

# La disoccupazione in Europa e le politiche

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*Mercato del lavoro, disoccupazione e riforme strutturali in Italia*

Giornata in onore di Fabio Neri

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11 novembre 2016

# Motivazione

- La **disoccupazione**, specie giovanile, richiede adeguate politiche **strutturali**.
- Ma, soprattutto in Italia, carenza di **domanda effettiva**.
- Stagnazione a causa di **politiche macroeconomiche errate**. Inoltre **UEM incompleta** e impreparata di fronte alle crisi recenti.
- *«Fin dall'atto costitutivo del M.E.C. del 1957, la migliore risposta da dare a questi fenomeni è stata individuata dall'U.E. nell'idea di garantire la creazione di un'area effettivamente comune, grazie alla libera circolazione dei fattori produttivi e dei prodotti (e quindi anche delle idee e delle tecnologie) [...]*
- *A seguito dell'europeizzazione della politica monetaria e della concorrenza, si ridurrà infatti progressivamente anche l'autonomia delle "politiche fiscali" nazionali [...] e ci sarà di fatto un passaggio a scelte che rimangono formalmente nazionali ma che tendono ad un'uniformità europea.»*

**Fabio Neri (1980)**

«Il sistema Italia di fronte alle cause delle migrazioni»,  
Economia Italiana, n. 2/3, 2000 (p. 410).

# Unemployment rates after the crisis

**Table 4 - Unemployment rates**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	UR % change*	UR-gap*
Germany	8.5	7.4	7.6	7.0	5.8	5.4	5.2	5.0	4.6	<b>-37.8</b>	<b>-2.8</b>
Ireland	4.7	6.4	12.0	13.9	14.7	14.7	13.1	11.3	9.4	<b>46.9</b>	<b>3.0</b>
Greece	8.4	7.8	9.6	12.7	17.9	24.5	27.5	26.5	24.9	<b>219.2</b>	<b>17.1</b>
Spain	8.2	11.3	17.9	19.9	21.4	24.8	26.1	24.5	22.1	<b>169.5</b>	<b>13.9</b>
France	8.0	7.4	9.1	9.3	9.2	9.8	10.3	10.3	10.4	<b>40.5</b>	<b>3.0</b>
Italy	6.1	6.7	7.8	8.4	8.4	10.7	12.1	12.7	11.9	<b>95.1</b>	<b>5.8</b>
Portugal	9.1	8.8	10.7	12.0	12.9	15.8	16.4	14.1	12.6	<b>43.2</b>	<b>3.8</b>
Eurozone	<b>7.5</b>	7.6	9.6	10.2	10.2	11.4	12.0	11.6	<b>10.9</b>	<b>45.3</b>	<b>3.4</b>
U.K.	5.3	5.6	7.6	7.8	8.1	7.9	7.6	6.1	5.3	<b>0.0</b>	<b>0.0</b>
E.U.	7.2	7.0	9.0	9.6	9.7	10.5	10.9	10.2	9.4	<b>34.3</b>	<b>2.4</b>

Source: European Commission (European Economic Forecast, Spring 2016).

Note: UR % change\* =  $100 \frac{UR_{2015} - \min UR(2007, 2008)}{\min UR(2007, 2008)}$ ; UR-gap\*\* =  $UR_{2015} - \min UR(2007, 2008)$ .

- **Unemployment rate:** still one half higher (in 2015) vs. pre-crisis level in the Eurozone (in some countries it is still double).
- The unemployment over time became a **structural phenomenon**, but it was – and still is – mainly **cyclical (lack of aggregate demand)**.



# EMU: the original weaknesses

- **EMU** is not an **Optimum Currency Area (OCA)**
- The degree of **symmetry** was – and still is – **low** in the Eurozone:
  - risk of asymmetric shocks because of **institutional and structural differences** (growth capabilities, productivity dynamics, competitiveness, current account balances, etc.);
  - asymmetric shocks can have large effects because of **low flexibility** in prices and wages and small **labor mobility**;
  - but even more due to the **limited EU budget** (just 1% of EU GDP): lack of fiscal capacity is the greatest failure of EMU.
- **Cross-country differences:**
  1. In long-run **economic growth** leading to economic **convergence/divergence**
  2. In short-run **responses to the business cycle**
    - See E. Marelli and M. Signorelli, Europe and the Euro: Integration, Crisis and Policies, Palgrave MacMillan, London and New York, 2016.
    - E. Marelli and M. Signorelli, “Convergence, crisis and unemployment in Europe: the need for innovative policies”, Croatian Economic Survey, v. 17, 2, 2015, pp. 5-56.
- **Macroeconomic imbalances** (competitiveness, trade and BP balance).

# The crises and the inadequate policy response

## ➤ The **dual crisis**:

- Global **financial crisis** ⇒ **Great Recession** ⇒ **policy response**.
- The **sovereign debt crisis**.

