europe not EU	0.0190 (0.59)	-0.0788 (2.34)	0.0680 (2.31)	-0.0080 (0.27)
Asia/Africa origin	-0.0897 (2.32)	-0.1247 (3.34)	0.1019 (2.89)	0.0652 (2.03)
USA/Japan origin	0.1231 (1.10)	0.1517 (1.32)	0.1191 (1.19)	0.0602 (0.60)
Home account	-0.0264 (1.58)	-0.0620 (3.61)	-0.0520 (3.41)	-0.0557 (3.73)
Unemployed	-0.3650 (22.99)	-0.4166 (28.23)	-0.2408 (16.74)	-0.2191 (17.27)
Retired	-0.0974 (6.57)	-0.1014 (6.78)	-0.0850 (6.27)	-0.0965 (7.45)
Austria	-0.1609 (5.16)	-0.1386 (4.77)	0.2552 (9.01)	0.4064 (16.35)
Bulgaria	-0.9219 (28.88)	-1.0384 (35.59)	-0.2403 (8.27)	-0.4921 (19.75)
Croatia	-0.1916 (6.10)	-0.3645 (12.39)	-0.5304 (18.57)	-0.6306 (25.29)
Cyprus	-0.0043 (0.11)	-0.1694 (4.63)	0.2913 (8.28)	0.1679 (5.29)
Czech Republic	-0.2577 (8.33)	-0.3766 (13.04)	-0.2296 (8.20)	-0.2882 (11.70)
Denmark	0.4419 (14.17)	0.3523 (12.18)	0.5008 (17.70)	0.4336 (17.50)
East Germany	-0.3028 (8.05)	-0.3999 (10.85)	-0.1964 (5.73)	-0.0664 (2.11)
Estonia	-0.4124 (13.22)	-0.5060 (17.45)	-0.2584 (9.07)	-0.2982 (12.00)
Finland	0.1060 (3.42)	0.0013 (0.05)	0.1987 (7.07)	0.2323 (9.43)
France	-0.2428 (7.89)	-0.2602 (9.08)	-0.3787 (13.57)	-0.2712 (11.06)
Greece	-0.7029 (22.50)	-0.9780 (33.63)	-0.5140 (18.17)	-0.5331 (21.47)
Hungary	-0.7658 (24.59)	-0.8158 (28.19)	-0.5758 (20.41)	-0.4147 (16.77)
Ireland	0.1626 (5.18)	0.0230 (0.79)	-0.7427 (26.15)	-0.6732 (27.17)
Italy	-0.5392 (17.36)	-0.4906 (16.94)	-0.3258 (11.59)	-0.2038 (8.21)
Latvia	-0.6826 (21.79)	-0.6463 (22.30)	-0.6729 (23.70)	-0.5350 (21.57)
Lithuania	-0.7067 (22.59)	-0.7812 (26.90)	-0.3956 (13.82)	-0.4273 (17.17)
Luxembourg	0.2281 (5.96)	0.0957 (2.59)	0.2067 (5.92)	0.4972 (15.62)
Macedonia, FYR of	-0.5191 (16.53)	-0.6295 (21.78)	-0.5993 (21.03)	-0.5273 (21.29)
Malta	-0.0288 (0.74)	-0.2566 (6.88)	0.0712 (1.93)	0.2021 (6.15)
Netherlands	0.2927 (9.54)	0.1163 (4.06)	0.4157 (14.92)	0.5284 (21.43)
Poland	-0.3490 (11.08)	-0.3614 (12.38)	-0.0997 (3.46)	-0.0332 (1.32)
Portugal	-0.6679 (20.95)	-0.8385 (28.61)	-0.5745 (19.93)	-0.4044 (16.16)
Romania	-0.6628 (21.23)	-1.1454 (39.42)	-0.4785 (16.66)	-0.5923 (23.69)
Slovak Republic	-0.3775 (2.17)	-0.3848 (13.36)	-0.3588 (12.70)	-0.2700 (10.98)
Slovenia	-0.0729 (2.34)	-0.1762 (6.08)	-0.1794 (6.33)	-0.3168 (12.76)
Spain	-0.1396 (4.45)	-0.2410 (8.28)	-0.5107 (17.96)	-0.5672 (22.83)
Sweden	0.2775 (8.94)	0.1436 (5.05)	-0.0249 (0.89)	0.3750 (15.41)
Turkey	-0.5089 (15.82)	-0.4883 (16.17)	-0.4988 (17.10)	-0.1241 (4.76)
UK	0.1416 (4.86)	0.1230 (4.59)	-0.3489 (13.18)	-0.0737 (3.19)
West Germany	-0.0900 (2.90)	-0.1236 (4.30)	0.0383 (1.36)	0.1019 (4.14)

*Continued overleaf*

**Table 3.5** *Continued*

	Life satisfaction		Employment satisfaction	
	2007	2010	2007	2010
Constant	2.9592	3.0531	1.9694	1.8385
N	29,517	30,580	28,939	29,659
Adjusted R <sup>2</sup>	0.2671	0.2911	0.2624	0.2948

Source: Eurobarometers No. 68.1, September–October 2007 and No. 73.4, May 2010. (Regarding country denominations, see endnote 3.)

Notes: excluded categories, employed; Belgium; age left school (ALS) < 16; age 35–44; politics – left; and origin “in our country”. Asia and Africa also includes Latin America. USA/Japan means North America and also includes Oceania. T-statistics in parentheses.

Question 1. On the whole, are you: not at all satisfied (=1), not very satisfied (=2), fairly satisfied (=3) or very satisfied (= 4) with the life you lead?

Question 2. How would you judge the current situation in each of the following? The employment situation in (our country): very bad (= 1), rather bad (= 2), rather good (= 3) and very good (= 4).

