



The Great Recession's Biggest Losers: The euro area's jobless

Zachary Kilhoffer and Miroslav Beblavý

Summary

The euro area continues to recover from the Great Recession, with several recent publications offering optimistic assessments of the euro area's economic performance. The European Commission's "Employment and Social Developments in Europe 2017" report, for example, praises moderate economic growth and "solid net job creation" in a "job-rich recovery". While the European Commission acknowledged ongoing challenges such as youth unemployment, it must also be recognised that the euro area's recovery has been piecemeal. Economic growth is encouraging, but it obscures the unemployed millions who have not tasted the fruits of the recovery. The euro area's labour market, while posting gains, remains in a worse state than before the Great Recession. Nearly half of the unemployed in the euro area have been jobless for over a year. In contrast with the United States, Japan and other regions hit hard by the crisis, the euro area's labour market exemplifies the most enduring damage of the Great Recession. European lawmakers need to soberly acknowledge the job market's failures and take targeted action, addressing the regions and demographics for whom the recovery is not working.

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Although some countries in the euro area began to recover from the Great Recession as early as 2009, for many it has been more of a whimper than a roar. Despite encouraging signs such as moderate GDP and multifactor productivity growth,¹ the region has yet to reach its pre-crisis levels of employment. With such a tepid recovery, Alvin Hansen's (1938) words on secular stagnation seem prophetic:

This is the essence ... sick recoveries which die in their infancy and depressions which feed on themselves and leave a hard and seemingly immovable core of unemployment.²

This is not to say that the euro area is destined to repeat Japan's post-1990 performance, as a minority of economists, including Larry Summers, would maintain. The point is that in other markets hit hard by the Great Recession, notably the US, labour markets have long since recovered, recording job gains and low unemployment. Conversely, the euro area only began posting job gains in 2013, while high unemployment persists to the present day. This leads us to two observations: i) the most enduring loser of the Great Recession is the euro area's labour market, and ii) lawmakers ought to acknowledge that fact and devote greater attention to fostering a job-rich recovery.

1. The enduring unemployment problem

The euro area's GDP has improved since the Great Recession and the debt crisis, buoyed by private consumption, supportive macroeconomic policies and low energy prices.³ The World Bank estimates that the euro area will experience roughly 1.5% GDP growth into 2019,⁴ representing a stable outlook for the foreseeable future. It is comparable to the 1.9% that the World Bank predicts for the US (2% by the Congressional Budget Office's own estimate),⁵ and significantly better than Japan's 0.6% forecast.⁶ Nevertheless, this economic growth in the eurozone has been accompanied by a long period of labour market stagnation that is unique to the area.

¹ European Commission (2017), "[Employment and Social Developments in Europe - Annual Review 2017](#)", ISSN: 2315-2540.

² A.H. Hansen (1939), "Economic progress and declining population growth", *The American Economic Review*, 29(1), 1-15.

³ European Commission (2016), "[Labour Market and Wage Developments in Europe - Annual Review 2016](#)", ISSN 2443-6771.