## ➤ **Severity of the crisis in the Eurozone, especially in Italy**

- Among 12 advanced economies that in 2008 began a systemic crisis, only two (US and Germany) in 2013 recovered the pre-crisis levels.
- Out of 100 crisis episodes in 150 years, the Italian crisis less severe only of the Greek one (**severity = depth + number of years to return to pre-crisis levels**)
  - See *Reinhart and Rogoff*, “Recovery from Financial Crises: Evidence from 100 Episodes”, *American Economic Review, Papers and Proceedings*, 2014.

## ➤ **Stagnation and its causes:**

- **Double recession, weak recovery**, and (since 2014) because of **deflation**.
- There is a problem of **aggregate demand**.

## ➤ **Policy response: too little too late**

- **Uncertain, delayed and inadequate**.
- **Lack of crisis-management instruments** (hesitant introduction of “save-States” funds: EFSF, ESM, etc.) and appropriate **macroeconomic policies**.
- **Huge unemployment and social disparities** led to the success of **populist movements** and **anti-euro or anti-EU sentiment** (with political consequences: Brexit, etc.)
  - **But also outside Europe!** (globalization, Trump, etc.)

# Double recession and slow recovery

**Table 1 - Real GDP growth rates**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016*
Germany	3.3	1.1	-5.6	4.1	3.6	0.4	0.3	1.6	1.7	1.6
France	2.4	0.2	-2.9	2.0	2.1	0.2	0.7	0.2	1.2	1.3
United Kingdom	2.6	-0.5	-4.2	1.5	2.0	1.2	2.2	2.9	2.3	1.8
Italy	1.5	-1.1	-5.5	1.7	0.6	-2.8	-1.7	-0.3	0.8	1.1
Spain	3.8	1.1	-3.6	0.0	-1.0	-2.6	-1.7	1.4	3.2	2.6
Greece	3.3	-0.3	-4.3	-5.5	-9.1	-7.3	-3.2	0.7	-0.2	-0.3
Ireland	5.5	-2.2	-5.6	0.4	2.6	0.2	1.4	5.2	7.8	4.9
Portugal	2.5	0.2	-3.0	1.9	-1.8	-4.0	-1.1	0.9	1.5	1.5
Eurozone	3.1	0.5	-4.5	2.0	1.6	-0.9	-0.3	0.9	1.7	1.6
European Union	3.1	0.5	-4.4	2.1	1.7	-0.5	0.2	1.4	2.0	1.8
United States	1.8	-0.3	-2.8	2.5	1.6	2.2	1.5	2.4	2.4	2.3
Japan	2.2	-1.0	-5.5	4.7	-0.5	1.7	1.4	0.0	0.5	0.8

Source: Eurostat data (2007-2015) and European Commission (European Economic Forecast, Spring 2016).



# Monetary and Fiscal Policy

## ➤ Monetary policy:

- Progressively accommodative, but **6 years** to reach **zero-rates** (0,05% in November 2014, zero now).
- Unconventional operations: SMP, LTRO, TLTRO, OMT, QE.
- Monetary policy has **been adequate to “save” the euro (OMT plan after 2012 Draghi’s statement: *we shall save euro whatever it takes*) but not to support economic growth** (or to raise inflation).
- More **liquidity** created by the ECB (also through the **QE**) does not necessarily mean more **credit** to the real economy.
- Now President Draghi is adopting assorted instruments (zero rate on MROs; negative rate on overnight deposits; QE extended in size, time and typology of bonds; TLTRO-2 with negative rates). But **monetary policy is not enough**.

## ➤ Fiscal policy:

- **Fiscal consolidation** for assisted countries (inspected by the Troika) and in general (new Stability and Growth Pact, Fiscal Compact, etc.).
- **“Self-defeating” austerity:**  $\downarrow Y \Rightarrow \uparrow \text{Debt/GDP}$  (or not decreasing).

