ROMA TRE
UNIVERSITÀ DEGLI STUDI

**COLLANA DEL**
**DIPARTIMENTO DI ECONOMIA**

# THE IMPACT OF THE ECONOMIC CRISIS ON THE EU LABOUR MARKET: A COMPARATIVE PERSPECTIVE

Pasquale Tridico

**ISSN 2279-6916** Working papers
(Dipartimento di Economia Università degli studi Roma Tre) (online)

Working Paper n° 153, 2012

I Working Papers del Dipartimento di Economia svolgono la funzione di divulgare tempestivamente, in forma definitiva o provvisoria, i risultati di ricerche scientifiche originali. La loro pubblicazione è soggetta all'approvazione del Comitato Scientifico.

Per ciascuna pubblicazione vengono soddisfatti gli obblighi previsti dall'art. l del D.L.L. 31.8.1945, n. 660 e successive modifiche.

Copie della presente pubblicazione possono essere richieste alla Redazione.

esemplare fuori commercio
ai sensi della legge 14 aprile 2004 n.106

**REDAZIONE:**
Dipartimento di Economia
Università degli Studi Roma Tre
Via Silvio D'Amico, 77 - 00145 Roma
Tel. 0039-06-57335655 fax 0039-06-57335771
E-mail: dip_eco@uniroma3.it

ROMA TRE
UNIVERSITÀ DEGLI STUDI

**DIPARTIMENTO DI ECONOMIA**

# THE IMPACT OF THE ECONOMIC CRISIS ON THE EU LABOUR MARKET: A COMPARATIVE PERSPECTIVE

Pasquale Tridico

# The impact of the economic crisis on the EU labour market: a comparative perspective

*Pasquale Tridico*[1]

*University Roma Tre*

Tridico@uniroma3.it

**Abstract**

The objective of this paper is to explore why some countries perform better than others in managing the current economic crisis, which started in 2007 in the US financial sector. I will elaborate on this question using the Crisis Management Index, taking into consideration GDP and labour market performance among European Union member states. My findings conclude that countries which performed better during the economic crisis of 2007-2011 are countries which do not have a flexible labour market and have managed to keep stable employment levels. These countries combine a very good mix of economic policies and social institutions oriented to stabilize the level of consumption and the aggregate demand. Coordination mechanisms, higher level of financial regulation and monitoring are also important features of these economies. Clearly, this group of countries identifies better, in the EU, a coordinated market economy model.

**Key words: Financial crisis; Labour market; EU Crisis management; Comparative studies**

**JEL: G100; J100; H120; O570;**

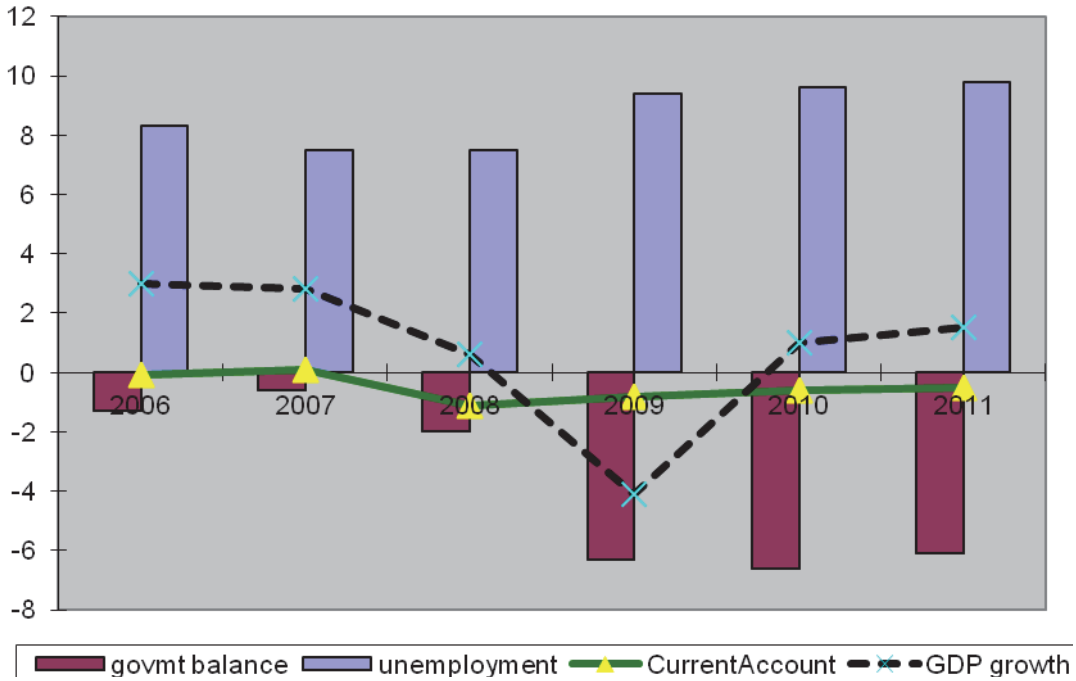
## 1. The economic crisis in the European Union

The economic crisis which started in the United States financial sector in 2007 is today a global crisis which involves almost all sectors and labour markets (Posner, 2009; Stiglitz, 2010; OECD, 2010). Mass unemployment emerged in the US and in Europe (Krugman, 2008; Wolff, 2010). After a recession of the GDP in the European Union (EU) with an average of -4.2% in 2009, many EU Members States have yet to recover. GDP is stagnating yet the unemployment level is not declining (Fitoussi and Stiglitz 2009; Barba and Pivetti, 2009). Besides that, other problems such as low level of consumption, bank liquidity problems, low levels of private investment, lack of trust and negative expectations in the financial market and between banks and investors, as well as high

[1] The paper was written during my Visiting Research (STSM) at the University of Paris 8 (fall 2011), with the financial contribution of the COST action IS0902. The author is very grateful to Prof. Jeffers Esther, Charles Dannreuther, Oliver Kessler, Marco Raberto and to all the COST network scholars for their support and comments. The author is very grateful also to Marina Capparucci, Antonella Mennella and to Anna Giunta for the helpful comments to the Working paper. The usual disclaimer applies.

public deficits and debts. Despite the varieties of problems, synthesized by the figure below, national governments in advanced economies and in particular in the EU seem to focus, as I will argue below, mostly on a single problem, sovereign debt (Fitoussi and Saraceno, 2010).

Figure 1 - EU economy, an overview 2006-11




Source: Eurostat

The Greek crisis, which emerged in May 2010, showed how EU member states are much more concerned with national issues than EU integration, in particular during times of crisis (Frangakis, 2010).[2] The lack of coordination and financial solidarity emerged dramatically, and the issue of European imbalances is wrongly regarded as a problem of laziness against effort, virtuous balance against bad discipline, Mediterranean corruption against Northern European integrity (Cesaratto 2011). This does not help to look at the real problem behind the deficit-surplus issue within the EU which is having a single market. A single market (with many imperfections) and a common currency within a non-Optimal Currency Area (OCA) at the very least needs labour coordination, budget centralisation, and fiscal policy harmonisation (Wray and Randall, 2010). In addition, the strong "internal devaluation" (i.e., wage moderation) that Germany carried out in the past ten years, along with other mercantilist policies and the cooperation of the European Central Bank (ECB) monetary policies, allowed German exports to increase dramatically (Cesaratto, 2011). Such policies were not really in the spirit of EU integration and solidarity. Consequentially the EU

[2] Media pointed out how an election in the small Lander of Lower Saxon in Germany during the Greek crisis in the Spring 2010 was enough to keep German chancellor Angela Merkel far away from an idea of integration and financial solidarity, which populists in Germany objected.

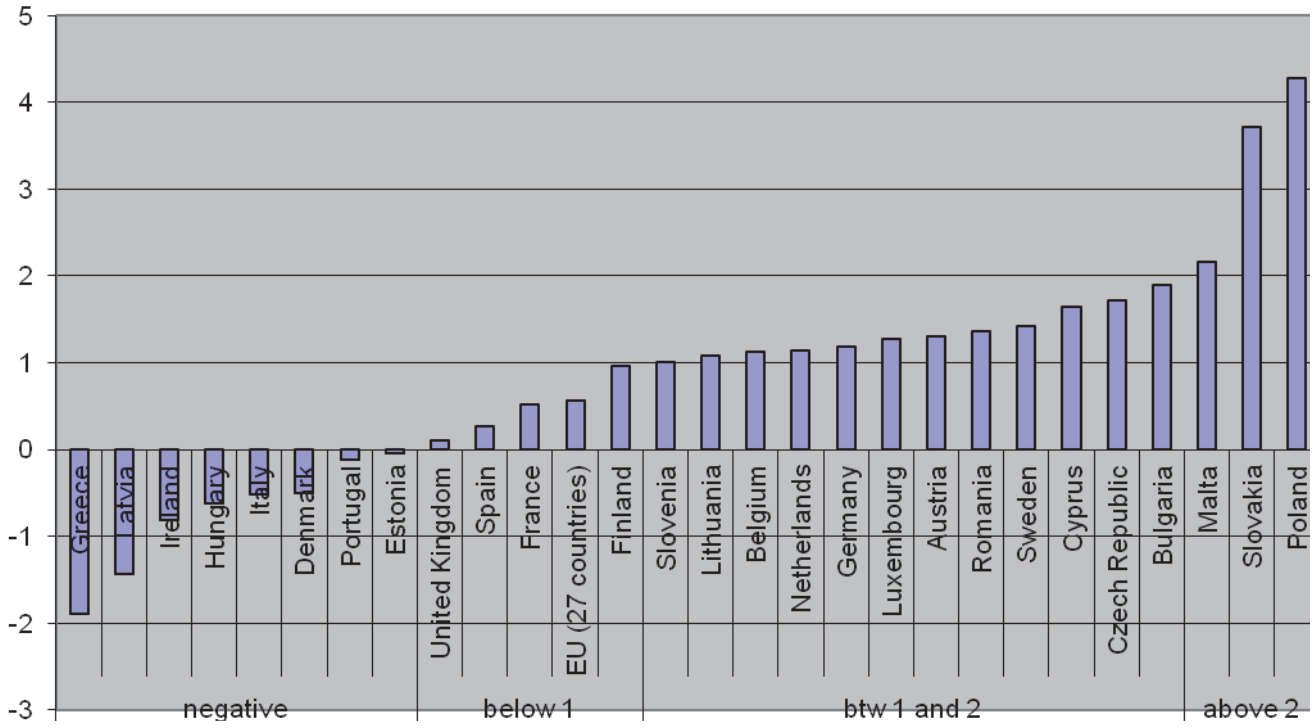
situation today looks fragmented. On one side, Greece and the other Mediterranean countries suffer from the efficiency of Northern European firms. Free competition and single market affected the domestic markets in those countries, which were lagging behind in terms of competitiveness and technology at the creation of the Eurozone and the single market. Moreover, Maastricht criteria and stability pacts appreciated the euro and contributed to the declining foreign competitiveness of Southern European economies. On another side, the poorer economies in the EU cannot use monetary policies and exchange rate manipulation to gain competitiveness. They are unable to use state aids and firm subsides, nor fiscal policies which are constrained by Maastricht criteria. Hence, markets have to regulate imbalances despite the fact that labour mobility, single markets, and budget centralization are strongly limited in the EU. It follows that surplus and deficit are the two malaises of the same problem: an imperfect single market and an imperfect currency union. In the EU, Germany's surplus could not exist without Greece's deficit (and similar). Greece should accept, within the EU rules, the German market super-competition, which is historically rooted and state supported, despite the fact that they cannot use policies to enhance their firms' competitive advantage. Unless these imbalances are covered by a central EU plan, it would not be convenient for Greece to accept European monetary union constraints.

Besides the problem of imbalance in the current account and of the sovereign debt sustainability, the EU is strongly affected by economic problems such as mass unemployment and slow GDP growth which make imbalances and debt more severe issues.

Among the EU member states, the situation is very variegated. As for the GDP performance, we can divide the 27 MS in 4 groups:

1) Group One - the worst one - made up by countries which have experienced a deep recession with a cumulative negative GDP performance during the period from 2007 to 2011 (Greece, Latvia, Ireland, Italy, Denmark, Portugal and Estonia ).
2) Group Two: countries whose GDP is just above 1% between 2007 and 2011 (UK, Spain, France and Finland. This is also the average situation in the EU27).
3) Group Three: Countries which had a cumulative GDP growth for the period between 2007 and 2011 between 1% and 2% (meaning, very modest growth per year, on average, between 0,2% and 0,5%).
4) Group 4: Countries which relatively, had a stronger performance in terms of GDP growth, with a cumulative growth rate between 2.2% (Malta) and 4.3 (Poland, the best performer, which contrary to all the other member states, did not experience a single year of recession during the period between 2007 and 2011).