Life satisfaction scores	2010	2007	Change
Greece	2.24	2.68	-0.44
Romania	2.08	2.39	-0.31
Lithuania	2.44	2.63	-0.19
Portugal	2.29	2.47	-0.18
Spain	2.90	3.07	-0.17
Turkey	2.70	2.87	-0.17
Latvia	2.59	2.68	-0.09
Malta	2.93	3.02	-0.09
Italy	2.72	2.79	-0.07
Slovenia	3.04	3.10	-0.06
Turkish Cyprus	2.76	2.82	-0.06
Belgium	3.13	3.18	-0.05
Czech Republic	2.86	2.91	-0.05
Macedonia, FYR of	2.49	2.54	-0.05
Luxembourg	3.36	3.39	-0.03
Estonia	2.77	2.80	-0.03
Netherlands	3.41	3.44	-0.03
Austria	3.07	3.07	0.00
Croatia	2.81	2.81	0.00
Hungary	2.38	2.38	0.00
France	2.98	2.97	0.01
Cyprus	3.06	3.05	0.01
Denmark	3.66	3.65	0.01
Bulgaria	2.17	2.15	0.02
Poland	2.88	2.85	0.03
Ireland	3.24	3.21	0.03
East Germany	2.75	2.70	0.05
Finland	3.30	3.25	0.05
West Germany	3.10	3.05	0.05
Sweden	3.44	3.38	0.06
United Kingdom	3.32	3.22	0.10
Slovak Republic	2.85	2.74	0.11

mean score did not decline. One puzzle is the jump in the happiness levels in the United Kingdom, which was 2.91 in 2007 and 3.32 in 2010. It does seem, however, that this growth in happiness is unlikely to be sustained. The date of the 2010 survey was in May, exactly at the time of the General Election when a new coalition government was formed. Since that time business and consumer confidence has

collapsed, as have house prices, with the implementation of an austerity budget cutting public spending and raising taxes.

The results in table 3.5 are standard in that happiness is U-shaped in age (Blanchflower and Oswald, 2008a), rises with the level of education and is higher among right-wingers than left-wingers. Unemployment lowers happiness. In cross-sectional analysis, the French, Greeks, Italians, Portuguese and particularly the East Europeans are unhappy while Scandinavians are the happiest. This may to some extent reflect cultural differences, but recent evidence linking measures of self-reported well-being to objective health measurement suggests that it is not cultural differences alone that explain international differences in reported well-being (Blanchflower and Oswald, 2008b). Comparing the first two columns a number of findings stand out.

1. The unemployed have lower levels of happiness compared to the employed in 2010 than they did in 2007.
2. Happiness levels of non-natives have fallen over time.
3. There was a big drop in the happiness levels of the least educated.
4. Based on the change in the coefficients, there is a noticeable decline in the happiness levels in Greece ( $-0.28$ ), Ireland ( $-0.14$ ), Portugal ( $-0.17$ ) and Spain ( $-0.10$ ), which have been hard hit by recession and the sovereign debt crisis.

In columns 3 and 4 we model individuals' views on the "employment situation", which has clearly deteriorated over this period. Of particular note here is that residents of Austria, the Netherlands and West Germany had seen a relative improvement in their position. In both periods the Irish are especially gloomy about the job situation.

In Table 3.6 columns 1 and 2, we now look at individuals' views about what they expect to happen to employment over the next twelve months in 2007 and 2010. It should be noted that young people are especially optimistic as are right-wingers and those with more education. By 2010 the unemployed are becoming significantly less optimistic than the employed. Expectations were much lower, measured by a change in the country rankings, in France, Greece, Italy, Portugal and Spain. It is notable how the Swedes have jumped up the rankings, where despite the big drop in output, employment has risen. Residents in the United Kingdom were also more optimistic in 2010 than in 2007 and jumped up the rankings.

Column 3 estimates the probability of reporting that the worst of the jobs crisis is yet to come. The estimation technique is probit. The results reported are estimated marginal effects. Men, the optimistic young, right-wingers and the most educated are less likely to agree. The unemployed are more pessimistic. The Danes and the Swedes believe it is all over bar the shouting. The Greeks, the Irish and especially the Portuguese believe the crisis still has legs.