# GDP and demand components

**Table 2 - GDP and aggregate demand during recession and recovery (index 2005=100)**

	Germany	France	U.K.	Italy	Spain	Greece	Ireland	Portugal	Eurozone	EU
<b>GDP</b>										
<i>max.</i>	109,2	106	106,7	104,2	110	110,1	114,6	105,2	107,8	108,1
<i>min.</i>	101,6	101,8	100,2	94	99,8	80	101	95,1	101,7	102
2015Q3	115	108,5	113,2	94,9	104,9	80,3	125,7	98,4	107,4	109,8
qtr. recess.	4	4	5	27	20	26	8	19	5	5
<b>Export</b>										
<i>max.</i>	127,9	112,6	114,5	116,1	115,8	126,5	119,2	125,5	119,8	120,5
<i>min.</i>	104,6	96,5	100,7	88,5	97,7	93,8	113,8	102,7	100,8	101,9
2015Q3	153,4	127,8	124,9	117,9	140,3	105	172,1	151,7	140,1	140,3
<b>Consumption</b>										
<i>max.</i>	102,9	103,8	106,8	102,8	108,9	110,9	120,6	105,7	n.a.	n.a.
<i>min.</i>	101,8	106,7	99,9	94,2	93,4	80,8	102,3	93,5	n.a.	n.a.
2015Q3	108,9	116,6	111,1	95,9	98,2	82,1	110,1	99,6	n.a.	n.a.
<b>Investment</b>										
<i>max.</i>	115,8	113	111,8	106,1	113	154,8	117,3	105,3	112,6	113,9
<i>min.</i>	102	99,5	84,6	72,5	71	42,5	55,6	64,2	92,2	94,5
2015Q3	119,5	102,8	109,9	73,1	79,6	42,5	103,4	69,1	96,5	101,2



# The collapse of demand and investment

## ➤ Internal demand

- The problem concerns internal demand. In fact, until 2014, a good **export** dynamics prevented a greater fall in demand
  - but in 2014-15 (and also this year) international trade is growing slowly.
- **Consumption** should be sustained, also allowing higher **wage increases** (contrary to the «**internal devaluation**» strategy of the adjustment period).

## ➤ Investment is even more important (**demand** and **supply** side effects):

- In 2015, **gap of 70%** (vs. pre-crisis levels) in Greece and Cyprus, **30%** in Italy, Spain and Portugal, **10%** in France (only Germany returned to pre-crisis levels).
  - In **constructions**, much bigger falls (90% in Greece, 70% in Ireland, 50% in Spain)
  - In some countries, **weak recovery** of investment since 2013. But its dynamics is halted because of the still high level of **private debt** (financial resources are used to reduce the debt of firms and families).
    - See **Bundesbank**, «*Zur Investitionstätigkeit im Euro-Raum*», January 2016.
- ## ➤ Public investment has been almost cancelled
- In 2013, almost zero; in 2014-15 net public investment negative.
- ## ➤ Large reductions also in **private investment**
- Not only in **equipment**, but also in **R&D**.

# Recession and recovery: an empirical analysis

## ➤ Macrovariables:

- **GDP** and 4 components of aggregate demand (**Y, X, C, G, I**).
- Index number at constant prices (adjusted for seasonality and working days).

## ➤ 10 observations:

- EU and euro area (EA)
- 4 large countries (Germany DE, France FR, Italy IT and UK)
- 4 «Pigs» (Spain ES, Portugal PT, Ireland IE, Greece EL).

## ➤ Comparisons with EU average:

- EU as a benchmark.

## ➤ Two periods:

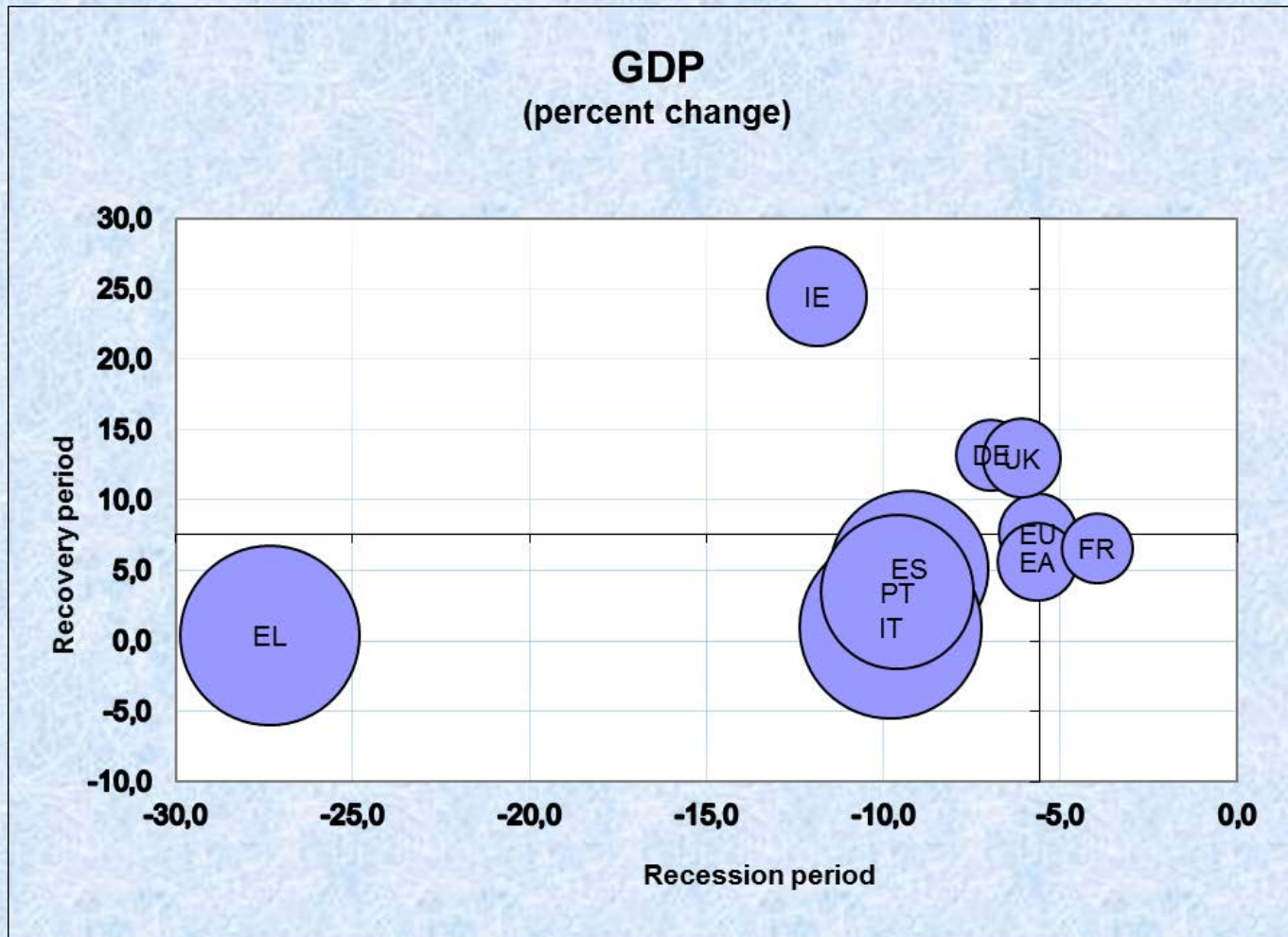
- **Recession**: from max. value preceding the crisis (2008) to subsequent min.
- **Recovery**: from min. to last available data (2015Q3).