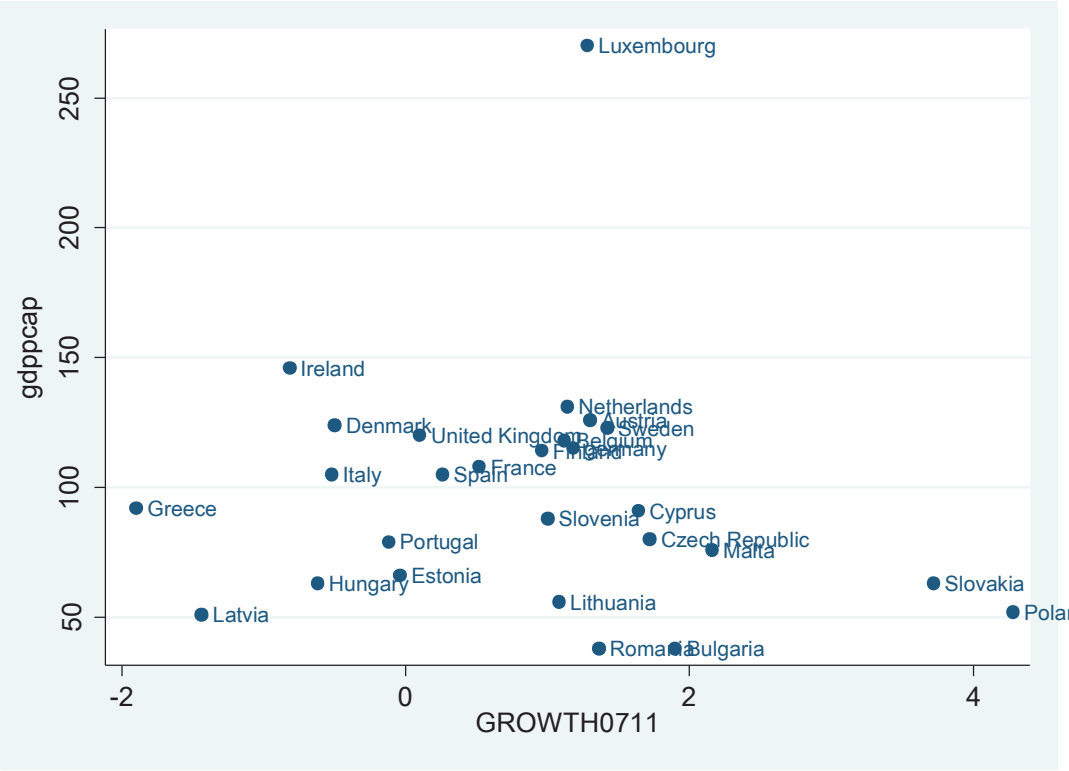
Figure 2 - Economic Crisis in EU27 cumulative GDP growth 2007-11




Source: Eurostat (own elaboration)

Interesting enough, initial conditions in terms of GDP per capita of the countries did not matter in the performance during the crisis, meaning that we did not observe, as predicted by the neoclassical approach, that poorer countries grew faster or richer countries grew slower. Instead, as the figure 3 shows, among the best performers one can find both richer countries like German, Austria and Luxemburg and poorer countries like Poland, Slovakia and Malta (see also Table A1 in the Appendix).

**Figure 3 – GDP per capita 2006 (eu27=100) and cumulative growth 2007-2011**




Source: Eurostat (own elaboration)

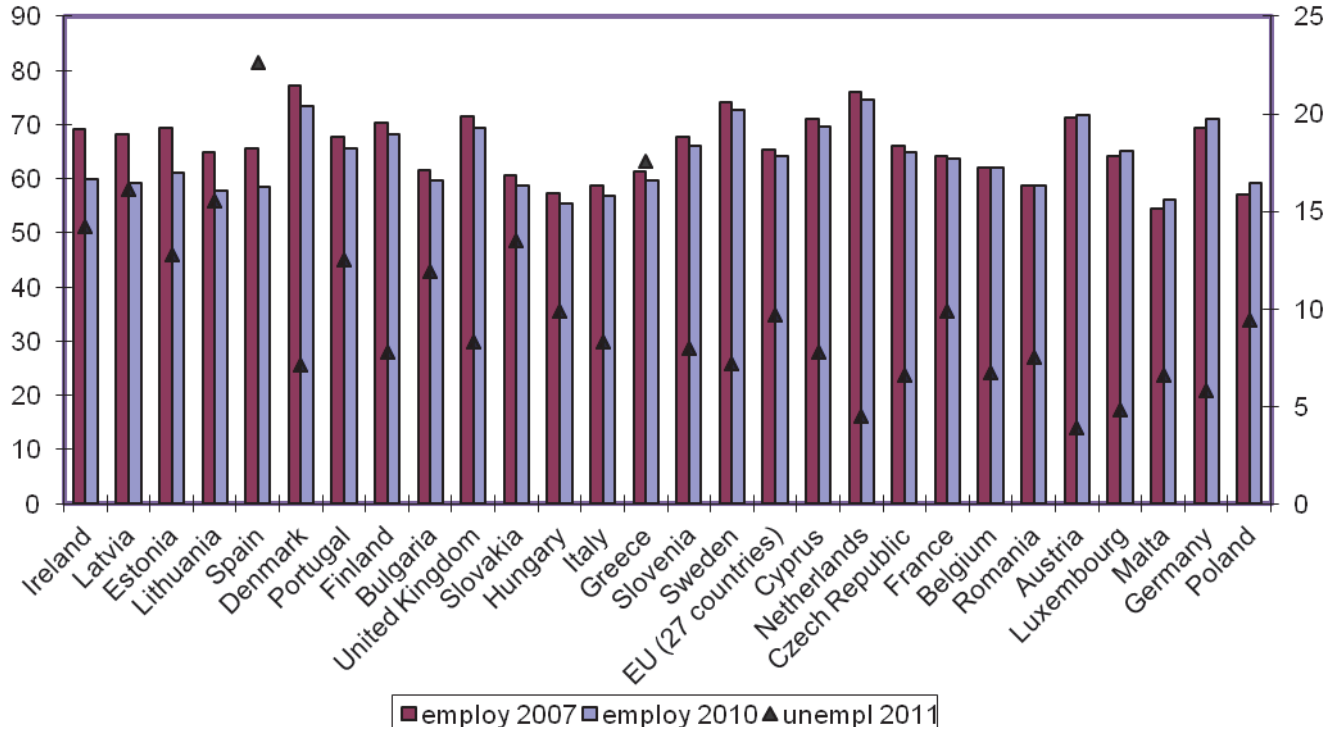
However, in this paper, I will also take into consideration labour market performance in order to rank overall EU country performances. This would allow for a deeper analysis of the crisis.

## 2. The crisis in the labour markets

Following the various performances of the EU economies, one can state that EU labour markets were differently affected by the crisis. However, performance in the labour market does not reflect strictly the performance of GDP. In some countries where social institutions and trade unions are stronger, unemployment increase was not dramatic and social costs of the crisis were less significant. In particular, beside Poland and Malta (which experienced higher growth of the GDP between 2007-2011), this is the case of Germany, Austria and Luxembourg, despite only a modest increase of GDP between 2007-2011. Not surprisingly, in countries where labour flexibility is very high, unemployment increased dramatically. Even in the Scandinavia countries, which in the last decade adopted a so called Flexicurity model, like Denmark, Sweden and Finland, employment decreased and unemployment reached very high level (around 7%). However, the most dramatic figures in terms on unemployment and employment fall are in the countries where a flexibility

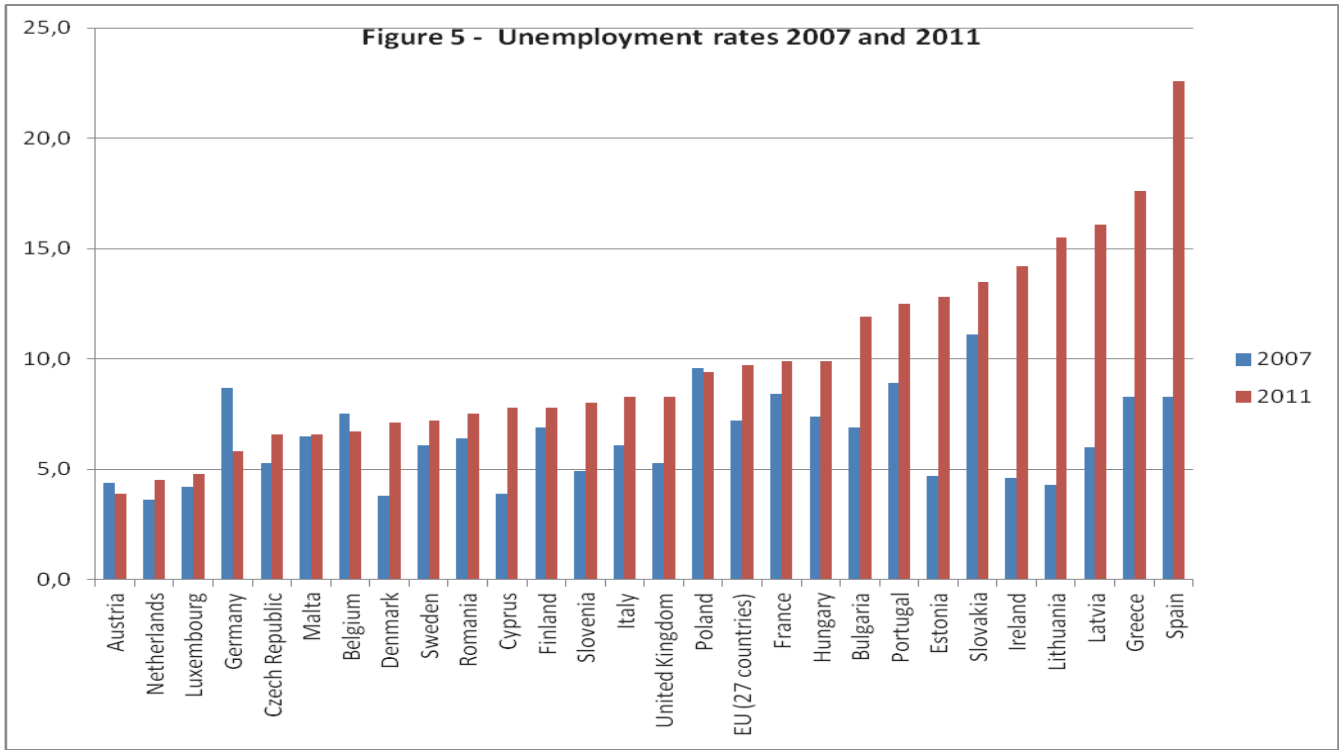
model, *tout court*, was adopted or is more persistent such as Ireland, Estonia, Lithuania, Latvia, Spain and UK.

Figure 4 - Rates of Employment (left) 2007-2010 and unemployment 2011 (right)




Source: Eurostat (own elaboration)

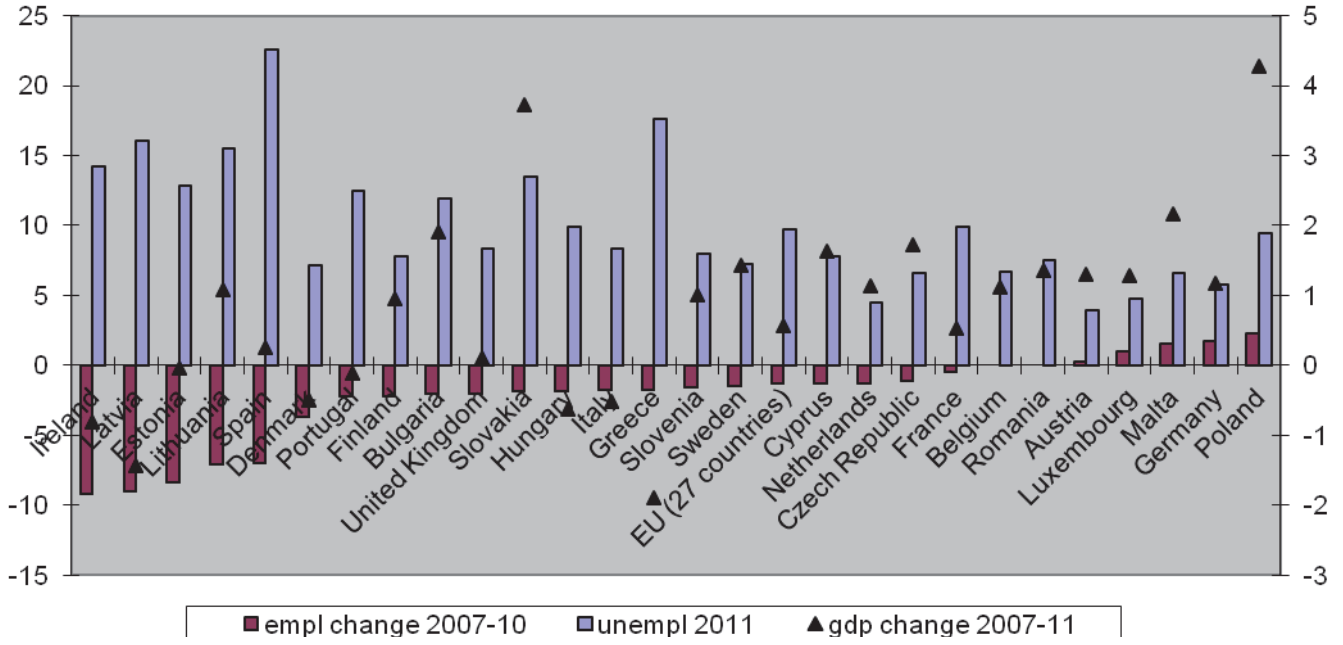
At the same time, unemployment rates followed the same trend: in most of the EU countries it increased enormously. It reached dramatic levels in Spain, around 20% and in Greece, Latvia, Lithuania, Estonia and Ireland, around 15%. Such a dynamic is real and is not at all affected by demographic trends such as reductions of labour forces, chances in the population or reduction of people looking for jobs. Instead, absolute numbers such as employed and unemployed, in the Survey of Labour Forces, worsened. The figure 5 shows the dramatic increase of unemployment rates in most of the EU, with the exception of countries like Austria and Germany and some other few where unemployment declined.