**Table 3.6** Expectations for jobs and public role in creating jobs, 2007 and 2010 (OLS)

	Expectations for employment		Job crisis to worsen	Create jobs
	2007	2010	2007	2010
Age 15–24	0.1641 (8.82)	0.0929 (4.45)	-0.0579 (4.01)	0.1261 (4.77)
Age 25–34	0.0766 (5.55)	0.0647 (4.24)	-0.0256 (2.43)	0.0505 (2.66)
Age 45–54	-0.0332 (2.51)	-0.0669 (4.55)	0.0198 (1.96)	0.0265 (1.45)
Age 55–64	-0.0576 (3.95)	-0.0686 (4.24)	0.0225 (2.01)	0.0367 (1.81)
Age ≥65	-0.0192 (1.09)	-0.0469 (2.37)	-0.0056 (0.42)	0.0566 (2.26)
Male	-0.0151 (1.86)	0.0298 (3.30)	-0.0242 (3.89)	-0.0232 (2.06)
ALS 16–19	0.0227 (1.95)	0.0076 (0.58)	-0.0486 (4.43)	-0.0155 (0.92)
ALS ≥20	0.0059 (0.45)	0.0801 (5.47)	-0.0968 (9.47)	-0.0687 (3.74)
Still studying	0.0854 (3.70)	0.1096 (4.32)	-0.0872 (4.96)	-0.0634 (1.99)
No FT education	0.0645 (1.49)	0.0197 (0.39)	0.0150 (0.43)	-0.0188 (0.27)
Politics 3–4	0.0257 (1.57)	0.0651 (3.40)	-0.0583 (4.36)	-0.0711 (3.02)
Politics centre	0.0356 (2.37)	0.0821 (4.71)	-0.0877 (7.22)	-0.0749 (3.50)
Politics 7–8	0.0392 (2.35)	0.1451 (7.55)	-0.1258 (9.38)	-0.0826 (3.51)
Politics right	0.0957 (5.03)	0.1542 (6.90)	-0.1267 (8.16)	-0.0264 (0.97)
Origin other EU	0.0585 (2.25)	0.1240 (4.59)	-0.0486 (2.67)	0.0477 (1.49)
Europe not EU	0.0357 (1.15)	0.0299 (0.82)	0.0238 (0.97)	0.2660 (5.83)
Asia/Africa origin	0.1717 (4.61)	0.0136 (0.34)	-0.0412 (1.51)	0.1168 (2.36)
USA/Japan origin	-0.0478 (0.46)	0.1752 (1.44)	-0.0981 (1.10)	0.1936 (1.22)
Home account	0.0344 (2.12)	-0.0358 (1.92)	0.0169 (1.31)	-0.0157 (0.65)
Unemployed	0.0242 (1.59)	-0.0419 (2.67)	0.0844 (7.83)	0.0718 (3.59)
Retired	0.0138 (0.97)	-0.0086 (0.54)	0.0267 (2.42)	-0.0261 (1.30)
Austria	0.1263 (4.23)	0.1209 (3.94)	-0.0540 (2.53)	0.1338 (3.58)
Bulgaria	0.0577 (1.88)	0.0098 (0.31)	-0.1789 (7.87)	0.1513 (3.48)
Croatia	-0.0287 (0.96)	-0.2413 (7.84)	0.0356 (1.70)	0.2471 (6.51)
Cyprus	-0.1010 (2.71)	-0.3817 (9.56)	0.1650 (6.38)	0.0757 (1.56)
Czech Republic	-0.1135 (3.86)	-0.1386 (4.57)	-0.0583 (2.81)	0.1199 (3.23)
Denmark	-0.0473 (1.60)	0.4141 (13.62)	-0.1706 (8.11)	0.2575 (6.99)
East Germany	-0.0459 (1.27)	-0.1988 (5.09)	0.1489 (5.59)	-0.1595 (3.35)
Estonia	-0.0413 (1.38)	0.3689 (12.04)	-0.1800 (8.57)	-0.0289 (0.74)
Finland	-0.0111 (0.38)	0.1832 (6.06)	-0.0477 (2.31)	0.2642 (7.13)
France	0.1312 (4.47)	-0.0975 (3.21)	0.1031 (5.08)	-0.2077 (5.49)
Greece	-0.0786 (2.65)	-0.5333 (17.48)	0.1811 (9.00)	-0.2542 (6.80)
Hungary	-0.1152 (3.89)	0.1725 (5.66)	-0.2113 (9.99)	-0.0313 (0.84)
Ireland	-0.2512 (8.39)	-0.1364 (4.46)	0.0501 (2.42)	0.3656 (9.30)
Italy	0.1748 (5.88)	-0.0830 (2.71)	-0.0614 (2.86)	-0.0564 (1.44)
Latvia	-0.0574 (1.91)	0.1248 (4.07)	-0.0034 (0.16)	-0.2309 (6.04)
Lithuania	-0.1737 (5.78)	-0.1423 (4.61)	0.0522 (2.52)	0.2936 (7.65)
Luxembourg	-0.0058 (0.16)	-0.2922 (7.46)	0.1659 (6.51)	0.1510 (3.17)
Macedonia, FYR of	0.2362 (7.87)	-0.1000 (3.28)	-0.0949 (4.49)	0.5913 (15.24)
Malta	0.1767 (4.41)	0.1975 (4.71)	-0.1350 (4.80)	-0.0508 (0.99)
Netherlands	-0.1834 (6.28)	0.1200 (3.96)	-0.0299 (1.45)	-0.2115 (5.72)
Poland	0.1107 (3.66)	0.0476 (1.53)	-0.0820 (3.78)	0.2080 (5.34)
Portugal	-0.1460 (4.77)	-0.2940 (9.47)	0.1445 (6.93)	0.0337 (0.84)
Romania	0.0707 (2.34)	-0.4208 (13.61)	0.1760 (8.49)	0.3495 (8.59)
Slovak Republic	-0.1425 (4.80)	-0.0488 (1.61)	-0.1064 (5.09)	0.3948 (10.57)
Slovenia	0.0653 (2.19)	-0.1499 (4.90)	0.0345 (1.67)	-0.1599 (4.30)
Spain	0.1396 (4.64)	0.0194 (0.63)	0.0032 (0.15)	0.0045 (0.12)
Sweden	0.1257 (4.25)	0.6434 (21.48)	-0.2109 (10.24)	0.2917 (8.05)
Turkey	0.1388 (4.48)	-0.0771 (2.37)	0.0277 (1.25)	-0.0484 (1.18)
UK	-0.0216 (0.78)	0.1069 (3.75)	0.0215 (1.12)	0.2064 (5.92)

West Germany	0.0190 (0.64)	-0.0128 (0.42)	0.0583 (2.81)	-0.2708 (7.32)
Constant	1.3660	1.7551	—	2.628
N	28,335	28,872	28,360	25,418
Adjusted/Pseudo R <sup>2</sup>	0.0491	0.1185	0.0569	0.0627

Source: Eurobarometers No. 68.1, September–October 2007 and No. 73.4, May 2010. (Regarding country denominations, see endnote 3.)

Notes: excluded categories: employed; Belgium; age left school (ALS) < 16; age 35–44; politics – left; and origin “in our country”. Asia and Africa also includes Latin America. USA/Japan means North America and also includes Oceania. Column 3 estimated as a probit. T-statistics in parentheses.

Question 1. What are your expectations for the next twelve months: will the next twelve months be worse (= 1), the same (= 2) or better (= 3), when it comes to... the employment situation in (our country)?

Question 2. Some analysts say that the impact of the economic crisis on the job market has already reached its peak and things will recover little by little. Others, on the contrary, say that the worst is still to come. Which of the two statements is closer to your opinion? “The impact of the crisis on jobs has already reached its peak” (= 0) or “the worst is still to come” (= 1).

Question 3. In an international financial and economic crisis, it is necessary to increase public deficits to create jobs: totally disagree (= 1); tend to disagree (= 2); tend to agree (= 3); totally agree (= 4).

In column 4 we model whether the individual believes that it is the job of the public sector to create jobs in the midst of a financial crisis. Unsurprisingly, the unemployed, the young, the least educated and left-wingers hold this view most strongly. Residents of the corporatist countries of Denmark, Finland and Sweden along with the Irish hold this view. Interestingly, residents of the United Kingdom hold this view even though their government is about to embark on a strategy of firing large numbers of public sector workers.

The globalization of markets clearly played some part in the transmission of the recession. Has this experience turned the citizens in advanced economies against globalization? We provide some new evidence from Europe to provide at least a partial answer to this question. Using data from two Eurobarometer Surveys No. 69.2 for March–May 2008 and No. 73.4 for May 2010, we investigate how representative samples of citizens from European Union (EU) countries responded to four questions on globalization in 2010. The questions asked citizens for their views about whether globalization (a) increased growth, (b) increased social inequality, (c) reduced inflation and (d) only benefited large companies and not citizens. It should be noted that there are small differences in the labelling of the responses, but in both cases answers are coded from one to four. Details are at the bottom of the tables.