### Gross domestic product at market prices (2005=100)

*(adj, seasonally and by working days, but Ireland)*

	max.	min.	2015Q3	date max.	date min.	recession period (qtrs.)
EU	108,1	102	109,8	2008Q1	2009Q2	5
EA	107,8	101,7	107,4	2008Q1	2009Q2	5
DE	109,2	101,6	115	2008Q1	2009Q1	4
IE	114,6	101	125,7	2007Q4	2009Q4	8
EL	110,1	80	80,3	2007Q2	2013Q4	26
ES	110	99,8	104,9	2008Q2	2013Q2	20
FR	106	101,8	108,5	2008Q1	2009Q1	4
IT	104,2	94	94,9	2008Q1	2014Q4	27
PT	105,2	95,1	98,4	2008Q1	2012Q4	19
UK	106,7	100,2	113,2	2008Q1	2009Q2	5

# GDP: big fall in the “PIGS” and tiny recovery



Note: EU benchmark (where the axes cross).

Size of the bubbles: proportional to the number of recession terms.

Source: *Elaborations on Eurostat data.*



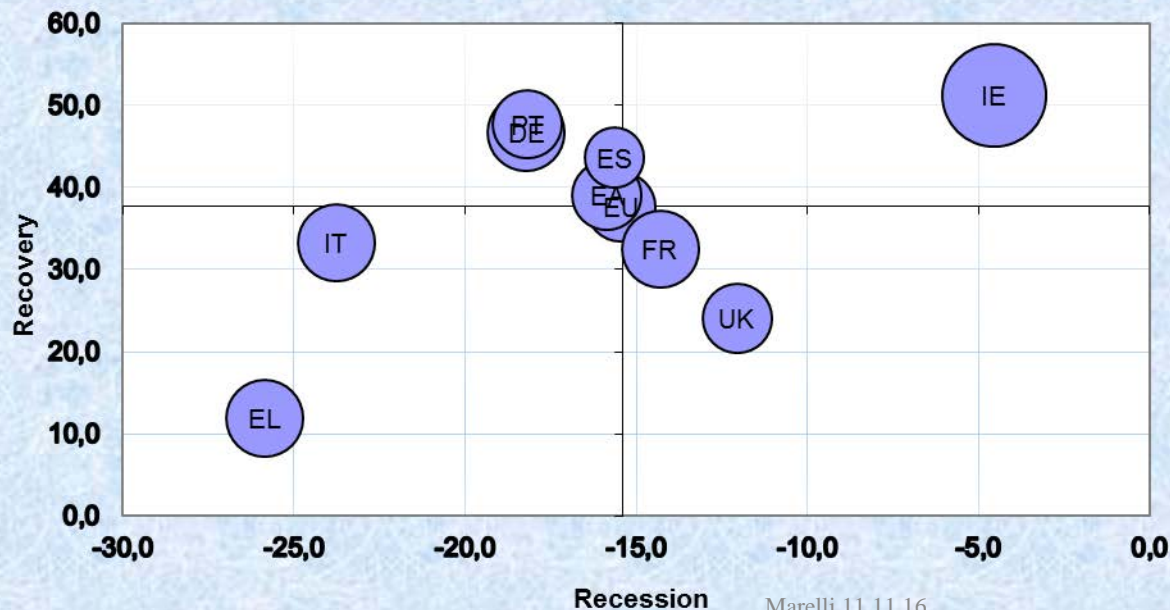
**Export:**  
short and dim  
reduction, then  
sound recovery