Source: Eurostat (own elaboration)

Such a variegated situation underlines a different rate of elasticity of employment reduction to the recession of the GDP. Such elasticity is higher in Ireland, Estonia, Lithuania, Latvia, Spain. These countries are followed by: Denmark, UK, Finland, Cyprus, Slovenia, Italy, Hungary, France, Bulgaria, Portugal, Slovakia, Greece, Czech Republic, Netherland and Sweden.

Figure 6 - Percentage of Employment change (left), unemployment rate (left) and Gdp growth (right) during the crisis




Source: Eurostat (own elaboration)

A general overview, country by country, is offered by the table 1, with a detailed description of the impact of the crisis on the economy and on the labour market. Out of 27 member states, only Poland did not experience a single year of recession, during the critical period of 2007-2011. Eight countries such as, Estonia, Spain, France, Italy, Portugal, Romania, Sweden and the UK experienced a so called double dip, with a two year recession in the same period. Ireland, Greece and Latvia experience multiple dips, and the rest of the EU had at least 1 year of GDP recession (in 2009). From the table below, the worst situation in terms of numbers of years of recession and magnitude of the fall can be found in the following groups of countries:

1. Estonia, Latvia, Lithuania (Baltic countries - small and open economies strongly dependant on the outside and high deficit in the current account).
2. UK and Ireland (Anglo-Saxon competitive capitalist countries - financially exposed, with very flexible labour market, inequality and lower public expenditure in social dimensions).
3. Spain, Greece, Portugal and Italy (Mediterranean countries – which combine features of the two groups above).

To some extent Denmark, Sweden and Finland were badly affected by the crisis. The reason is very likely attributed to the strong flexibility in the labour market which allowed firms to fire during recession, and so deepening the crisis from an employment point of view. However, the stronger initial conditions of those countries in terms of GDP levels, active and passive labour policies, as well as welfare made the crisis less costly in terms of social and human costs. This positioned the countries for a faster recovery, thanks to strong labour market programs, automatic stabilizers, better education, training and job search programs.

In regards to the Mediterranean countries, the economic crisis is commonly deepened by structural problems such as low productivity, scarce innovation, exposure to the housing sector - badly affected by the crisis, and higher level of public debt. Moreover, poor labour market policies, higher inequality, and labour flexibility introduced massively in those four countries in the last decade, reduced consumption capacity, and made aggregate demand more unstable than in other EU countries, deepening the crisis from deflationary point of view.

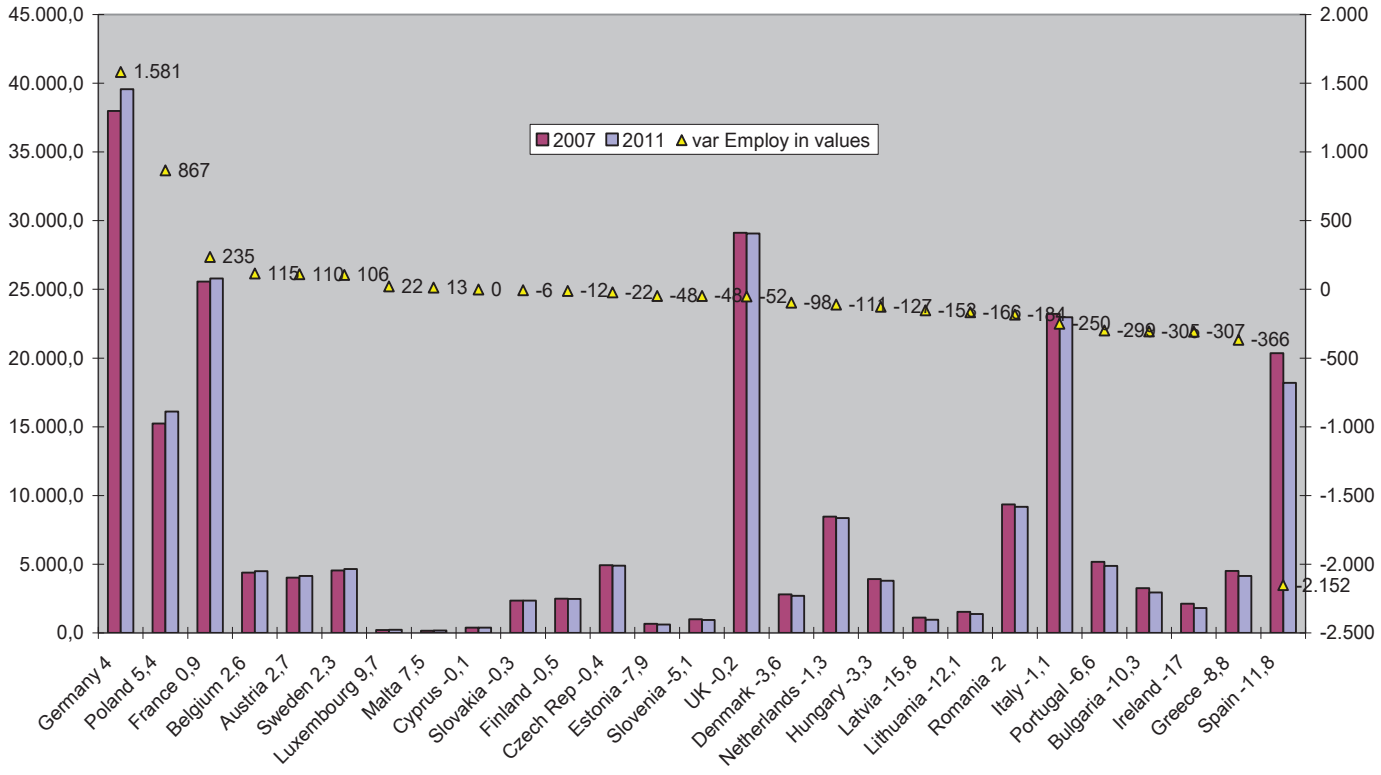
**Table 1 – EU Countries during the crisis 2007-11**

| Countries with relatively higher GDP cumulative growth 2007-11 | Countries with employment stable or increasing | Countries with employment reduction (2007-11) | Countries with high recession (cumulative 2007-11 below 0 ) | Countries with high unemployment (above 8%) | Countries with stagnating cumulative gdp 2007-11 (btw 0 and 1) | Countries with lower unemployment |
|---|---|---|---|---|---|---|
| Slovenia | Belgium | Ireland | Greece | UK | UK | Austria |
| Lithuania | Romania | Latvia | Latvia | Italy | Spain | Netherlands |
| Belgium | Austria | Estonia | Ireland | Poland | France | Luxembourg |
| Netherlands | Luxembourg | Lithuania | Hungary | Hungary | Finland | Germany |
| Germany | Malta | Spain | Italy | France | | Czech Rep |
| Luxembourg | Germany | Denmark | Denmark | Bulgaria | | Malta |
| Austria | Poland | Portugal | Portugal | Portugal | | Belgium |
| Romania | | Finland | Estonia | Estonia | | Denmark |
| Sweden | | Bulgaria | | Slovakia | | Sweden |
| Cyprus | | United Kingdom | | Ireland | | Romania |
| Czech Republic | | Slovakia | | Lithuania | | Finland |
| Bulgaria | | Hungary | | Latvia | | Cyprus |
| Malta | | Italy | | Greece | | Slovenia |
| Slovakia | | Greece | | Spain | | |
| Poland | | Slovenia | | | | |
| | | Sweden | | | | |
| | | Cyprus | | | | |
| | | Netherlands | | | | |
| | | Czech Republic | | | | |
| | | France | | | | |

**Source: own elaboration**

When we consider the flows of employment changes with absolute values, the situation does not change much, meaning that the variation of the values goes in the same direction and magnitude of the variation of the rates. For instance, employment in Spain decreased of more than 2 millions while in Germany increased of more than 1,5 millions; these figures correspond respectively to -11,8% of employment in Spain and +4% of employment in Germany as the complex figure 7 shows.

**Figure 7 - Employment in absolute values ('000): 2007 and 2011 left; variation right. Percentage variation next to country's name**




Source: own elaboration on Eurostat data

However, some more details and explanations are needed. The top five countries in maintaining employment flows positive are again the same: Luxembourg, Malta, Poland, Germany and Austria in that order. The bottom five countries in loosing jobs are Ireland, Latvia, Lithuania, Spain and Bulgaria. The only exception here to the usual rank on the bottom is Bulgaria which lost relatively more jobs than other countries, despite the fact that GDP growth in Bulgaria during the same period was relatively higher. A detailed description of flows and percentages of employment in the period 2007-11 is in the appendix (table A2).

Instead we did not observe a strict relation between the change of temporary work, during the crisis, and the recovery of employment and of economic performance in general, as showed by table A3 in appendix. A similar statement can be done as far as part-time job is concerned. Countries which managed better during the crisis as well as countries which were deeply in crisis had both part-time and or temporary work as a non influential variables.

## 3. Measuring the crisis: the Crisis Management Index

In order to evaluate the crisis on a cross-country basis, I have designed an index which would allow for an assessment of the impact of the crisis simultaneously on the GDP performance (recession and recovery) and on the labour market (employment, unemployment and employment elasticity).

The Crisis Management Index (CMI) takes into consideration both employment and GDP aspects. Using such an index would allow for a better consideration of the performance of countries during the crisis. This avoids biases and distortions such as the fact that countries could have experienced low recession but very bad unemployment or employment reduction. A situation like that for instance can be observed clearly in the USA, where despite relatively lower recession than the EU in terms of GDP, during 2007-2011 it experienced much worse performance in the labour market (Tridico 2011).

The CMI goes from a maximum of 2 (the best) for Austria to a minimum of -29 (the worst) for Spain. Values are assigned according to performances during 2007-11 in terms of magnitude and dynamics of: GDP fall, employment changes, unemployment, and elasticity of employment to the recession. Such an assessment allows for a comparison between the 27 member states and consequently for a rank where the situation of each country can be coherently analysed in comparison to other MS.