Table 3.7 reports the percentage of respondents who agree or totally agree in 2010 or who strongly agree or somewhat agree in 2008 for each of the four attitudes to globalization measures. In 2010 support for the proposition that globalization improves growth is highest in Denmark (91 per cent), the Netherlands (84 per cent) and Sweden (87 per cent) but is especially low in France (52 per cent), Greece (43 per cent) and Portugal (56 per cent). The vast majority of respondents believe globalization increases inequality and raises company profits, but do not believe it increases prices. The patterns are broadly similar in 2008. The one difference is that

**Table 3.7** Views on globalization: Percentage saying they agree or totally agree, 2008 and 2010

	Growth		Inequalities		Prices		Profits	
	2010	2008	2010	2008	2010	2008	2010	2008
Austria	64	62	76	69	27	16	79	79
Belgium	65	63	75	68	29	24	75	74
Bulgaria	73	78	73	72	32	26	79	79
Croatia	69	67	76	73	35	29	79	81
Cyprus	63	61	81	87	36	31	82	88
Czech Republic	60	66	69	64	33	29	70	68
Denmark	91	89	57	51	36	29	50	43
East Germany	67	68	77	79	21	11	74	80
Estonia	75	77	64	60	30	29	65	67
Finland	77	65	68	62	39	25	63	67
France	52	52	85	82	14	10	86	87
Great Britain	78	67	66	63	35	24	75	77
Greece	43	40	84	77	21	17	83	85
Hungary	76	68	80	75	30	20	74	76
Ireland	75	77	72	76	34	36	77	78
Italy	62	61	65	62	45	37	69	72
Latvia	61	58	70	65	25	14	74	79
Lithuania	74	75	62	64	34	32	76	80
Luxembourg	67	62	75	81	27	17	72	82
Macedonia, FYR of	69	76	70	66	38	43	79	76
Malta	88	85	53	47	52	41	65	61
Netherlands	84	83	53	60	37	28	52	58
Northern Ireland	77	68	75	75	30	26	74	78
Poland	69	79	73	65	43	39	77	72
Portugal	56	68	70	66	31	40	72	77
Romania	68	79	70	73	42	48	71	79
Slovak Republic	79	71	73	68	50	29	73	75
Slovenia	66	74	83	82	29	30	85	84
Spain	67	73	78	75	37	41	83	81
Sweden	87	87	56	56	38	34	50	51
Turkey	66	53	57	59	52	37	67	70
West Germany	70	65	77	71	25	14	68	74

Source: Eurobarometer No. 73.4, May 2010 and Eurobarometer No. 69.2, March–May 2008. (Regarding country denominations, see endnote 3.)

Questions. (1) 2010 For each of the following statements, please tell me whether you totally disagree (= 1), tend to disagree (= 2), tend to agree (= 3) or totally agree (= 4)? (2) 2008 For each of the following statements, please tell me whether you strongly disagree (= 1), somewhat disagree (= 2), somewhat agree (= 3) or strongly disagree (= 4).

Column 1. Globalization is an opportunity for economic growth?

Column 2. Globalization increases social inequalities?

Column 3. Globalization protects us from price increases?

Column 4. Globalization is profitable only for large companies, not for citizens?

in almost all countries a higher proportion of respondents say that globalization has protected them from price increases. The main exceptions are the Former Yugoslav Republic of Macedonia, Portugal and Romania.

We use OLS models to identify how well individual characteristics predict attitudes to globalization. Our results are shown in table 3.8 for 2008 and table 3.9 for 2010