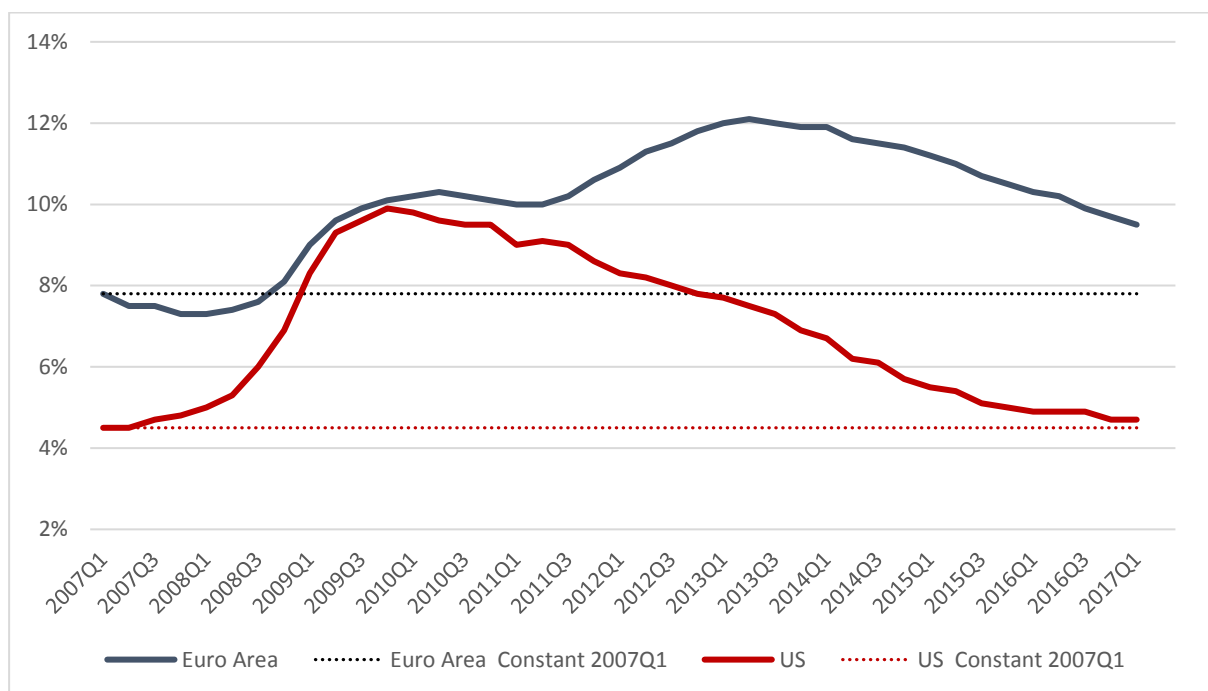
⁴ World Bank (2017), "[Global Economic Prospects](#)", Washington, D.C.

⁵ Charles Whalen (2016), "[Uncertainties in the Economic Outlook](#)", Congressional Budget Office, Washington, D.C.

⁶ Bank of Japan (2017), "[Outlook for Economic Activity and Prices – April 2017](#)", Tokyo.

The euro area's unemployment rate for 2016, as shown in Figure 1, stood at 10.04%, in sharp contrast to 3.14% in Japan and 4.91% in the US. While Japan's unemployment rate is currently lower than at any time this century, and the US rate has returned to its historically low levels, the euro area's unemployment rate remains high by both OECD standards (6.32% mean) and compared to its own pre-crisis levels (7.50% mean for 2008). Around one-half of the unemployed in the euro area have been jobless for a year or more,⁷ compared to 14.4% for the US. The youth unemployment rate in the euro area sits above 18%.⁸ Perhaps the only encouraging euro area employment rate is that for women, who rose to record-high employment in 2016.

Figure 1. Unemployment rates in the euro area vs the US, 2007-17 (%)



Source: Own elaboration using seasonally-adjusted data from the US Bureau of Labor Statistics and Eurostat.

The absolute labour force numbers for the euro area are similarly poor. In 2007Q4, total employment in the euro area was around 3.5 million greater than in the US. As of 2016Q4, total employment in the euro area was around 150,000 less.⁹ While the US labour market grew steadily from 2010 onwards, the euro area only picked up three years later. In fact, the US has posted

In 2007, total employment in the US stood around 3.5 million less than in the euro area. In 2016, total employment in the US was around 150,000 greater.

⁷ European Commission (2017), op. cit.