**Table 2 – Relevant dimensions for the Crisis Management Index (CMI)**

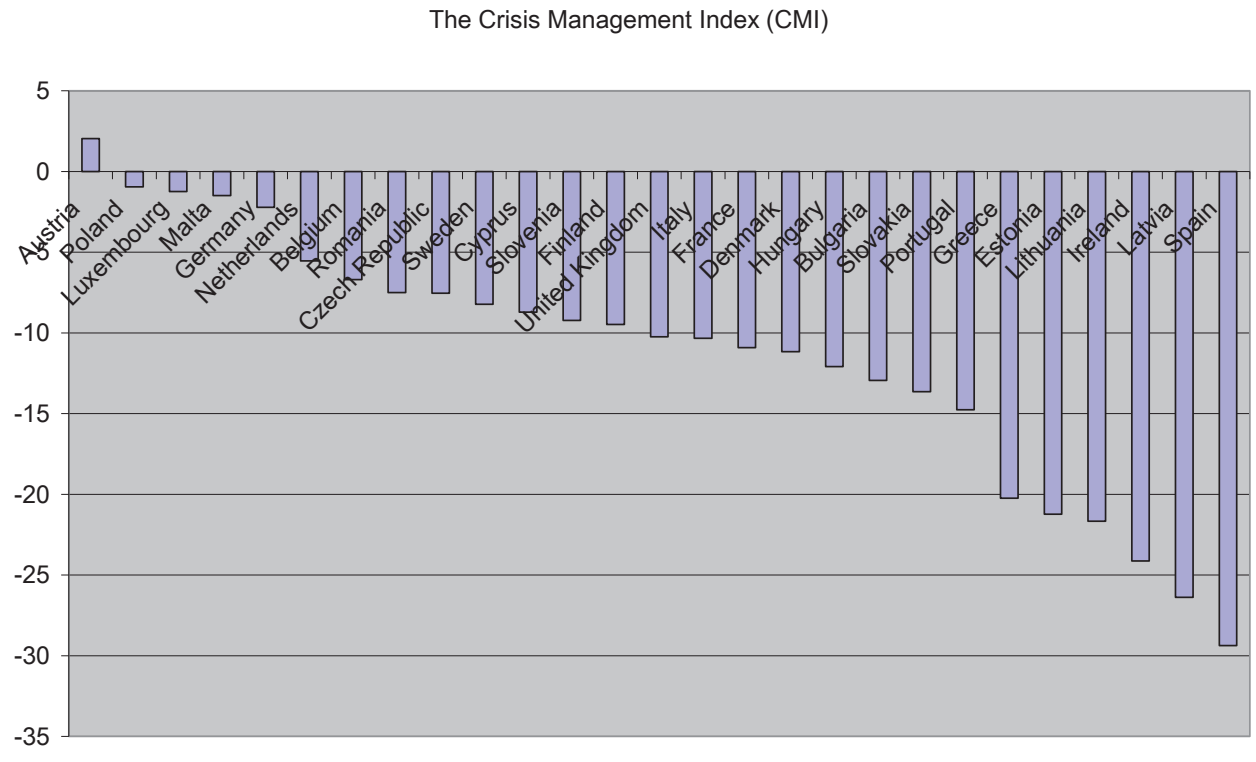
| C | Gdp (g) change 2007-11 | Employm. (n) changes 2007-10 | Unemployment (U) | Elasticity* g/n | CMI |
|---|---|---|---|---|---|
| **TOP 5 COUNTRIES** | | | | | |
| Austria | 1,3 | 0,3 | -3,9 | 4,333 | 2,033 |
| Poland | 4,28 | 2,3 | -9,4 | 1,861 | -0,959 |
| Luxembourg | 1,28 | 1 | -4,8 | 1,280 | -1,240 |
| Malta | 2,16 | 1,5 | -6,6 | 1,440 | -1,500 |
| Germany | 1,18 | 1,7 | -5,8 | 0,694 | -2,226 |
| | | | | | |
| Netherlands | 1,14 | -1,3 | -4,5 | -0,877 | -5,537 |
| Belgium | 1,12 | 0 | -6,7 | 0,000 | -5,580 |
| Romania | 1,36 | 0 | -7,5 | 0,000 | -6,140 |
| Czech Republic | 1,72 | -1,1 | -6,6 | -1,564 | -7,544 |
| Sweden | 1,42 | -1,5 | -7,2 | -0,947 | -8,227 |
| Cyprus | 1,64 | -1,3 | -7,8 | -1,262 | -8,722 |
| Slovenia | 1 | -1,6 | -8 | -0,625 | -9,225 |
| Finland | 0,96 | -2,2 | -7,8 | -0,436 | -9,476 |
| United Kingdom | 0,1 | -2 | -8,3 | -0,050 | -10,250 |
| Italy | -0,52 | -1,8 | -8,3 | 0,289 | -10,331 |
| France | 0,52 | -0,5 | -9,9 | -1,040 | -10,920 |

| | | | | | |
|---|---|---|---|---|---|
| Denmark | -0,5 | -3,7 | -7,1 | 0,135 | -11,165 |
| Hungary | -0,62 | -1,9 | -9,9 | 0,326 | -12,094 |
| Bulgaria | 1,9 | -2 | -11,9 | -0,950 | -12,950 |
| Slovakia | 3,72 | -1,9 | -13,5 | -1,958 | -13,638 |
| Portugal | -0,12 | -2,2 | -12,5 | 0,055 | -14,765 |
| Greece | -1,9 | -1,8 | -17,6 | 1,056 | -20,244 |
| **BOTTOM 5 COUNTRIES** | | | | | |
| Estonia | -0,04 | -8,4 | -12,8 | 0,005 | -21,235 |
| Lithuania | 1,08 | -7,1 | -15,5 | -0,152 | -21,672 |
| Ireland | -0,82 | -9,2 | -14,2 | 0,089 | -24,131 |
| Latvia | -1,44 | -9 | -16,1 | 0,160 | -26,380 |
| Spain | 0,26 | -7 | -22,6 | -0,037 | -29,377 |

*Note: a value >1 indicates that gdp increases more than employment; a value comprised between 1 and 0 indicates that the increase of employment (or its reductions) was bigger than the increase (or the decrease) of gdp; a negative value indicates that despite the increase of the gdp, employment decreased.
Source: own elaboration on Eurostat data

The CMI in the last column of table 2 is the sum of the values which appear in each column. The best values are for Austria and Poland, followed by Luxembourg, Malta and Germany (the top 5). At the opposite spectrum (between -29 and -21) one can find Spain, Latvia, Ireland, Lithuania and Estonia. They are immediately followed by Greece (-20) and then Portugal (-14). The figure 8 shows the rank and the Crisis Index for all the countries.

**Figure 8 - The Crisis Management Index**




Source: own elaboration

The question which I will elaborate on, in regards to the CMI ranking is what leads these countries to perform so differently? Why are the worst performing countries performing so poorly? What contributed to the better performance of the top 5 countries – which by the way are not the usual suspects, meaning the Scandinavia countries? In order to answer these questions I have analysed data and correlations between selected variables and have elaborated on a model which estimates the CMI its-self. The main hypotheses of my model are:

1. Labour Flexibility worsened unemployment and employment levels during the crisis, since elasticity of employment reduction to recession, in countries with higher flexibility, is higher.
2. Inequality, in particular during the crisis, emerges as a detrimental variable, lowering income opportunities for middle class, weakening consumption and therefore leading to unstable aggregate demand, with further negative consequences on GDP performance.
3. Exposure to foreign banks increases financial instability because with the crisis, foreign capital are the first to exit, leaving the country in danger of a lack of liquidity, lack of additional investments and further negative consequences on the GDP.
4. The higher the weight of the housing sector in the economy, the deeper the impact of the crisis in the GDP fall, since the first victim of the financial crisis was the housing sector and the building construction industry. Such a sector is usually very labour intensive, so consequences in term of employment can be also dramatic, as what was witnessed in Spain.
5. Active policies are very important for a fast recovery of the GDP since job training and education can help workers to easily transition to other sectors of the economy, with benefits for employment levels.
6. Trade unions are essential social institutions to cope with the panic and lack of trust can emerge during a crisis. The objective of trade unions is usually to maintain higher levels of employment and to fight against mass firing tendency of firms. Such behaviour can be rational for firms during a crisis in order to minimize loss, but can be detrimental for the negative recessive spiral of the economy, with further deflationary pressures and further recession of the GDP. A strong trade union which manages to maintain higher levels of employment, at the expense of profit erosion for firms, would contribute, at macro level, to reduce the negative impact of crisis on consumption, aggregate demand and on the GDP.
7. Passive policies are essential to introduce automatic stabilizers, which would avoid a collapse in consumption, a reduction in the aggregate demand and a further GDP decline.
8. A high level of credit in the system is a bad symptom, in particular if the level of savings is very low. Typically, the situation of the US and other Anglo-Saxon economies shows that

the magnitude of the bubble was high were credit was vast. Consequently, when the bubble bursts then the negative consequences on the financial sector and on the banking system are at their worst.

9. A low level of saving, in the long run, is detrimental for the sustainability of the appropriate level of investments which boost economic growth.
10. The financialization of the economy shapes the regime of the economic system and may negatively affect the economic growth in the long run: a finance-led regime of growth, driven by consumption and credit only is not sustainable in the long run, because investments and savings are needed. A finance-led regime of growth may be able to guarantee growth thanks to credit for consumption and financial investments (as it happened in the USA in the past 20 years), but in the long run may cause excess production, instability of the aggregate demand and deflationary pressures.

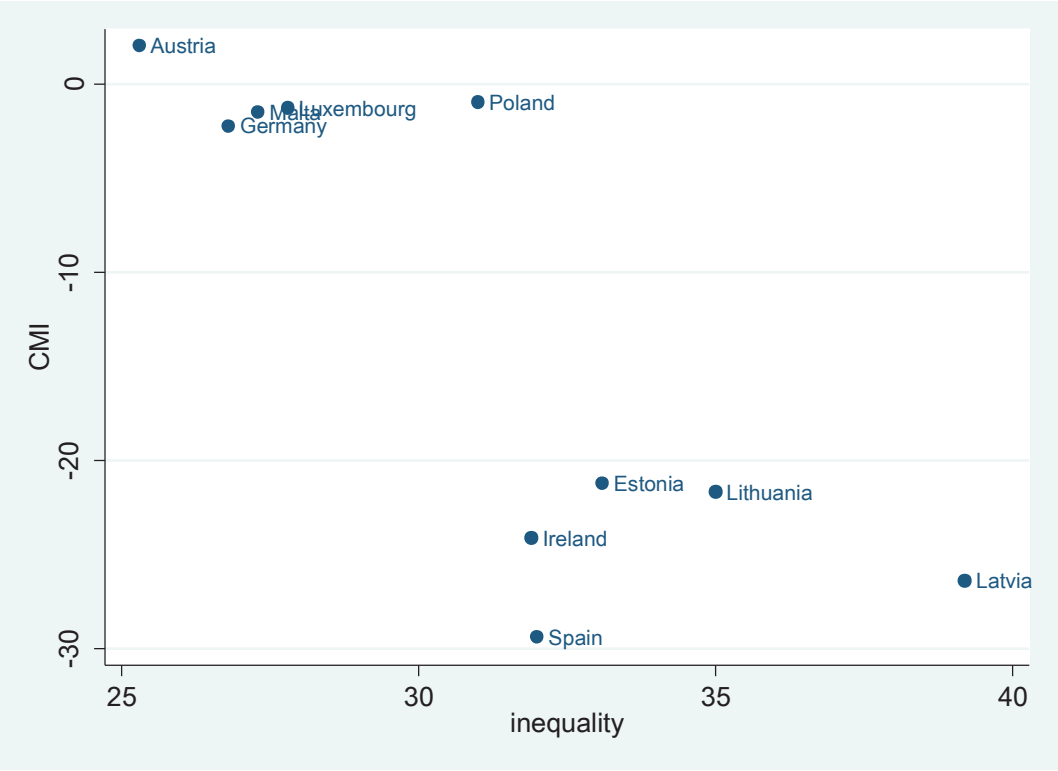
The hypotheses listed above are useful to build our model, where the dependent variable is the Crisis Management Index (CMI) and the independent variables are elements of those 10 hypotheses.

Besides, we have deeply analysed two groups of countries: the countries which performed better during the crisis (the top 5 countries in the order: Austria, Poland, Luxembourg, Malta and Germany) and the countries which performed the worst (the bottom 5 countries in the order: Spain, Latvia, Ireland, Lithuania and Estonia)[3]. We have tried to show why the countries that performed better did so. In the following comparative correlations we take into consideration the following variables: Inequality, Employment Protection Legislation, Financialization, Active and Passive labour market policies, Saving, and Trade Unions density. All of these variables were correlated with the Crisis Management Index for the worst and the best performing countries.

It appears very clear, from the correlation figure 9, that the top 5 countries, with the highest CMI have the lowest inequality level, while on the opposite corner, with the highest inequality level (measured by the Gini coefficient in 2007) one can find the bottom 5 countries.

[3] In this groups we could have added also the rest of the countries with very negative CMI (up to -3.5, including Portugal, Greece, Italy, Hungary and UK) and results would not change, but for consistency with the top 5 we added only the bottom 5 countries.

**Figure 9 - Correlation scatter Crisis Management Index and Inequality**

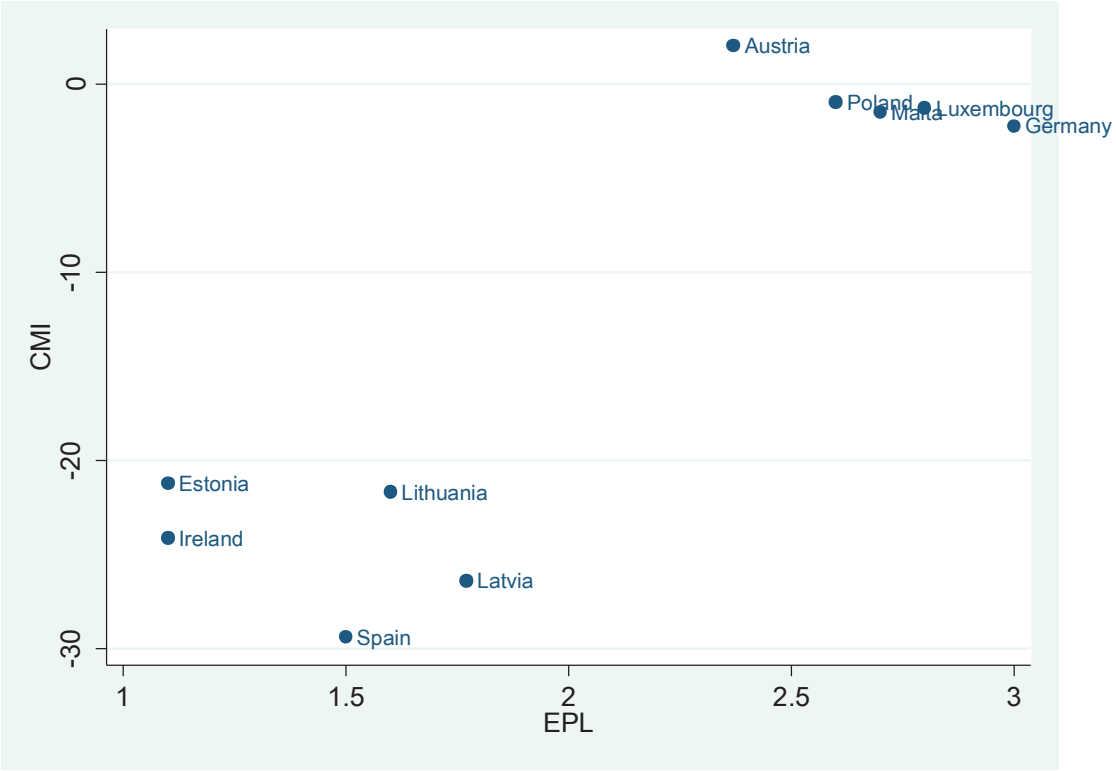



Source: Own elaboration

A similar story can be found with the relation between the CMI and the Employment Protection Legislation (the EPL 2008) the indicator of the OECD which measures the level of worker protection in the labour market and consequently the level of labour flexibility. This indicator shows the level of protection offered by national legislation with respect to regular employment, temporary employment and collective dismissal. In other words, regulation which allows employer's the freedom to fire and hire workers at will (OECD 2004).[4] The average indicator decreased consistently in the last two decades - which indicates more labor flexibility - (Tridico, 2009; Leon and Realfonzo 2008; Nickell, 1997). The top five, with the highest CMI have the highest EPL level (lower labour flexibility), while, on the opposite corner, with the lowest EPL (highest labour flexibility) one can find the bottom 5.