### Exports of goods and services (2005=100)

(adj, seasonally and by working days, but Ireland)

	max.	min.	2015Q3	date max.	date min.
EU	120,5	101,9	140,3	2008Q2	2009Q2
EA	119,8	100,8	140,1	2008Q2	2009Q2
DE	127,9	104,6	153,4	2008Q1	2009Q2
IE	119,2	113,8	172,1	2007Q2	2009Q3
EL	126,5	93,8	105	2008Q3	2009Q4
ES	115,8	97,7	140,3	2008Q2	2009Q1
FR	112,6	96,5	127,8	2008Q1	2009Q2
IT	116,1	88,5	117,9	2008Q1	2009Q2
PT	125,5	102,7	151,7	2008Q1	2009Q1
UK	114,5	100,7	124,9	2008Q2	2009Q2

### Exports (goods and services) (percent change)



Note: EU benchmark  
(where the axes cross).  
Size of the bubbles:  
proportional to the number  
of contraction terms.  
*Source: Elaborations on  
Eurostat data.*

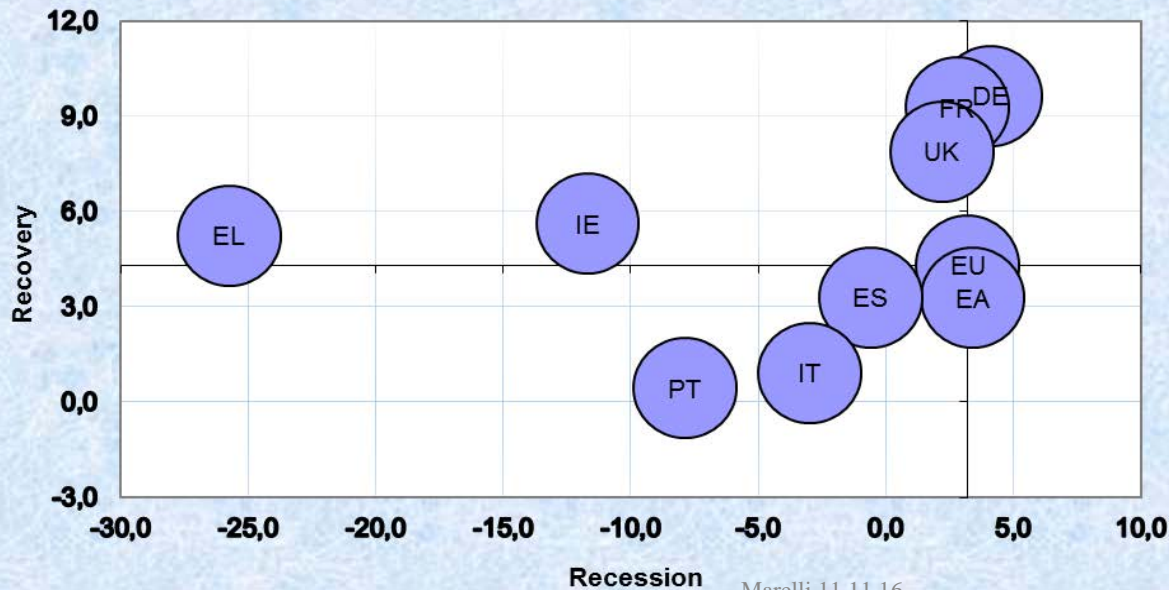
# Public expenditure: reduction in the recession period only in the «Piigs»

## Final consumption expenditure of general government (2005=100)

(adj, seasonally and by working days, but Ireland)

	2008Q1	min. or 2009Q2	2015Q3	date min.
EU	105,4	108,8	113,5	
EA	105,8	109,4	113	
DE	104,6	108,9	119,4	
IE	112,9	99,7	105,3	2013Q1
EL	110,3	81,9	86,2	2014Q4
ES	115,9	115,2	119	2013Q2
FR	103,8	106,7	116,6	
IT	100,2	97,2	98,1	2014Q2
PT	100,3	92,4	92,8	2013Q3
UK	104,1	106,4	114,8	