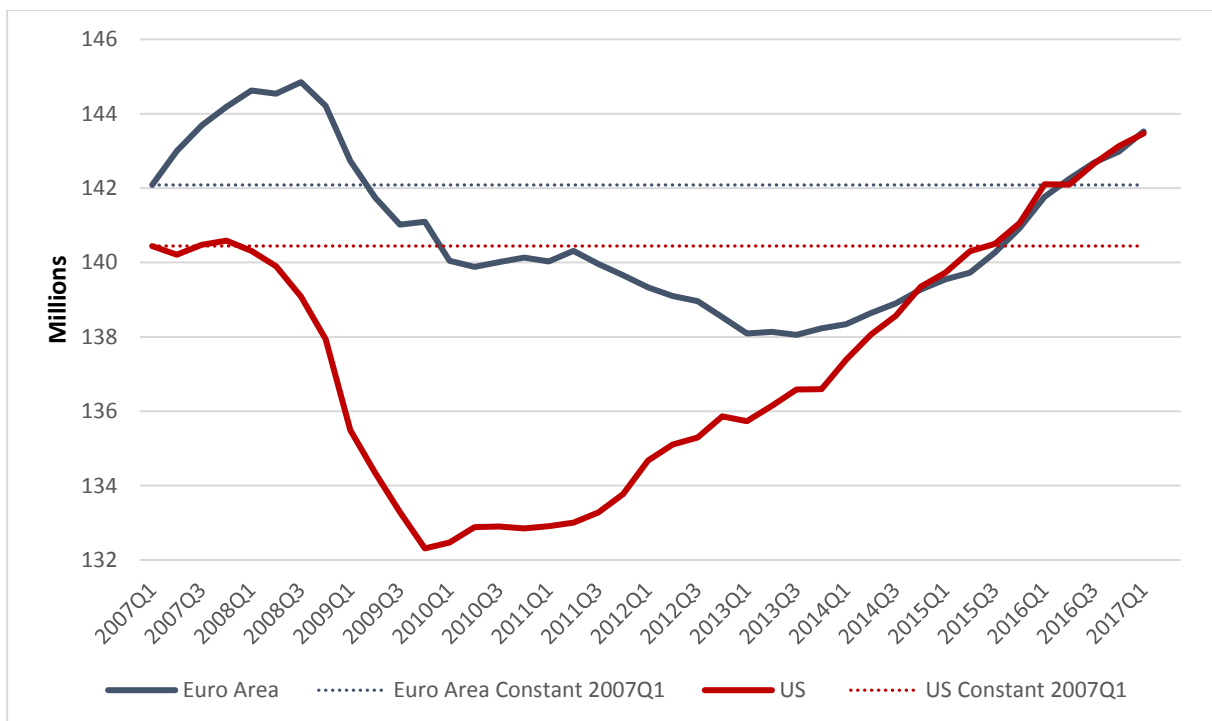
⁸ Bureau of Labor Statistics (2017), "[Labor Force Statistics from the Current Population Survey](#)", US Department of Labor.

⁹ Eurostat (2017), "[Unemployment rate - quarterly data, seasonally adjusted](#)".

job gains for 81 consecutive months beginning in October 2010.¹⁰ The euro area has only experienced a growth in jobs since 2013Q4.

Some would attribute labour market trends to demographics, arguing that low US unemployment is deceptive. For example, a study by Thomas Klitgaard and Richard Peck at the Federal Reserve Bank of New York suggests that low unemployment in the US is largely due to a shrinking workforce.¹¹ This is a fair point, but misleading when intended to present the euro area's labour market as normal. While demographics may help explain the low unemployment rate across the Atlantic, they cannot explain the euro area's lack of job growth and generally weak labour performance. The bottom line is that midway through 2017, despite all the talk of recovery, the total euro area labour force has yet to return to 2007Q4 levels.

Figure 2. Total employment in euro area vs the US, 2007-17



Source: Own elaboration based on seasonally-adjusted data from the US Bureau of Labor Statistics and Eurostat.