[4] OECD Employment Outlook 2004, Chapter 2, *Employment Protection Regulation and Labour Market Performance*.

**Figure 10 - Correlation scatter Crisis Management Index and EPL**

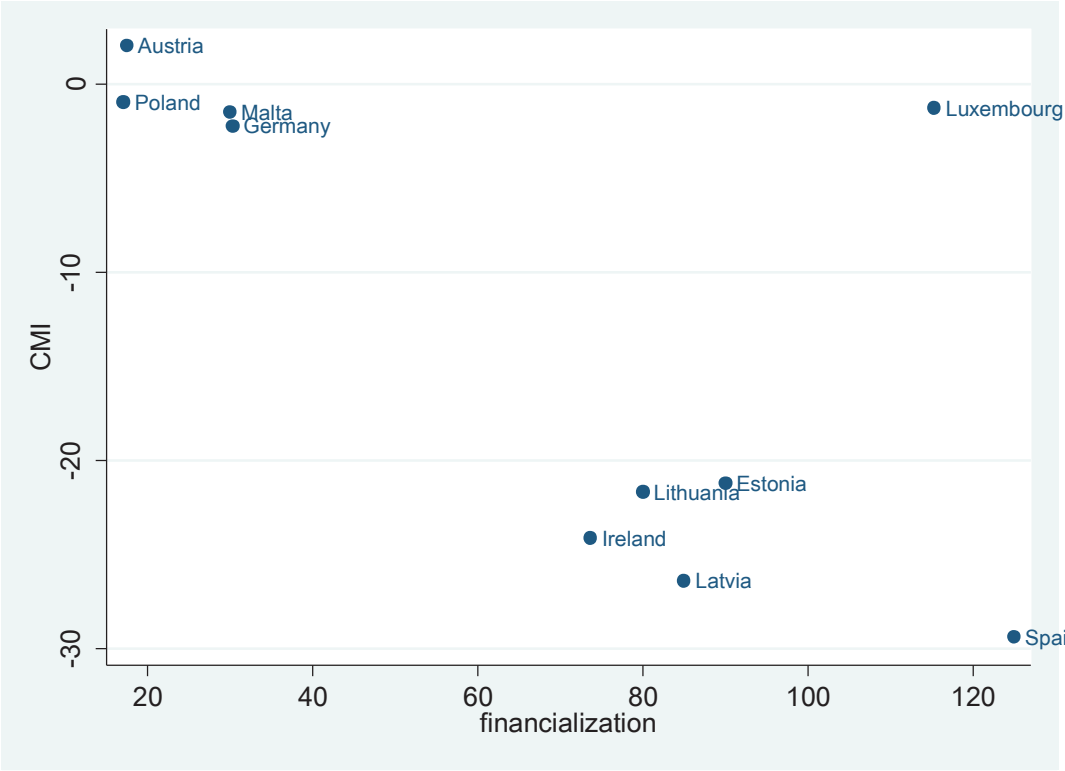



Source: own elaboration

Interestingly enough, the correlation scatter between CMI and the level of financialization of the economy just before the crisis in 2006-07 shows similar results with the bottom 5 having the highest level of financialization. The variable financialization is the value of market capitalization in the stock exchange as a percentage of GDP. The market capitalization (also known as market value) is the share price multiplied by the number of shares outstanding. Listed domestic companies are the domestically incorporated companies listed on the country's stock exchanges at the end of the year. Listed companies do not include investment companies, mutual funds, or other collective investment vehicles. Not surprisingly, the only exception among the top five countries with the lowest levels of financialization is Luxembourg.[5]

[5] Such an exception, about Luxembourg higher level of financialization, does not need further comments given the economy structure and the particular role and situation of the small economy of the Luxembourg in the EU.

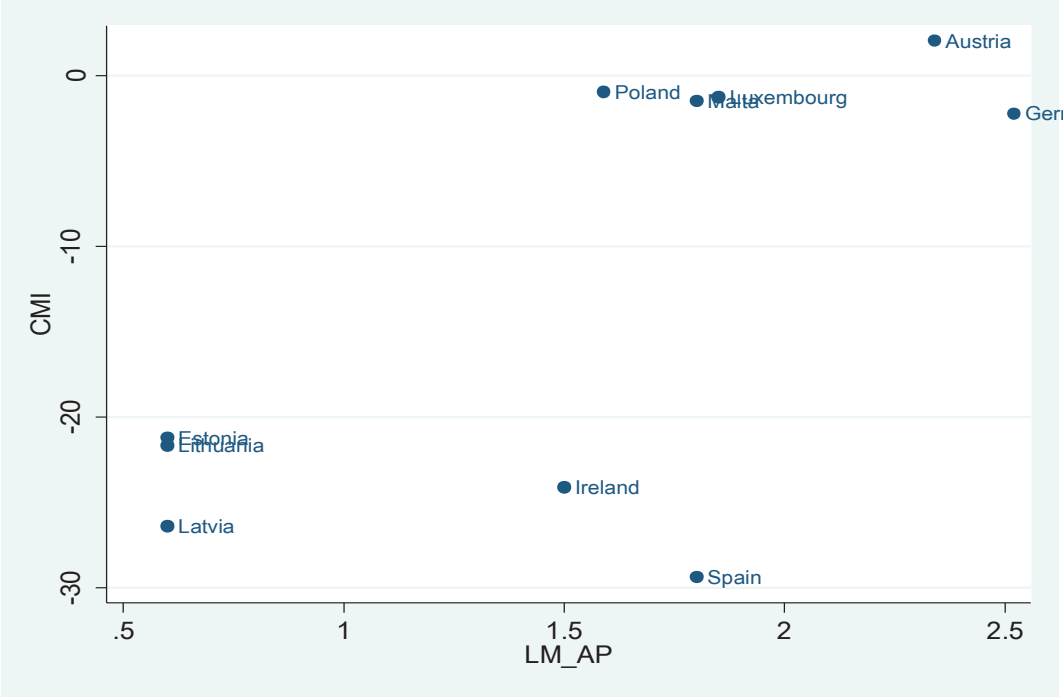
**Figure 11 - Correlation scatter Crisis Management Index and Financialization**




Source: own elaboration

Active and Passive Labour Market Policies (% of GDP for expenditure on Labour market policies 2008) are consistent with the hypothesis as they travel in the expected direction. Poland is an exception as this country spends relatively little in terms of labour market policies. The case of Poland is not unexpected because our hypothesis states that labour market policies help countries recover from crisis Poland did not experience a recession during the period analysed so labour market policies were not required as strongly as what was needed in the rest of the EU. In Spain, on the contrary, with the extraordinary highest unemployment level in the EU, around 20%, the active and passive labour market policies, as they are automatic stabilizers, were very consistent during the crisis.

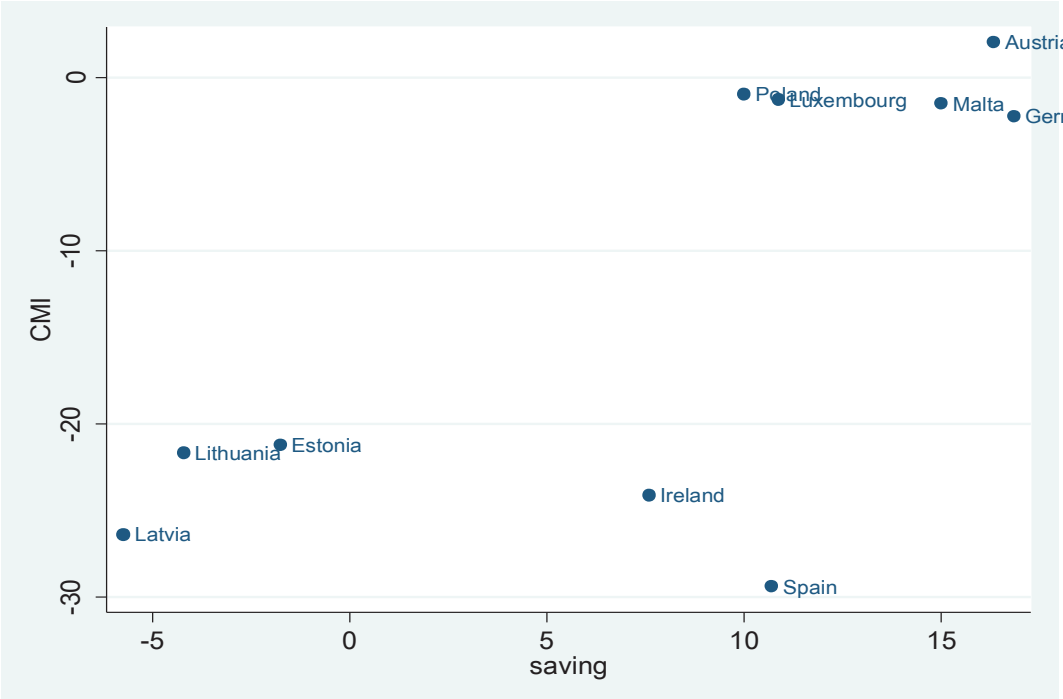
**Figure 12 - Correlation scatter Crisis Management Index and Active&Passive LM Pol**




Source: own elaboration

Another relevant variable which appears in our hypothesis is the level of savings (in 2008). A low level of savings, in the long run, would inhibit investment and growth. In this case the only exception is Spain which has a relatively high level of savings, equals to Poland, which has the lowest level among the top 5.

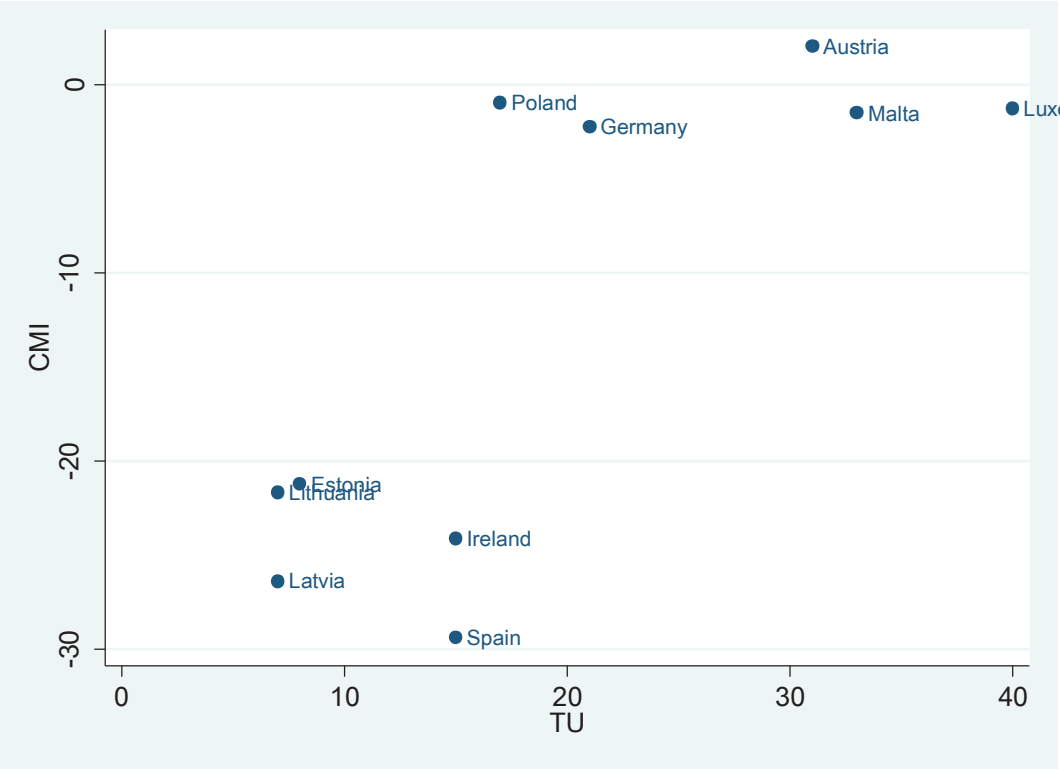
**Figure 13 - Correlation scatter Crisis Management Index and Saving**




Source: own elaboration

As I have argued above among the ten hypotheses, trade union density is a relevant variable as well. In this case, without exception, the top 5 have the highest trade union density level (membership average percentage 2006-10 of employees) and this has aided during the crisis to keep higher levels of employment, and of aggregate demand.