**Table 3.8** Views on globalization, 2008 (OLS)

	Growth	Inequalities	Prices	Profits
Age 15–24	0.0889 (3.21)	-0.1358 (4.67)	0.0742 (2.52)	-0.0720 (2.49)
Age 25–34	0.0395 (2.03)	-0.0425 (2.07)	0.0518 (2.52)	-0.0346 (1.71)
Age 45–54	-0.0209 (1.13)	0.0105 (0.55)	-0.0099 (0.51)	0.0517 (2.69)
Age 55–64	-0.0251 (1.22)	0.0089 (0.41)	-0.0512 (2.36)	0.0821 (3.83)
Age ≥65	0.0087 (0.34)	-0.0154 (0.57)	-0.0058 (0.22)	0.0664 (2.49)
Male	0.0470 (4.09)	-0.0045 (0.38)	0.0301 (2.48)	-0.0223 (1.87)
ALS 16–19	0.0432 (2.55)	-0.0031 (0.18)	0.0335 (1.90)	-0.0293 (1.68)
ALS ≥20	0.1191 (6.46)	0.0058 (0.30)	0.0691 (3.57)	-0.1323 (6.92)
Still studying	0.1933 (5.75)	0.0515 (1.46)	0.1167 (3.26)	-0.1728 (4.90)
No FT education	-0.0836 (0.65)	0.2797 (1.92)	0.0891 (0.62)	-0.1468 (1.06)
Politics (3–4)	0.0630 (2.95)	-0.0338 (1.52)	0.0676 (3.00)	-0.0838 (3.80)
Politics centre	0.0914 (4.67)	-0.0962 (4.73)	0.1033 (5.00)	-0.1275 (6.31)
Politics (7–8)	0.1265 (5.95)	-0.1655 (7.47)	0.1606 (7.16)	-0.2026 (9.20)
Politics right	0.1051 (4.27)	-0.1154 (4.49)	0.1305 (5.01)	-0.1670 (6.54)
Home account	0.0034 (0.14)	-0.0412 (1.59)	0.0535 (2.07)	0.0023 (0.09)
Unemployed	-0.0013 (0.05)	0.0044 (0.17)	-0.0182 (0.68)	0.0609 (2.30)
Retired	-0.0256 (1.25)	0.0032 (0.15)	-0.0110 (0.51)	0.0605 (2.84)
Austria	0.0218 (0.56)	0.1311 (3.23)	-0.1516 (3.72)	0.1808 (4.46)
Bulgaria	0.3028 (7.17)	0.0900 (2.01)	0.0991 (2.18)	0.1012 (2.30)
Croatia	0.0822 (2.05)	0.1069 (2.53)	0.0808 (1.91)	0.1950 (4.64)
Cyprus	0.0306 (0.60)	0.4999 (9.57)	0.1099 (2.08)	0.4108 (8.02)
Czech Republic	0.0567 (1.46)	-0.0576 (1.41)	0.1920 (4.67)	-0.1080 (2.65)
Denmark	0.4759 (12.78)	-0.2656 (6.79)	0.0709 (1.80)	-0.5443 (13.97)
East Germany	0.1398 (3.04)	0.2919 (6.10)	-0.3239 (6.79)	0.1947 (4.09)
Estonia	0.2181 (5.46)	-0.0950 (2.27)	0.1479 (3.51)	-0.0662 (1.58)
Finland	0.0405 (1.07)	-0.0737 (1.86)	0.0789 (1.99)	-0.0763 (1.93)
France	-0.1872 (4.93)	0.2922 (7.41)	-0.3291 (8.35)	0.3188 (8.14)
Greece	-0.4050 (10.56)	0.2950 (7.37)	-0.1722 (4.27)	0.3937 (9.81)
Hungary	0.0407 (1.02)	0.1388 (3.34)	-0.1605 (3.85)	0.0995 (2.41)
Ireland	0.2085 (4.93)	0.1244 (2.78)	0.0917 (2.06)	0.1463 (3.34)
Italy	0.0319 (0.75)	-0.1005 (2.28)	0.3201 (7.21)	0.0235 (0.53)
Latvia	-0.0808 (1.94)	-0.0604 (1.38)	-0.1316 (3.01)	0.0707 (1.64)
Lithuania	0.2130 (4.47)	-0.0566 (1.12)	0.1670 (3.33)	0.0920 (1.84)
Luxembourg	-0.0797 (1.57)	0.3348 (6.41)	-0.2535 (4.88)	0.1848 (3.57)
Macedonia, FYR of	0.3843 (9.04)	0.1221 (2.73)	0.3119 (6.90)	0.1399 (3.13)
Malta	0.5019 (8.62)	-0.4013 (6.30)	0.4126 (6.46)	-0.3635 (5.76)
Netherlands	0.3705 (10.08)	-0.2367 (6.11)	0.1642 (4.21)	-0.2422 (6.30)
Poland	0.2608 (6.07)	-0.0429 (0.96)	0.3296 (7.26)	-0.0223 (0.50)
Portugal	0.0976 (2.26)	-0.0463 (1.02)	0.4005 (8.83)	0.0351 (0.79)
Romania	0.2470 (5.81)	0.1227 (2.73)	0.3681 (8.21)	0.1498 (3.41)
Slovak Republic	0.1194 (3.11)	-0.0181 (0.45)	0.2103 (5.18)	-0.0172 (0.43)
Slovenia	0.2054 (5.18)	0.3655 (8.85)	0.0918 (2.20)	0.2893 (6.99)
Spain	0.1862 (4.32)	0.1024 (2.29)	0.3968 (8.76)	0.0590 (1.33)
Sweden	0.4577 (12.42)	-0.2423 (6.24)	0.1701 (4.34)	-0.4258 (11.01)
Turkey	-0.1518 (3.33)	-0.1627 (3.40)	0.1889 (3.89)	-0.0102 (0.21)
UK	0.0726 (1.93)	-0.0400 (1.01)	0.0328 (0.83)	0.0569 (1.45)
West Germany	0.1064 (2.86)	0.1779 (4.55)	-0.2603 (6.68)	0.1132 (2.92)
Constant	2.4788	2.9086	1.8050	3.1034
N	20,013	19,701	19,811	20,353
Adjusted/Pseudo R <sup>2</sup>	0.0782	0.0558	0.0666	0.0933

Continued overleaf

**Table 3.8** *Continued*

Source: Eurobarometer No. 69.2, March–May 2008. (Regarding country denominations, see endnote 3.)

Notes: excluded categories, employed; Belgium; age left school (ALS) < 16; age 35–44; politics – left; and origin “in our country”. T-statistics in parentheses.

Question. For each of the following statements, please tell me whether you strongly disagree (= 1), somewhat disagree (= 2), somewhat agree (= 3) or strongly agree (= 4).

Column 1. Globalization is an opportunity for economic growth?

Column 2. Globalization increases social inequalities?

Column 3. Globalization protects us from price increases?

Column 4. Globalization is profitable only for large companies, not for citizens?