## Government consumption (percent change)



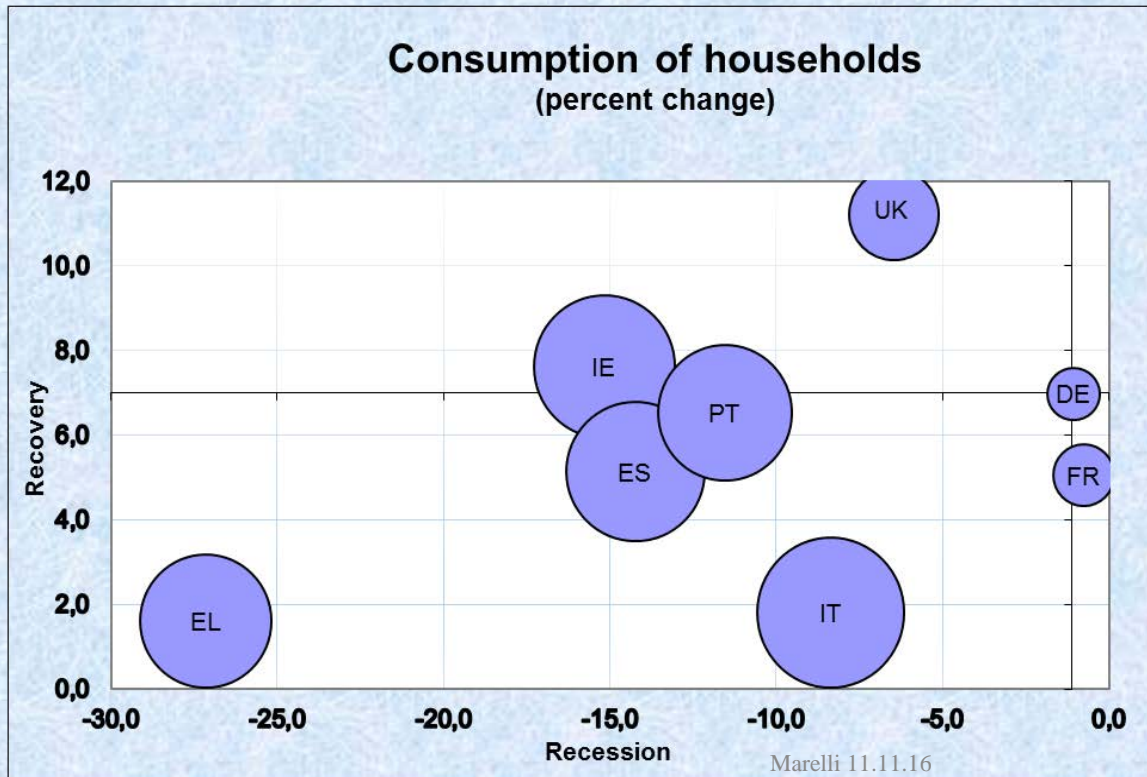
Note: For some countries, instead of min. (because of constantly increasing values), 2009Q2. The max. is 2015Q3.  
Source: Elaborations on Eurostat data.

## Consumption of households: large fall and faint recovery

### Final consumption expenditure of households (2005=100)

(adj, seasonally and by working days, but Ireland)

	max.	min.	2015Q3	date max.	date min.
EU	:		:		
EA	:		:		
DE	102,9	101,8	108,9	2009Q2	2010Q1
IE	120,6	102,3	110,1	2007Q4	2013Q2
EL	110,9	80,8	82,1	2008Q2	2013Q1
ES	108,9	93,4	98,2	2008Q1	2013Q2
FR	105,7	104,9	110,2	2007Q4	2008Q4
IT	102,8	94,2	95,9	2007Q2	2013Q2
PT	105,7	93,5	99,6	2008Q1	2013Q1
UK	106,8	99,9	111,1	2007Q4	2010Q1



Note: EU and EA data are missing, so DE is benchmark (where the axes cross).  
Size of the bubbles: proportional to the number of contraction terms.  
*Source: Elaborations on Eurostat data.*



Fixed investment:  
collapse (almost  
everywhere) and pre-  
crisis levels far away