**Figure 14 - Correlation scatter Crisis Management Index and Trade Union**




Source: own elaboration

## 4. The model: explaining the CMI

Following the hypotheses and correlation figures above, I am now able to put forward a model, with a simple regression analysis, an OLS cross-country model, investigating the variables which determine the highest CMI, considered as dependent variables.
The model is the following:

**CMI= c+B1*EPL-B2*TW-B3Ineq++e**

Where:
C is the constant, B1, B2, and B3 are the coefficients of the correspondent variables; EPL is the Employment Protection Legislation Index in 2008 (which measures the level of labour flexibility);

TW is the percentage of temporary on the total of employment (in 2008), Ineq is the Gini coefficient in 2008 which indicate the income distribution and the inequality in the society.

I have tested this model in two ways: with a OLS cross-section regression first, using average values of those variables, for the period 2007-2011 (the crisis time) and 27 observations (as many as the EU member states); and second with a GLS model of a panel data of 6 years: 2006, 2007, 2008, 2009, 2010, and 2011 and 162 observations (27 times 6). Results are very consistent ato each other, robust and statistically significant, as the table below show

**Table 3 – Regression table, Cross Section**

| **OLS Model**<br>**Dep Var. : CMI (2007-11)** | | |
|---|---|---|
| **Variable** | Coeff.<br>(stand errors) | P-values |
| **EPL_2008** | 4.61172<br>(.7210508) | 0.000 |
| **Temporary work 2008** | -.0782528<br>(.047676) | 0.100 |
| **Inequality 2008** | -.2103784<br>(.0895341) | 0.028 |
| Constant | -3.679794<br>(3.543055) | 0.310 |
| **R-squared =** 0.7493<br>**Adj R-squared =**0.7166 | | |
| Prob > F = 0.0000 | | |
| Number of obs = 28 | | |

Source: own elaboration

**Table 4 – Regression table, Panel data**

| **GLS Model.**<br>**Random effetcs**<br><br>**Dep Var. : CMI** | | |
|---|---|---|
| **Variable** | Coeff.<br>(stand errors) | P-values |
| **EPL_2008** | .8899419<br>(.7750677) | 0.100 |
| **Temporary work 2008** | -.1248555<br>(.0710932) | 0.079 |
| **Inequality 2008** | -.2793265<br>(.1133396) | 0.014 |
| **Constant** | 1.413018<br>(3.755569) | 0.707 |
| **R-squared = 0.30** | | |
| Prob > chi2 = 0.0322 | | |
| Number of obs = 162. Number of groups = 27<br>**Panel 2006, 2007, 2008, 2009, 2010, 2011** | | |

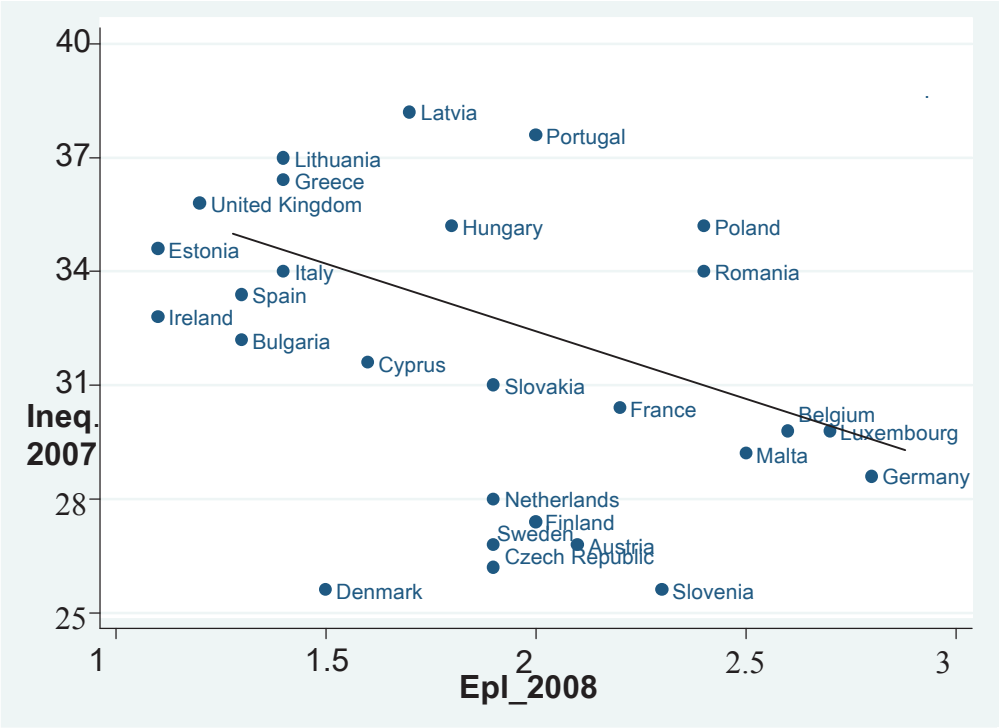
Source: own elaboration

These models, which should be analysed together with the correlation above, indicate that a higher CMI is caused by a higher EPL index (lower labour flexibility), and a lower level of temporary work and a lower lever of inequality. All the variables are significant within 10% levels as one can see from the p-values above.

These results call for reflection on the structure and on the situation of the labour market, and give suggestions for policy making towards a specific direction. As regards to policy making, labour flexibility is a negative factor and contributed to deepening the effects of the crisis. At the same time, countries with higher shares of temporary work suffered more during the crisis and have lower level of Crisis Management Index. Inequality is also a bad factor which increased the negative effects of the crisis: in fact countries with higher levels of inequality have lower CMI. From a Keynesian point of view this is quite obvious: societies with higher inequality have a middle class which suffers more in term of consumption possibilities and income, and they consume less. This worsens the aggregate demand and consecutively the level of activity of the economy decreases, therefore, in our model the CMI would decrease.

Labor flexibility was increasing everywhere in Europe in the last 10-15 years. However some countries like Germany, Malta, Luxembourg and a few others, still maintain rigid labour markets. These are the countries which managed to better cope with the current economic crisis, as we saw, along with Poland and Austria. Labour flexibility allows for the reduction of the labour costs and thus wage saving at the expenses of wage earners, i.e. consumers. In such a situation inequality increases and also the aggregate demand could curb since consumption decreases. It is very interesting to notice an inverse relation between inequality and the EPL index (labour flexibility): the lower the EPL (higher flexibility) the higher the inequality. As usual in this analysis, countries like Germany and in general the rest of the top five, performed better: they have higher EPL (lower flexibility) and lower inequality. On the opposite side, countries which suffered the most during the crisis (Estonia, Lithuania, Latvia, Ireland, Spain, followed by Greece, Italy, UK and some others) have higher inequality and lower EPL (higher flexibility).

**Figure 15 - Correlation scatter Inequality and EPL**

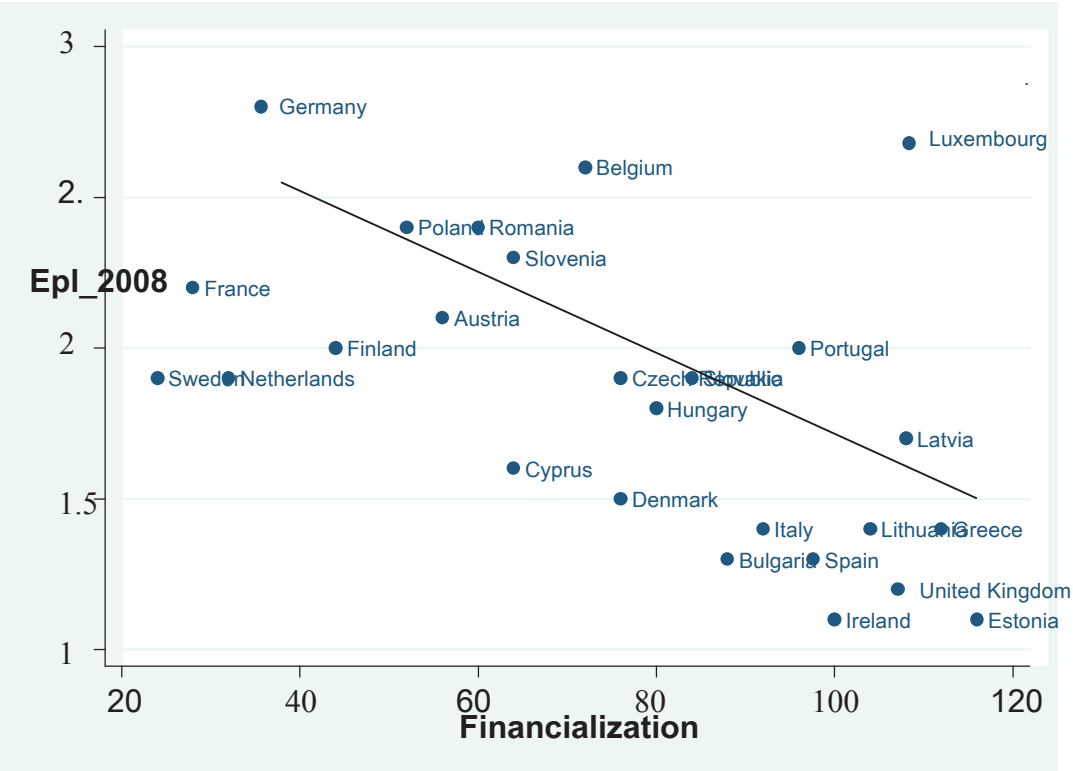



Source: own elaboration

However, the EPL is declining in most of the countries in the last 10-15 years. Even in the Scandinavian countries, which are traditionally more welfare oriented, one can observe an increase in the labour flexibility, coupled however with more income and employability protections (the so called flexicurity model). This decreasing trend of the EPL is associated with increasing financialization (as indicated by the market capitalization values) during the past two decades. A strong correlation between these two indicators seems to exist; in particular one can see that countries which have the most aggressive financial-led model have the lowest EPL, i.e. highest labour flexibility, which exerts a strong pressure on wage.

As one can see, high financialization is typically associated with high Gini coefficients and higher labor flexibility. More interesting however, is the parallel trends of these variables: when financialization increases, one notices both increased flexibility and inequality.

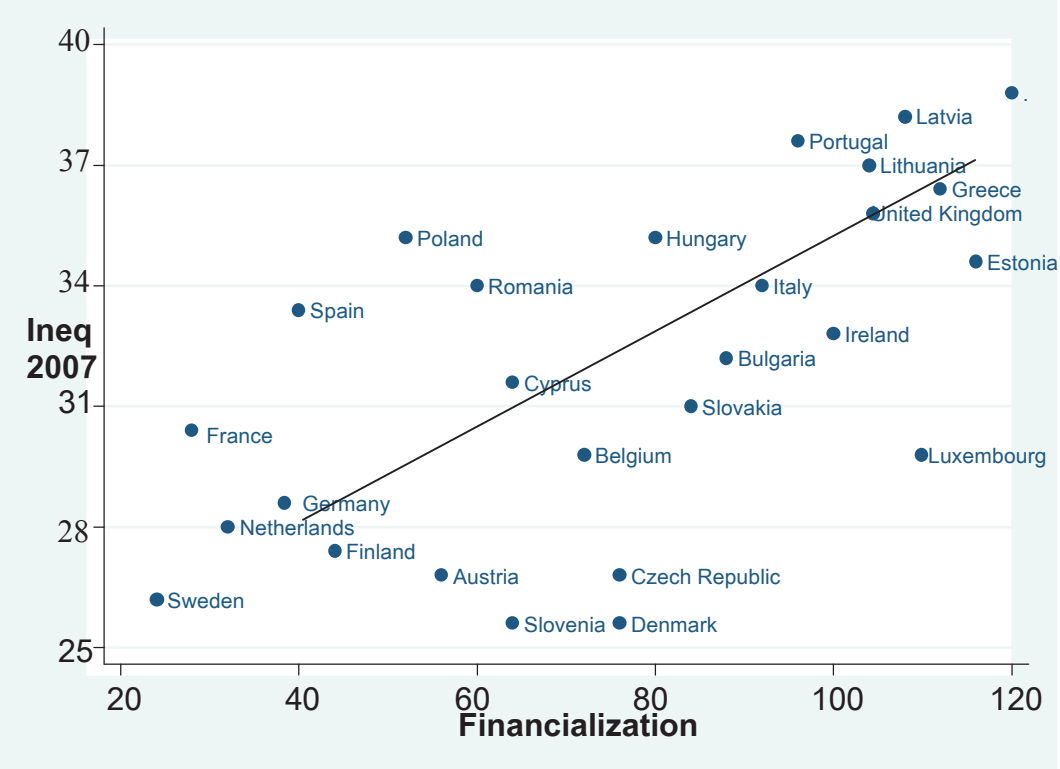
**Figure 16 - Correlation scatter Financialization and EPL**




Source: own elaboration

A flexible labor market with compressed wages and poor consumption needs to be supplemented by available financialization and credit. Hence, to have developed financial tools to sustain consumption, which otherwise were compressed by low and unstable wages (Brancaccio and Fontana, 2011). That said, it is difficult to establish a causal relation,: we cannot be certain whether financialization required labor flexibility or if increased labor flexibility brought about hyper-financialization. A simple correlation between these two complementary institutional forms of neoliberalism seems more likely. A large number of financial tools were invented to finance consumption, to postpone payments, to extend credit, and to create extra-consumption (Tridico, 2012).