**Table 3.9** Views on globalization, 2010 (OLS)

	Growth	Inequalities	Prices	Profits
Age 15–24	0.0758 (3.26)	-0.0376 (1.56)	0.0979 (3.84)	-0.0756 (3.07)
Age 25–34	0.0260 (1.55)	0.0080 (0.46)	0.0380 (2.07)	-0.0171 (0.96)
Age 45–54	-0.0158 (0.98)	0.0375 (2.24)	-0.0268 (1.51)	0.0504 (2.92)
Age 55–64	-0.0064 (0.36)	0.0330 (1.78)	-0.0150 (0.76)	0.0662 (3.48)
Age ≥65	0.0248 (1.11)	0.0097 (0.42)	0.0491 (2.01)	0.0800 (3.38)
Male	0.0417 (4.16)	-0.0035 (0.34)	0.0451 (4.12)	-0.0027 (0.26)
ALS 16–19	0.0524 (3.47)	-0.0219 (1.41)	0.0192 (1.17)	-0.0482 (3.05)
ALS ≥20	0.1473 (8.93)	-0.0698 (4.11)	0.0337 (1.88)	-0.1719 (9.91)
Still studying	0.1630 (5.80)	-0.1286 (4.40)	0.0972 (3.15)	-0.1952 (6.54)
No FT education	0.0106 (0.16)	-0.0642 (0.92)	0.0635 (0.87)	-0.0976 (1.33)
Politics (3–4)	0.0948 (4.56)	-0.1056 (4.92)	0.0836 (3.68)	-0.1041 (4.73)
Politics centre	0.0999 (5.25)	-0.1502 (7.65)	0.1280 (6.16)	-0.1268 (6.31)
Politics (7–8)	0.2030 (9.71)	-0.1981 (9.18)	0.2064 (9.02)	-0.2256 (10.19)
Politics right	0.1773 (7.24)	-0.1818 (7.20)	0.2160 (8.10)	-0.1918 (7.41)
Origin other EU	0.0211 (0.75)	-0.0138 (0.47)	0.0857 (2.76)	0.0071 (0.24)
Europe not EU	0.0703 (1.75)	0.1291 (3.11)	0.0796 (1.79)	0.0404 (0.96)
Asia/Africa origin	0.0236 (0.54)	0.0818 (1.80)	0.2190 (4.54)	0.1268 (2.75)
USA/Japan origin	0.1764 (1.24)	0.0134 (0.09)	0.2783 (1.80)	-0.3396 (2.31)
Home account	0.0216 (1.01)	-0.0659 (2.94)	-0.0148 (0.63)	-0.0201 (0.88)
Unemployed	-0.0570 (3.22)	0.0273 (1.49)	-0.0353 (1.82)	0.0447 (2.40)
Retired	-0.0216 (1.20)	0.0216 (1.16)	-0.0338 (1.72)	0.0165 (0.87)
Austria	0.0197 (0.60)	0.1246 (3.67)	-0.0731 (2.04)	0.1837 (5.26)
Bulgaria	0.1165 (3.30)	0.0293 (0.81)	-0.0006 (0.02)	0.1788 (4.85)
Croatia	0.0710 (2.09)	0.1028 (2.93)	-0.0065 (0.18)	0.2228 (6.19)
Cyprus	0.0014 (0.03)	0.2503 (5.57)	0.0550 (1.18)	0.3114 (6.84)
Czech Republic	-0.0870 (2.60)	-0.0358 (1.04)	0.0556 (1.53)	-0.0414 (1.17)
Denmark	0.4223 (12.83)	-0.2361 (6.86)	0.0405 (1.12)	-0.3693 (10.48)
East Germany	0.1148 (2.75)	0.1244 (2.90)	-0.2205 (4.89)	0.0715 (1.63)
Estonia	0.1477 (4.33)	-0.0996 (2.80)	-0.0272 (0.73)	-0.0701 (1.93)
Finland	0.2036 (6.14)	-0.0251 (0.74)	0.0709 (1.96)	-0.1439 (4.09)
France	-0.2737 (8.13)	0.2819 (8.26)	-0.4074 (11.25)	0.2907 (8.30)
Greece	-0.3430 (10.44)	0.3562 (10.51)	-0.2363 (6.58)	0.3485 (10.01)
Hungary	0.1475 (4.43)	0.1752 (5.07)	-0.1758 (4.83)	0.0431 (1.22)
Ireland	0.1988 (5.71)	-0.0186 (0.51)	0.0052 (0.14)	0.0799 (2.15)
Italy	-0.0503 (1.46)	-0.1606 (4.49)	0.2020 (5.37)	-0.0936 (2.56)
Latvia	-0.0809 (2.33)	-0.0199 (0.55)	-0.1341 (3.53)	0.0524 (1.43)
Lithuania	0.1095 (3.06)	-0.2318 (6.19)	0.0493 (1.26)	0.0338 (0.90)
Luxembourg	-0.0184 (0.43)	0.1029 (2.32)	-0.0955 (2.06)	-0.0326 (0.72)
Macedonia, FYR of	0.1537 (4.49)	0.0292 (0.83)	0.1020 (2.72)	0.2376 (6.58)
Malta	0.4280 (8.73)	-0.3305 (6.36)	0.3326 (6.03)	-0.1605 (2.93)



	Growth	Inequalities	Prices	Profits
Netherlands	0.2457 (7.48)	-0.2755 (7.98)	0.0927 (2.53)	-0.3232 (9.16)
Poland	0.0301 (0.85)	0.0467 (1.27)	0.2128 (5.45)	0.1202 (3.24)
Portugal	-0.1056 (3.00)	-0.1179 (3.26)	0.0318 (0.84)	-0.0097 (0.27)
Romania	0.0163 (0.45)	-0.0112 (0.30)	0.1732 (4.38)	-0.0449 (1.17)
Slovak Republic	0.1997 (5.95)	-0.0056 (0.16)	0.3315 (9.05)	-0.0298 (0.84)
Slovenia	0.0356 (1.06)	0.3022 (8.80)	-0.0482 (1.33)	0.3445 (9.79)
Spain	0.0267 (0.77)	0.1045 (2.90)	0.0392 (1.01)	0.2252 (6.11)
Sweden	0.3908 (12.05)	-0.2844 (8.40)	0.0453 (1.27)	-0.4435 (12.86)
Turkey	0.1143 (3.05)	-0.1156 (2.95)	0.3789 (9.04)	0.0196 (0.48)
Turkish Cyprus	0.4092 (9.48)	-0.0814 (1.82)	0.3925 (8.29)	-0.1618 (3.46)
UK	0.1666 (5.18)	-0.1023 (3.03)	0.0105 (0.30)	0.0146 (0.43)
West Germany	0.1497 (4.52)	0.1464 (4.29)	-0.1920 (5.37)	-0.0110 (0.32)
Constant	-2.5138	-1.9696	-3.0345	-1.8884
N	25,642	25,468	25,327	26,070
Adjusted/Pseudo R <sup>2</sup>	0.0685	0.0552	0.0503	0.0798

Source: Eurobarometer No. 73.4, May 2010. (Regarding country denominations, see endnote 3.)

Notes: excluded categories, employed; Belgium; age left school (ALS) < 16; age 35–44; politics – left; and origin “in our country”. Asia and Africa also includes Latin America. USA/Japan means North America and also includes Oceania. T-statistics in parentheses.

Questions. For each of the following statements, please tell me whether you totally disagree (= 1), tend to disagree (= 2), tend to agree (= 3), or totally agree (= 4)?

Column 1. Globalization is an opportunity for economic growth?

Column 2. Globalization increases social inequalities?

Column 3. Globalization protects us from price increases?

Column 4. Globalization is profitable only for large companies, not for citizens?

where we explore directly individuals' views on the benefits of globalization. It should be noted that no definition of the term globalization was given. The questions related to the effects on growth, inequality, prices and whether the benefits were given to big business or the ordinary citizen. The precise questions are presented at the end of the table.