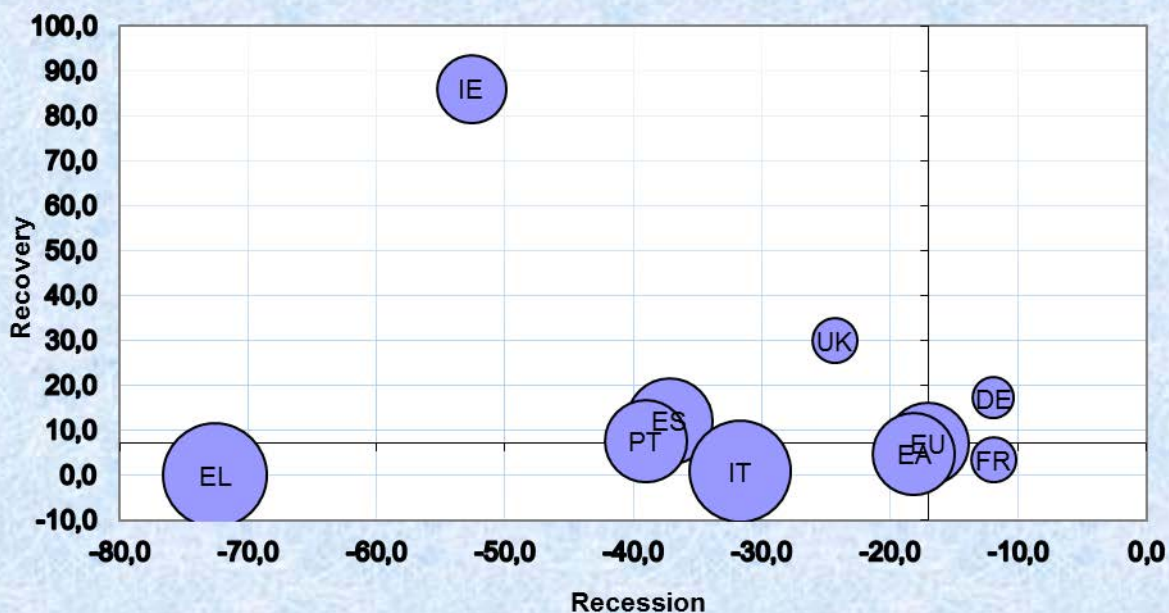
-30% ➔

### Gross fixed capital formation (2005=100)

(adj, seasonally and by working days, but Ireland)

	max.	min.	2015Q3	date max.	date min.
EU	113,9	94,5	101,2	2008Q1	2013Q1
EA	112,6	92,2	96,5	2008Q1	2013Q1
DE	115,8	102	119,5	2008Q1	2009Q2
IE	117,3	55,6	103,4	2007Q1	2010Q3
EL	154,8	42,5	42,5	2007Q3	2015Q3
ES	113	71	79,6	2007Q4	2013Q2
FR	113	99,5	102,8	2008Q1	2009Q3
IT	106,1	72,5	73,1	2007Q1	2014Q3
PT	105,3	64,2	69,1	2008Q1	2013Q1
UK	111,8	84,6	109,9	2007Q4	2009Q2

### Gross fixed capital formation (percent change)



Note: EU benchmark  
(where the axes cross).  
Size of the bubbles:  
proportional to the number  
of contraction terms.  
*Source: Elaborations on  
Eurostat data.*

# The impact on potential growth and output gaps

Potential growth (as percent change on previous year);

Output gap (in parenthesis, as % of potential GDP)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Ireland</b>	3.6 (5.2)	1.6 (1.4)	0.0 (-4.3)	0.2 (-4.1)	0.7 (-2.3)	1.3 (-3.4)	1.9 (-3.9)	3.1 (-1.9)	4.0 (1.6)	4.8 (1.7)	4.8 (0.6)
<b>Greece</b>	1.7 (5.6)	0.5 (4.7)	-0.6 (0.9)	-1.7 (-3.0)	-2.8 (-9.3)	-3.5 (-12.9)	-3.4 <b>(-12.7)</b>	-2.9 (-9.5)	-2.1 (-7.7)	-1.9 (-6.3)	-1.4 (-2.4)
<b>Spain</b>	3.7 (3.0)	2.8 (1.3)	1.0 (-3.3)	1.0 (-4.2)	0.4 (-5.5)	-0.6 (-7.5)	-0.8 <b>(-8.3)</b>	-0.3 (-6.7)	0.0 (-3.7)	0.4 (-1.5)	0.7 (0.3)
<b>France</b>	1.7 (2.9)	1.5 (1.6)	0.9 (-2.3)	1.1 (-1.4)	1.1 (-0.4)	0.9 (-1.2)	0.9 (-1.4)	0.9 (-2.1)	0.8 (-1.8)	1.0 <b>(-1.5)</b>	1.1 (-0.9)
<b>Italy</b>	0.9 (2.4)	0.2 (1.1)	-0.4 (-4.1)	-0.4 (-2.1)	0.1 (-1.6)	-1.1 (-3.4)	-0.8 <b>(-4.3)</b>	-0.7 (-3.9)	-0.3 (-2.9)	-0.2 (-1.6)	0.1 (-0.4)
<b>Portugal</b>	0.9 (0.9)	0.7 (0.4)	0.0 (-2.6)	0.1 (-0.8)	-0.5 (-2.2)	-1.2 (-5.0)	-1.0 <b>(-5.1)</b>	-0.5 (-3.8)	-0.1 (-2.3)	0.3 (-1.1)	0.6 (0.0)
<b>U.K.</b>	1.9 (2.3)	1.5 (0.3)	0.8 (-4.7)	1.0 (-4.2)	1.0 (-3.2)	1.0 (-3.1)	1.1 (-2.0)	1.3 (-0.6)	1.5 (0.2)	1.6 (0.3)	1.7 (0.5)

Source: EC, Spring 2016.