**Figure 17 - Correlation scatter Financialization and Inequality**




Source: own elaboration

The crisis itself proves that a Coordinated (or Corporative) Market Economy (CME) similarly to the one that can be found in Germany, may do more to shape a new global governance and may be more appropriate to help prevent further crises (Pontusson 2005; EuroMemorandum, 2010; Semmler et. al, 2010). The CME would guarantee a more stable path of development and accumulation, mitigating the risk of boom and bust cycles illustrated by Minsky (1986). Examples of CME can be found in the EU and in particular among continental economies (Germany and Austria in particular), which combine interesting and functional elements of competitive markets economies such as competition and private investments, with useful market coordination systems such as financial regulation, public strategies of investments and Welfare and important public goods (Rochon and Rossi 2010; Pitelis, 2010; Whelan 2010).

In fact countries like Poland, Malta, and Luxemburg can be allocated in a type of socio-economic model similar to the one of Germany and Austria. These countries managed better in the crisis within all the dimensions analysed. On the contrary, countries which rely more on a liberal competitive market economy like Estonia, Lithuania, Latvia, Ireland, and the UK suffered the most during the crisis. This was also the case of the Mediterranean economies (Greece, Spain, Portugal and Italy), which during the last 15-20 years liberalized strongly their labour markets, thus combining liberalized labour markets with inefficient social policies (Sapir, 2005). On a different note, Scandinavian economies such as (Denmark, Sweden and Finland) suffered during the crisis, in

particular in term of employment reduction. Most of this reduction can be attributed to the very flexible labour market that these economies have created during the last decade. This was coupled with an efficient security model and safety net in terms of income and employment security. However, during the crisis, employment fell dramatically.

**5. The return of austerity**

In order to recover from the crisis, governments in Western economies, particularly the US and the EU, initially in 2007-2009, put in place fiscal stimuli and bank rescue packages. These policies were supported by a great consensus among the policymakers, politicians, and academics who had begun to look at Keynesian policies in a favourable way.

In the US under the Bush administration the TARP (Troubled Asset Relief Program) Act was launched in order to purchase "troubled" assets and equity from financial institutions and to strengthen trust in the financial sector (Lowenstein, 2010). The Act allowed the Treasury to purchase illiquid, difficult-to-value assets from banks and other financial institutions as a first reaction to the subprime mortgage crisis, for a value of $700bn US (or 2.3 of US GDP).[6] Similar savings plans were implemented in the UK. It is, however, debatable whether the policies introduced in the US and the UK over the period of 2007-2009 represent orthodox Keynesian policies at all. Certainly, as was the case in the UK, much of this intervention involved direct and indirect handouts to banks with remarkably few strings attached on the assumption that this would enable the latter to rebuild their balances, and encourage them to resume lending to the non-financial sector. In practice, much of this money appears to have leaked out to fund new rounds of speculative activity, whilst the promised 'trickle down' has proved limited.

Monetary policies were simultaneously manipulated by Western central banks. A combination of actions by the Fed, the European Central Bank (ECB), and the Bank of England provided a huge amount of liquidity to the private sector, and to the banking sector in particular, in order to avoid the crunch of the inter-lending among banks. The first injections came in the summer of 2007, with the leading role going to the Fed. The ECB and the Bank of England reacted by releasing similar proportions of liquidity into their own financial markets. Moreover, the interest rate in the US had been reduced from 5.25 to 0.25 per cent. Similar action was taken in the UK. In the Eurozone, given that the greatest priority of the ECB was to foster to price stability, the interest rate was lowered to 2.5% in 2009 and to 1% in 2010 (Tropeano, 2010; Sawyer, 2010).

[6] More than a Keynesian fiscal stimulus TARP was an Act made in order to save, in a direct way, financial institutions. Several commentators and newspapers in the US criticized TARP for being a paradoxical representation of a sort of "financial socialism" (Wolff, 2010).

Regarding fiscal policy, in the US, Obama's fiscal stimulus, (the ARRA - American Recovering and Reinvestment Act) for a value of $775bn US (or 2.7 of US GDP) entered onto the scene in February, 2009, after a huge debate in Congress (Romer and Bernestein, 2010).[7] The stimulus aims to promote, in the Keynesian tradition, job creation, investment, and consumer spending during the recession. To some extent it represents a breakdown of the main economic consensus which favored spontaneous recovery, i.e., recovery driven by the market or, in the less conservative case, monetary policy (quantitative easing ) over fiscal stimulus.

In the EU the fiscal stimuli, implemented singularly by MS, mobilized around $300bn US of resources (or 1.5% of EU GDP) (IMF, 2009a; IMF 2009b). However, fiscal policies among member states are fragmented and often uncoordinated. Moreover, the EU is a supranational organization with much less power than the US federation and little possibility of economies of scale. Seventeen countries adopted the Euro and, consequently, the ECB and the Maastricht criteria which regard common monetary policies, fiscal constraints and harmonisation. Ten other countries maintain their own currency and sovereignty over their monetary policy, financial system and fiscal policies.[8] This means that Europe has eleven different currencies.[9] This represents a concrete difficulty in policy coordination. However, the biggest problem relates to the fact that the UK is not part of the Eurozone. The UK is the second largest economy in the EU and the British Pound is still an internationally important currency, with London as the biggest financial centre in Europe (Wahl, 2010). Market capitalization in London is €1,962 trillion (2010 data), while Frankfurt and Paris have around €0.900 trillion each in market capitalization (Eurostat 2010). When national interests are on the table, EU members states, and in particular the UK, demonstrate a strong opposition to EU financial regulation and supranational power (UK Treasury Committee, 2010).

So far, the total EU fiscal stimulus was around 1.5% of the total EU GDP, but not all the countries acted on the suggestions of the EU Commission. Spain, which was one of the countries hit hardest by the crisis, put in place the biggest stimulus in Europe, favoured by a socialist government, of 3.7% of GDP. This plan focused for €40 billion to support infrastructure investments and the automobile industry. France's plan was smaller, €26 billion, which includes a boost for the construction and automobile sectors; moreover, the government has promised €20 billion for small businesses and the construction industry. Germany's package includes generous amortization rules for companies and incentives for climate-friendly home renovation; the total package is expected to reach €82 billion, including private investments. Italy proposes a nominal stimulus for unemployment subsidies and firm support that will only amount to €9 billion. The UK

[7] No Republicans in the House voted for the bill, while in the Senate only three Republicans voted for it
[8] Bulgaria, Czech Rep., Denmark, Hungary, Latvia, Lithuania, Poland, Romania, Sweden, UK.
[9] The currencies of Bulgaria, Denmark, Latvia and Lithuania are pegged to the Euro.

has announced a temporary reduction of the VAT rate from 17.5% to 15%. In addition, the government plans to invest €31 billion on infrastructure.

The outcomes of these stimuli were quite positive: in the second quarter of 2010, Germany grew at an extraordinary rate of 8.8%, and the UK at 4.8%. Similar stories, although of less magnitude, occurred in other European economies. The US recovered, too, with 1.6% growth for the same period.

Nevertheless, after the spring of 2010, policy consensus switched towards austerity measures. After the Greek crisis, governments turned their interests, irrationally, toward budget cuts and policies of contraction (Arestis and Pelagidis, 2010). In the fall of 2010, the new Liberal-Conservative government in the UK announced an austerity plan with cuts in public expenditures and a freezing of public employment wages and jobs for the next three years. A similar plan was announced in the US by President Barack Obama in November, 2010, freezing federal pay for the next two years. Chancellor Merkel is proposing similar restrictive plans in Germany, and other continental European countries are preparing financial laws very much focused on restrictive fiscal measurements. The objective is to reduce deficits. This seems more like a reaction to the Greek and Irish crises, rather than a rational decision which would help economic recovery (Arestis and Pelagidis, 2010).

As De Long (2010), Arestis and Pelagidis (2010), and many others underlined, surplus countries such a Germany Austria and Netherlands in particular need to implement expansionary policies rather than austerity measures, spending more and taxing less. In Europe, the ECB should lower the interest rate to the Fed level (which is near zero) and should have a big program of buying national bonds. The Tremonti-Junker proposal of issuing European Union Bonds should also be accepted.[10] The European Financial Stability Facility[11], which is today endowed with a fund of €700 billion, should become a permanent agency and should continue to buy government bonds of countries in crisis. A strong institution working as a lender of last resort should be created for the EU or at least for the Eurozone. The biggest European economies, such as Germany, the UK, and France should expand aggregate demand to allow for more imports from Mediterranean economies (Spain, Portugal, Greece, and Italy), in order for them to equalize the deficit in the current account. Current account deficit, in fact is, dangerously financed by German, British, and French banks,

[10] Jean-Claude Juncker and Giulio Tremonti made a proposal on the financial Times for a European Union bond, issued by a European Debt Agency (EDA). Each country can issue European bonds up to 40% of GDP. This would create, over time, a sovereign bond market of similar size to the US one. Initially the EDA would finance 50% of member states' debt issues – but this can be raised to 100% during crises. The proposal also envisions a mechanism to switch between national and European bonds for countries in trouble at a discount rate. This would avoid the problem that secondary markets in many EU sovereign bonds are not sufficient liquid during crises.

[11] This is a temporary EU fund which was created during the Greek crisis in the Spring on 2010, providing an initial support of €500 billion.

which buy national bonds from Mediterranean economies. In turn, if those southern economies cannot repay their debts, correlation default in northern European banks will follow.

**Conclusion**

In this paper I argued that countries which performed relatively better during the economic crisis of 2007-2011 are countries which do not have a strong flexible labour market and managed to keep stable employment levels. These countries combine a very good mix of economic policies and social institutions oriented to stabilize the level of consumption and the aggregate demand. Coordination mechanisms, higher levels of financial regulation and monitoring are also important features of these economies. These are Germany, Austria, Poland, Malta and Luxembourg. On the contrary, along with a very strong flexible labour market, countries which performed the worst during the crisis also have a poor combination of: high inequality levels, higher exposure to foreign banks, a stronger reliance on the housing sector, less incisive labour market policies and expenditure, less trade union density, higher levels of private indebtedness, strong financialization and a lower level of savings. These countries are Latvia, Lithuania, Estonia, Spain, Ireland, Portugal, Greece, Italy, UK followed by others EU members.

Clearly, the first group of countries identify better, in the EU, a coordinated or corporative market economy model, while the second group of countries identify better with a liberal competitive market economy. The regression model confirms such a result: the Crisis Management Index is higher in the first group of countries and this is determined by higher levels of Employment Protection Legislation (lower flexibility), lower level of temporary work, and lower level of inequality.

Our suggestion is that rather than to focus on austerity measures, the EU should addresses other issues which are considered to be the main causes of the current crisis: these are the problems in the labour market, the uneven income distribution, and in the labour flexibility which weaken consumption and aggregate demand. A strong financialization of the economy occurred in the last two decades in many EU countries and negatively affected economic growth. A finance-led regime of growth, driven by consumption and credit is not sustainable in the long run, because investments and savings are needed. A stable economic growth path occurs when growth is driven by the aggregate demand and in particular by investments and consumption. The first may be also supported by finance and the second should be supported by wage increases, which should follow labour productivity growth. Such a type of growth is better identified in countries like Germany, Austria, Poland, Malta and Luxembourg which are in fact the best performing countries during the current economic crisis.