The patterns are broadly similar to those in the earlier equations: happy people have cheerful dispositions and perhaps are happy about most things. The young are most content about the positive impact on growth (column 1). Males, right-wingers and the most educated are especially content with the benefits. Inevitably the unemployed and the least educated are the most discontented. The Danes, the Dutch, the Finns and the Swedes are most supportive. The French and the Greeks are opposed, worrying in part about the adverse effect of globalization on social inequalities (column 2) and prices (column 3) and that the benefits are mostly to big firms rather than to the man on the street (column 4). In comparing the two years, it is apparent that these patterns are very stable over time. Perhaps the biggest change is that in 2008 the unemployed were not significantly different from the employed regarding their views on growth but by 2010 the unemployed were less supportive of the benefits of globalization on growth.

The Germans, who have long been hawkish on inflation, are especially opposed to the idea that globalization protects from price increases. The unemployed are much less likely than the employed to agree that globalization helps growth. The young, the educated, men and right-wingers are especially likely to report that globalization helps growth.

### 3.5 Policy responses

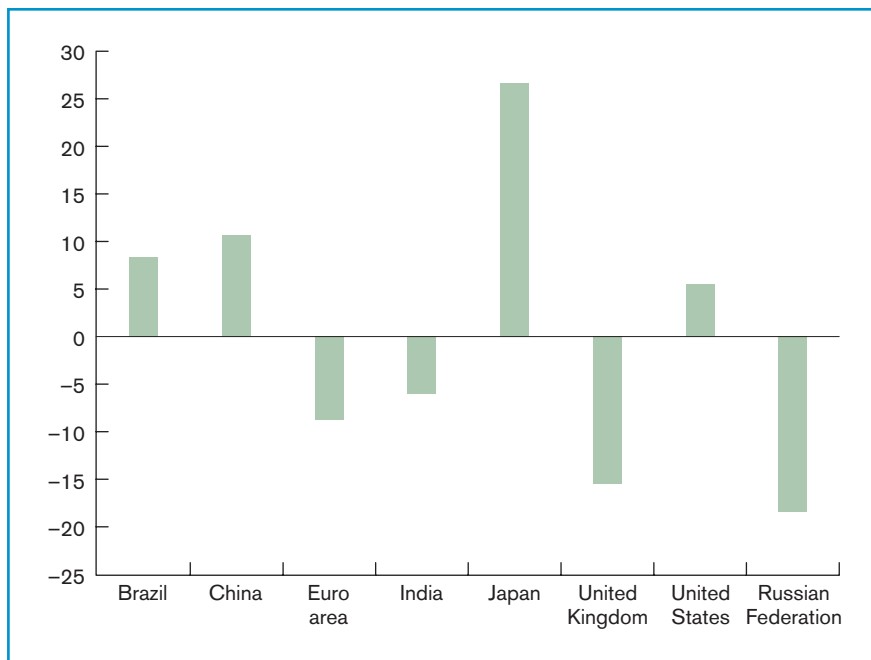
The first policy response to the financial crisis was to adjust monetary policy. Interest rates were reduced to historical lows and some countries tried to offset the reduction in credit caused by the difficulties in the banking sector by monetary expansion (quantitative easing).

Changes in market sentiment around issues such as the probability of sovereign debt default and growth prospects led to substantial currency realignments. The change in nominal exchange rates from 2008Q1 to 2010Q3 against the SDR is shown in figure 3.5. Major changes included the appreciation of the yen. Despite having the highest national debt to gross domestic product (GDP) ratio in the G20, Japan has a very high domestic savings rate. The result of the high degree of market confidence in the yen has led to a considerable loss in competitiveness and difficulties for the Japanese labour market. The United Kingdom, in contrast, experienced a sharp devaluation, substantially reducing its relative labour costs.

There was widespread unease that countries were attempting to manipulate their currencies to boost external demand. Member countries were encouraged to avoid competitive devaluations at the G20 summit meeting in October 2010, but it is not clear whether any agreement might hold in the medium to long term unless the major imbalances in the world economy are fixed.

The second response to the crisis came as a result of the operation of automatic stabilizers. As private demand fell, government spending on a variety of social insurance schemes increased. In the immediate aftermath of the crash, the most important of these was the impact on unemployment benefits. Recent OECD research has, however, claimed that unemployment benefit expenditure is acyclic, because the increased number of claims during a recession has been offset by a reduction in the value of benefits to unemployed persons. Thus, at the same time as claims have been rising, governments have been reducing the average value of claims and in consequence the net effect on spending has been small. Thus, automatic stabilizers are likely to differ in their effectiveness. In those countries with generous social protection systems, automatic stabilizers are likely to have a stronger effect in supporting demand, so lessening the need for discretionary measures.

**Figure 3.5** Change in nominal exchange rate against SDR, 2008Q1–2010Q3



Source: IMF World Economic Financial Statistics.

Such countries are typically found in Northern Europe. For example, the Norwegian unemployment benefit system provides prime age unemployed workers with 72 per cent of their previous income over a period of at least five years. This contrasts with the United States, which provides only 28 per cent for one year.

The third response was the introduction of discretionary measures to boost aggregate demand. The OECD (2011) notes that these measures made a smaller contribution to maintaining output and employment than automatic stabilizers did. The scale of the intervention varied widely both in their composition in respect of spending measures, ranging from the Republic of Korea with a cumulative package worth 6 per cent of GDP over three years, to France, Portugal and Switzerland with less than 0.5 per cent of GDP. New Zealand and the United Kingdom are notable for attempting the most rapid turnaround from fiscal expansion to contraction. The impact of these measures on the labour market depends on short-run employment multipliers, which vary from country to country and on the composition of the stimulus, with increased spending likely to have a more positive effect on employment than tax reductions (OECD, 2011).

We now turn to labour market responses, focusing largely on the advanced countries where the effects of the recession have been most acute. Labour market policy responses have comprised both passive and active measures. The former largely comprise income support schemes, while the latter comprise a wide range of measures schemes intended to keep or reintegrate individuals within the labour market. In recent years OECD strategy has emphasized the benefits of Active Labour Market Policies (ALMPs) relative to passive measures. Spending on labour market policies is relatively low in countries such as Canada, Japan, the Republic of Korea, the United Kingdom and the United States which largely rely on market solutions. On the other hand Ireland, the Netherlands and the Scandinavian countries spend much more both on active and passive labour market policies. Neither group of labour markets has performed uniformly better than the other over the last three years, and in both groups spending per unemployed person actually declined during the recession (OECD, 2011).

Many OECD countries have taken measures to cushion the effect of job loss by decreasing the generosity of unemployment benefits and/or social assistance. A number of countries have also extended support for those seeking jobs. Some have increased the conditionality of income support by requiring the unemployed to increase their job search activity.