- Moreover, **natural unemployment over-estimated; output gap under-estimated**. Then:
  - 1) Over-estimation of **structural deficit**, requiring **more consolidation** (than necessary);
  - 2) Too little emphasis on need to support **aggregate demand** (vs. structural policies).

# The impact on unemployment (especially YUR)

**Table 4 – Youth unemployment rates (15-24)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Germany	11.9	10.6	11.2	9.8	8.5	8.0	7.8	7.7	7.2
France	18.8	18.3	22.9	22.5	21.9	23.6	24.0	24.2	24.7
United Kingdom	14.3	15.0	19.1	19.9	21.3	21.2	20.7	16.9	14.6
Italy	20.4	21.2	25.3	27.9	29.2	35.3	40.0	42.7	40.3
Spain	18.1	24.5	37.7	41.5	46.2	52.9	55.5	53.2	48.3
Greece	22.7	21.9	25.7	33.0	44.7	55.3	58.3	52.4	49.8
Ireland	9.1	13.3	24.0	27.6	29.1	30.4	26.8	23.9	20.9
Portugal	16.7	16.7	20.3	22.8	30.3	37.9	38.1	34.8	32.0
Eurozone	15.0	15.5	20.0	20.9	21.2	23.4	24.2	23.8	22.4
EU	15.5	15.6	19.9	21.0	21.7	23.2	23.6	22.2	20.4

- 1) YUR are more sensitive (compared to adult UR) to the **economic cycle** and also to **(financial) crises**;
- 2) Huge increase of **NEET indicator**; 2013 (and 2015) values: Italy 22.2% (21.4%), Greece 20.4% (17.2%), Spain 18.6% (15.6%).



# Conclusions: (1) the needed reforms in the EU's governance and functioning

- In the **long-run, to preserve the euro** (and even more the aims and spirit of the process of integration involving several generations), some **reforms** are needed
  - Otherwise, in a globalized world, a fragmented Europe would be fading.
- Overcome the complete **asymmetry between monetary policy** (centralized) and **fiscal policies**
  - Go over the “**incomplete**” **monetary union**, to guarantee euro's survival. Favour **real convergence** among States.
  - The **EU budget** (1% of GDP and decreasing over time) should be increased: funds to support the **convergence** of real economies (an effective “*Europe 2020*” plan requires an increased budget).
- **New policies:**
  - **Principle: risk-sharing** together with **risk-reduction** (an authentic **solidarity** among the Eurozone countries should go hand in hand with stronger supra-national **controls** or more integration).
  - **Instruments:** shock absorption mechanisms and innovative crisis management instruments; **Eurobonds**, etc.
- Reforms in the **EU Governance**
  - Different proposals: **Fiscal Union, Eurozone budget, Finance Minister**, etc.: but with adequate resources!.
  - Documents of “**4 Presidents**” (2012) and “**5 Presidents**” (2015) are unsatisfactory.
  - The **feasibility** of the reforms depend on the urgent **change of macro-economic policies**, on the improvement of the **economic and social situation** (thus contrasting the anti-EU sentiment)

## (2) Necessary changes in current macroeconomic policies

### ➤ Policies for economic growth:

- On the supply side, **structural reforms** are important only in the **long run**. In any case, they should be integrated by active **industrial policies**.
- In the short-run urgent need to support **aggregate demand**, in particular investment.

### ➤ Three levels of intervention to relaunch investment:

1. **EU: investment plan**, with better use of **structural funds** for investment (transport, communication, Digital Agenda), R&D, human capital (i.e. an effective **Europe 2020** plan).
2. **National**: concerning **public investment**, more space is needed in national budgets, through a **“golden rule”** (in future) or a greater **flexibility in the SGP** rules (and changing the composition of public expenditure).
3. As for **private investments**, ensure that **liquidity**, created by the ECB, really **flows to production** and to the real economy.

### ➤ Are innovative instruments of **monetary policy** enough?

- The impact of the new **QE** and **TLTRO-2** has not been fully satisfactory. **Helicopter money**? Political, legal and technical problems.
- It is more important is to solve the problems of the banking systems (**NPLs**, etc.), complete the **Banking Union** (with the European Deposit Insurance Scheme), react to Basel IV hypotheses (**sovereign bonds in the banks’ assets**), create **new financial intermediaries** (different from universal banks), etc.

### ➤ An **aggregate demand shock** is needed, e.g. a large **“Eurozone plan of public investment”**.

- The **“Juncker plan”** is too slow in the implementation and too limited in available resources.
- There should be a greater involvement of the **European Investment Bank** (its bonds might be issued on a large scale and purchased by the ECB).

### ➤ **End this Depression now!**

THANK YOU

FOR YOUR ATTENTION