## APPENDIX

### Table A1 - GDP Performance 2007-11

| | Gdp per capita 2006 EU27=100 | Avg gdp change 2007-11 | Gdp change | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2007 | 2008 | 2009 | 2010 | 2011 |
| EU (27 countries) | 100 | 0,56 | 3,1 | 0,5 | -4,3 | 1,9 | 1,6 |
| Euro area (17 countries) | 112 | 0,5 | 3 | 0,4 | -4,2 | 1,8 | 1,5 |
| Belgium | 118 | 1,12 | 2,9 | 1 | -2,8 | 2,3 | 2,2 |
| Bulgaria | 38 | 1,9 | 6,4 | 6,2 | -5,5 | 0,2 | 2,2 |
| Czech Republic | 80 | 1,72 | 5,7 | 3,1 | -4,7 | 2,7 | 1,8 |
| Denmark | 124 | -0,5 | 1,6 | -0,8 | -5,8 | 1,3 | 1,2 |
| Germany | 115 | 1,18 | 3,3 | 1,1 | -5,1 | 3,7 | 2,9 |
| Estonia | 66 | -0,04 | 7,5 | -3,7 | -14,3 | 2,3 | 8 |
| Ireland | 146 | -0,82 | 5,2 | -3 | -7 | -0,4 | 1,1 |
| Greece | 92 | -1,9 | 3 | -0,2 | -3,3 | -3,5 | -5,5 |
| Spain | 105 | 0,26 | 3,5 | 0,9 | -3,7 | -0,1 | 0,7 |
| France | 108 | 0,52 | 2,3 | -0,1 | -2,7 | 1,5 | 1,6 |
| Italy | 105 | -0,52 | 1,7 | -1,2 | -5,1 | 1,5 | 0,5 |
| Cyprus | 91 | 1,64 | 5,1 | 3,6 | -1,9 | 1,1 | 0,3 |
| Latvia | 51 | -1,44 | 9,6 | -3,3 | -17,7 | -0,3 | 4,5 |
| Lithuania | 56 | 1,08 | 9,8 | 2,9 | -14,8 | 1,4 | 6,1 |
| Luxembourg | 270 | 1,28 | 6,6 | 0,8 | -5,3 | 2,7 | 1,6 |
| Hungary | 63 | -0,62 | 0,1 | 0,9 | -6,8 | 1,3 | 1,4 |
| Malta | 76 | 2,16 | 4,3 | 4,4 | -2,7 | 2,7 | 2,1 |
| Netherlands | 131 | 1,14 | 3,9 | 1,8 | -3,5 | 1,7 | 1,8 |
| Austria | 126 | 1,3 | 3,7 | 1,4 | -3,8 | 2,3 | 2,9 |
| Poland | 52 | 4,28 | 6,8 | 5,1 | 1,6 | 3,9 | 4 |
| Portugal | 79 | -0,12 | 2,4 | 0 | -2,5 | 1,4 | -1,9 |
| Romania | 38 | 1,36 | 6,3 | 7,3 | -6,6 | -1,9 | 1,7 |
| Slovenia | 88 | 1 | 6,9 | 3,6 | -8 | 1,4 | 1,1 |
| Slovakia | 63 | 3,72 | 10,5 | 5,9 | -4,9 | 4,2 | 2,9 |
| Finland | 114 | 0,96 | 5,3 | 1 | -8,2 | 3,6 | 3,1 |
| Sweden | 123 | 1,42 | 3,3 | -0,6 | -5,2 | 5,6 | 4 |
| United Kingdom | 120 | 0,1 | 3,5 | -1,1 | -4,4 | 1,8 | 0,7 |

Source: Eurostat

## Table A2 - Employment flows during the crisis

| | Increase/decrease employment flows2007-11 (in '000) | Percentage of variation of Employment flows |
|---|---|---|
| Luxembourg | 22 | 9,7 |
| Malta | 13 | 7,5 |
| Poland | 867 | 5,4 |
| Germany | 1.581 | 4,0 |
| Austria | 110 | 2,7 |
| Belgium | 115 | 2,6 |
| Sweden | 106 | 2,3 |
| France | 235 | 0,9 |
| Cyprus | 0 | -0,1 |
| United Kingdom | -52 | -0,2 |
| Slovakia | -6 | -0,3 |
| Czech Republic | -22 | -0,4 |
| Finland | -12 | -0,5 |
| Italy | -250 | -1,1 |
| Netherlands | -111 | -1,3 |
| Romania | -184 | -2,0 |
| Hungary | -127 | -3,3 |
| Denmark | -98 | -3,6 |
| Slovenia | -48 | -5,1 |
| Portugal | -299 | -6,1 |
| Estonia | -48 | -7,9 |
| Greece | -366 | -8,8 |
| Bulgaria | -305 | -10,3 |
| Spain | -2.152 | -11,8 |
| Lithuania | -166 | -12,1 |
| Latvia | -153 | -15,8 |
| Ireland | -307 | -17,0 |
| European Union (27 countries) | -1657,37 | -0,8 |

Source: own elaboration on Eurostat data

**Table A3 – Temporary work (TW) and Part-Time (PT), 2009-11**

| | PT 2009 | PT 2011 | var % part time 2009-11 | TW 2009 | TW 2011 | var % TW 2009-11 |
|---|---|---|---|---|---|---|
| Austria | 23,2 | 24,0 | 3,3 | 9,9 | 10,5 | 5,7 |
| Belgium | 22,8 | 23,6 | 3,4 | 8,0 | 8,5 | 5,9 |
| Bulgaria | 2,1 | 2,1 | 0,0 | 5,4 | 5,2 | -3,8 |
| Cyprus | 7,2 | 8,0 | 10,0 | 14,1 | 13,8 | -2,2 |
| Czech Republic | 4,8 | 4,6 | -4,3 | 7,8 | 8,4 | 7,1 |
| Denmark | 25,2 | 24,5 | -2,9 | 8,9 | 8,9 | 0,0 |
| Estonia | 9,1 | 8,5 | -7,1 | 3,2 | 5,2 | 38,5 |
| Finland | 12,5 | 13,0 | 3,8 | 15,6 | 17,4 | 10,3 |
| France | 17,0 | 17,2 | 1,2 | 15,0 | 15,9 | 5,7 |
| Germany | 25,4 | 25,7 | 1,2 | 14,7 | 14,9 | 1,3 |
| Greece | 5,6 | 6,6 | 15,2 | 12,7 | 12,3 | -3,3 |
| Hungary | 5,6 | 6,7 | 16,4 | 9,1 | 9,7 | 6,2 |
| Ireland | 21,0 | 22,9 | 8,3 | 9,3 | 10,2 | 8,8 |
| Italy | 14,0 | 14,8 | 5,4 | 12,6 | 13,6 | 7,4 |
| Latvia | 8,8 | 8,5 | -3,5 | 5,5 | 7,3 | 24,7 |
| Lithuania | 7,9 | 8,0 | 1,3 | 3,1 | 3,3 | 6,1 |
| Luxembourg | 16,5 | 18,1 | 8,8 | 8,2 | 6,1 | -34,4 |
| Malta | 11,0 | 12,9 | 14,7 | 5,6 | 7,1 | 21,1 |
| Netherlands | 47,7 | 48,3 | 1,2 | 18,4 | 18,6 | 1,1 |
| Poland | 7,5 | 7,0 | -7,1 | 27,1 | 27,4 | 1,1 |
| Portugal | 8,0 | 10,0 | 20,0 | 22,0 | 22,7 | 3,1 |
| Romania | 9,2 | 9,5 | 3,2 | 1,0 | 1,8 | 44,4 |
| Slovakia | 3,5 | 4,0 | 12,5 | 4,7 | 6,5 | 27,7 |
| Slovenia | 10,2 | 9,9 | -3,0 | 17,4 | 19,1 | 8,9 |
| Spain | 12,1 | 13,1 | 7,6 | 25,9 | 26,1 | 0,8 |
| Sweden | 25,1 | 23,7 | -5,9 | 16,1 | 17,5 | 8,0 |
| United Kingdom | 25,0 | 25,2 | 0,8 | 5,6 | 6,0 | 6,7 |
| European Union (27 countries) | 18,0 | 18,5 | 2,7 | 13,9 | 14,4 | 3,5 |

Source: own elaboration on Eurostat data

**References**


Arestis P. and Pelagidis T., (2010), The Case Against Deficit Hawks. Absurd Austerity Policies in Europe, *Challenge* 53(6): 54-61.

Barba A. and Pivetti M., (2009), Rising Household Debt: its Causes and Macroeconomic Implications. Along-Period Analysis, *Cambridge Journal of Economics*, 33(1): 113-137.

Brancaccio E. and Fontana G., (2011), The Global Economic Crisis (Introduction), E., Brancaccio and G., Fontana (Eds) *The Global Economic Crisis. New perspective on the critique of economic theory and policy*, Routledge, London.

Cesaratto S. (2011), Europe, German Mercantilism and the Current Crisis, in Brancaccio E., Fontana G. (eds), *The Global Economic Crisis. New Perspectives on the Critique of Economic Theory and Policy*, Routledge, London.

De Long B. (2010), It Is Far Too Soon to End Expansion. Financial Times, June 19. URL: www.ft.com/cms/s/0/f74bb844-9369-11df-bb9a-00144feab49a.html

EuroMemorandum (2010), *Confronting the Crisis: Austerity Or Solidarity*. European Economists for an Alternative Economic Policy in Europe - EuroMemo Group 2010/11, www.euromemo.eu

Eurostat (2011), Structural Indicators (online statistics).

Fitoussi, J.P, Stiglitz J. (2009), The Ways out of the Crisis and the Building of a More Cohesive World, The Shadow GN, Chair's Summary, LUISS Guido Carli, Rome, May 6-7.

Fitoussi, J.P. and Saraceno, F. (2010), Inequality and Macroeconomic Performance, OFCE, Paris, 13.

Frangakis M., (2010), Rising Sovereign Debt in the EU – Implications for Economic Policy, Nicos Poulantzas Institute, Athens, Greece, mimeo.

IMF - International Monetary Fund (2009a): *Global Financial Stability Report. Navigating Challenges Ahead. October 2009.* Washington, DC.

IMF - International Monetary Fund (2009b): World Economic Outlook. Washington DC.

Krugman P., (2008), *The Return of Depression Economics and the Crisis of 2008.* New York: Norton & Co.

Leon P. and Realfonzo R., (2008), a cura di, *L'Economia della Precarietà*, Manifestolibri.

Lowenstein, Roger (2010), *The End of Wall Street*, Penguin Press HC,

Minsky, H.P., 1986. *Stabilizing an Unstable Economy*, New Haven: Yale University Press.

Nickell S.G., (1997), Labour Market rigidities and Unemployment: Europe versus North America, *Journal of economic perspectives*,11(3): 55-74.

OECD (2004) Employment Outlook, Chapter 2, *Employment Protection Regulation and Labour Market Performance*.

OECD (2010), Employment Outlook (online database).

Pitelis C., (2010) From Bust to Boom: an Introduction. *Contribution To Political Economy*, 29: 1-8.

Pontusson J., (2005), *Inequality and Prosperity. Social Europe vs. Liberal America*. Cornell University press, Ithaca and London.

Posner R., A. (2009), *A failure of Capitalism*. Cambridge: Harvard University Press.

Rochon L.-P., and Rossi S., (2010), Has 'It' Happened Again? *International Journal of Political Economy*, 39(2): 5–9.

Romer C., and Bernestein J. (2009), The Job Impact of the American Recovery and Reinvestment Plan. Council of Economic Advisers and Office Of The Vice President Elect, White House, Washington DC January 9.

Sapir A., (2005), Globalization and the Reform of European Social Models, *Bruegel Policy brief*. ISSUE 2005/01, NOVEMBER.

Sawyer M., (2010), It' Keeps Almost Happening: Post Keynesian Perspectives On The Financial Crisis and The Great Recession June 2010, University of Leeds, mimeo.

Semmler W, and Young B., (2010), Lost in Temptation of Risk: Financial Market Liberalization, Financial Market Meltdown and Regulatory Reforms, *Comparative European Politics*, 8(3): 327-353.
Stiglitz J., (2010), Recommendations by the Commission of Experts of the President of the General Assembly of United Nations on Reforms of the International Monetary and Financial System, UN, New York.
Tridico (2012), Financial Crisis and Global Imbalances: Its Labor Market Origins and the Aftermath, *Cambridge Journal of Economics 36(1): 17-42.*
Tridico P. (2009), Flessibilità e Istituzioni nel Mercato del Lavoro: dagli Economisti Classici agli Economisti Istituzionalisti *Lavoro&Economia*, N. 1, gennaio/maggio: 113-139.
Tridico P., (2011), Varieties of Capitalism and Responses to the Financial Crisis: The European Social Model Versus the US Model. Working Paper n. 129, Dipartimento di Economia, Università Roma Tre.
Tropeano D., (2010) The Current Financial Crisis, Monetary Policy, and Minsky's Structural Instability Hypothesis *International Journal of Political Economy*, vol. 39(2): 41–57.
UK Treasury Committee (2010), Summary of Treasury Committee Opinions on EU Regulatory Reform Proposals. London
Wahl P., (2010), Fighting Fire with Buckets. A Guide to European Regulation of Financial Markets Weltwirtschaft, Okologie & Entwicklung/ World Economy, Ecology & Development. WEED Ass., Berlin.
Whelan K., (2010), Global Imbalances and The Financial Crisis. General Directorate for Internal Policies, European Parliament, Brussels.
Wolff R., (2010), *Capitalism Hits The Fan. The Global Economic Meltdown and What to Do about It.* New York: Pluto Press.
Wray, L. Randall (July 2000), The Neo-Chartalist Approach to Money. Center for Full Employment and Price Stability. URL: http://www.cfeps.org/pubs/wp/wp10.html

*Finito di stampare nel mese di maggio 2012*- Dipartimento di Economia -Università degli studi Roma Tre ROMA - dip_eco@uniroma3.it