Schemes to support short-time working and so avoid lay-offs have been introduced or reinstated in a number of countries. Finally, measures to reduce non-wage labour costs and so encourage employers to substitute labour for capital. However, the additional discretionary spend on these ALMPs in response to the recession has been very small. In the United Kingdom, it measured 0.1 per cent of GDP and in the United States 0.01 per cent of GDP. The highest spenders were Portugal and Poland, who committed more than 0.3 per cent of GDP to these programmes. The OECD (2011) used cross-country variation in short-time working to identify the effects of these policies. It finds that these schemes helped preserve permanent jobs during the downturn. They did not, however, help maintain temporary employment and their effect on the responsiveness of wages to the cycle is unclear.

Reductions in social security contributions were also used as a measure to stimulate employment. The OECD evidence suggests that these may be useful in stimulating short-run demand but in the long run are very expensive as mechanisms for increasing employment, with the long-run elasticity of employment with respect to labour costs being around 0.2 for OECD countries.

Clearly there has been a strong political pressure in many countries to “do something” about the sharp rise in unemployment. Due to their expansion in recent decades, ALMPs now form part of the standard policy toolkit. But the evidence for their

efficacy is somewhat mixed. Card et al. (2010) conduct a meta-analysis of 199 different ALMPs. They find that the proportion of evaluation studies of these programmes that yield positive results rises through time. Thus while only 39.1 per cent yield significantly positive outcomes in the short term, 45.4 per cent yield positive medium-term impacts and 52.9 per cent significantly positive long-term effects. Clearly there are large numbers of programmes that are not successful in improving labour market outcomes. The speed at which the labour market dipped gave governments little time to evaluate new policy interventions. Therefore it is no surprise that ALMPs formed a large part of the discretionary response to rising unemployment.

However, some countries have placed deficit reduction as their policy imperative. Some, like Greece and Ireland, have had little option due to sovereign debt crises. The United Kingdom government argues that it will have a sovereign debt crisis unless it adopts draconian fiscal cutbacks. As a result, the United Kingdom has abandoned some ALMPs that were introduced by the previous government to assist the young such as the educational maintenance allowance (EMA), which was intended to encourage children from poorer backgrounds to stay at school to age 18. It has also cut the Future Jobs Fund which supported 150,000 jobs for those aged under 25. University places have been cut back, despite the fact that university applications are up by around one-third between 2008 and 2011, and tuition fees have increased substantially. The early signs are not good. Between May 2010 when the coalition was formed and October 2010 which is the most recent data available, total employment in the United Kingdom fell by 66,000. Over the same period employment of youngsters under the age of 25 fell by 88,000. Youth unemployment has also jumped sharply. The outcome of the United Kingdom's experiment in significantly reducing ALMPs will be viewed with interest in other countries.

### 3.6 Conclusions

The timing of the shocks to trade and output caused by the financial crisis was closely aligned across countries, leading to the Great Synchronization. However, in terms of size and persistence of the recessionary impact, it is the developed world, and particularly European countries, that have been most adversely affected. Even within Europe there is no consistent pattern. Some countries, especially those hit hard by the decline in world trade, such as Germany and Sweden, have bounced back quickly. In other European countries, output is still significantly lower than its pre-recession level. There is a widespread concern in Europe and in the United States that the recovery will be too weak to generate many jobs and therefore high levels of unemployment will persist, as they did in the 1980s.

The scale of impacts on the labour market has differed widely. For example, the United Kingdom had twice as big a drop in output as the United States, but a much smaller increase in unemployment. As yet, there is not much evidence of a “discouraged worker effect”, though this may change as unemployment durations increase. Governments have responded to the crisis with monetary and fiscal policies, some of which may have helped maintain employment. Automatic stabilizers have also had an important role in maintaining demand and supporting the income of the unemployed. They have also introduced, or expanded, a wide range of ALMPs. The effectiveness of these measures undoubtedly varies widely, but the downturn in the labour market happened so rapidly that there was little time to conduct extensive evaluations. Rather, governments had to rely on evidence from pre-recession labour markets. However, the resources devoted to these measures has not increased as rapidly as has the level of unemployment, implying spend per unemployed person has fallen.

Some countries have decided to reduce spending on ALMPs, even though they are confronted by a large increase in unemployment. These encompass countries that have real sovereign debt difficulties, including Greece, Ireland, Portugal and Spain. Some countries are concerned that they may experience similar problems and have introduced fiscal austerity measures to reassure the capital markets. Labour market measures tend not to have a high political priority in times of fiscal stringency and thus are unlikely to be immune from budget cuts. For example, in the United Kingdom, spending on ALMPs has been reduced but government spending on health continues to increase.

We have added to the evidence on the impacts of the recession in a number of ways. Following our previous work showing how much those aged 16–24 have suffered in terms of greater unemployment and underemployment during the Great Recession, we have found that the young have been more likely to accept work at lower skill levels than they might had not jobs been in short supply. This may contribute to the scarring effects of joining the labour market while the economy is in recession.

We have found that the unemployed, the young and left-wingers wish governments would do more to create jobs. Those living in Mediterranean countries have become increasingly pessimistic about job prospects. The Greeks, Irish and Italians think the worst of the crisis is yet to come.

We have also discovered that in countries where output fell sharply and there was a significant deterioration in the labour market, happiness has declined and opposition to globalization increased, although Ireland is an exception. The unemployed have become increasingly unhappy, perhaps reflecting their increasing awareness of the difficulties of finding a job. A major concern going forward is that if the recovery is

jobless there will be growing demands for protectionism, especially in countries where inequalities are widening.

## Endnotes

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1. Verick (2010) documents that the number of discouraged workers has risen significantly in South Africa from 1.08 million in 2008Q2 to 1.63 million in 2009Q3.
2. Source: CIA World Factbook <https://www.cia.gov/library/publications/the-world-factbook/geos/uk.html>.
3. References to East/West Germany, Turkish Cyprus etc. reflect the terms used by the EU Eurobarometer, which was launched in 1973. The use of such terms does not constitute or imply an expression of opinion by the WTO Secretariat or the ILO concerning the status of any country or territory, or the delimitation of its frontiers, or sovereignty.

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Printed by WTO Secretariat, Switzerland, 2011.