2. The bigger picture

However, not all labour market indicators paint a bleak picture for the euro area. Even before the Great Recession, as shown in Figure 3, labour force participation rates in the euro area and the US were moving in opposite directions and they continue to do so. US labour force participation has been on the decline for some time, particularly in response to the Great Recession. Discouraged Americans of prime working age have dropped out of the labour force

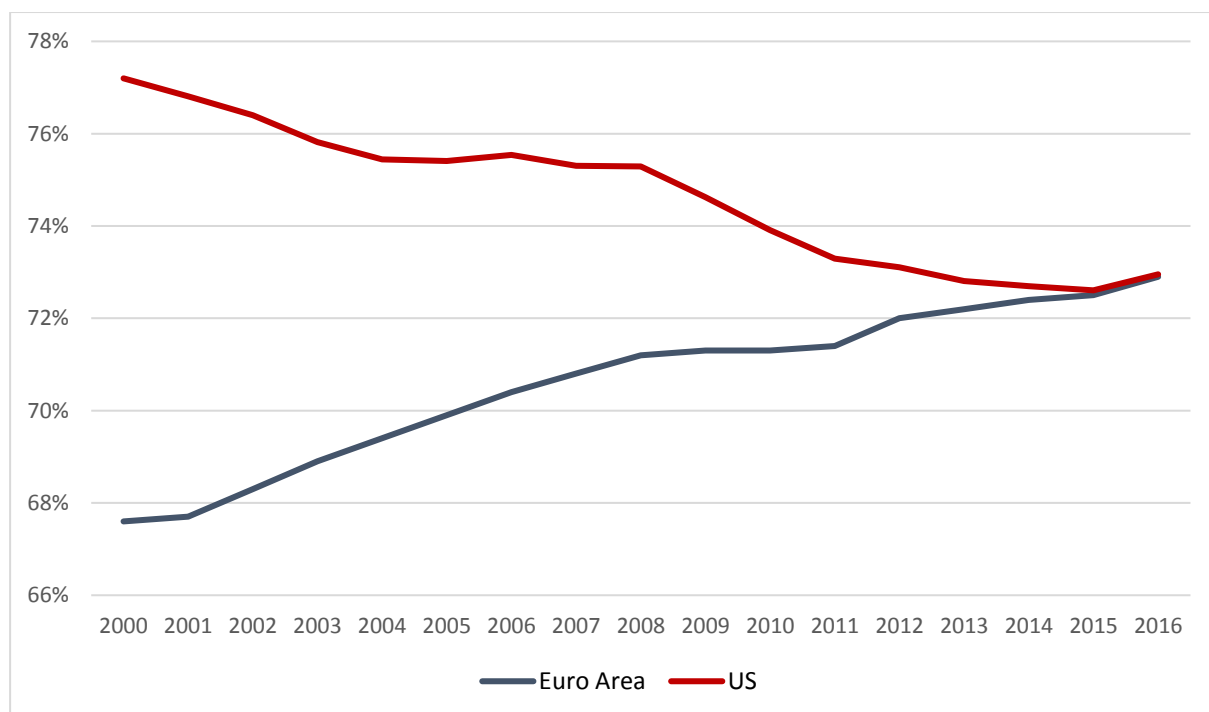
¹⁰ Bureau of Labor Statistics (2017), "[Employment, Hours, and Earnings from the Current Employment Statistics survey \(National\)](#)", US Department of Labor.

¹¹ Thomas Klitgaard and R. Peck (2014), "[Comparing U.S. and Euro Area Unemployment Rates](#)", New York Federal Reserve, 4 February.

in large numbers¹² at the same time that more Americans aged 65 and up continue to work later in life.¹³ In fact, the euro area's labour force participation rate recently converged with that of the US, which might suggest that the euro area's long-term labour market outlook is not as dire as the doomsayers would have us believe. It also highlights the limitations of unemployment rates to allow a full understanding of labour market conditions.

It would be folly, however, to understate Europe's persistently poor job performance. Even if certain longer-term trends such as labour force participation rates indicate that the US is on the wrong track while the euro area is improving, it cannot obscure two factors: i) the euro area's high total, youth, and long-term unemployment and ii) the tardy recovery of the European labour market, which only resumed growth three years after the US.

Figure 3. Labour market participation rates in the euro area vs the US, 2000-16



Note: Labour market participation is calculated as the sum of the employed and unemployed aged 15-64 years old, divided by the total population of the same ages. The converging lines indicate that prime age workers in the US and the euro area currently participate at similar rates.

Source: Own elaboration based on data from the OECD and Eurostat.

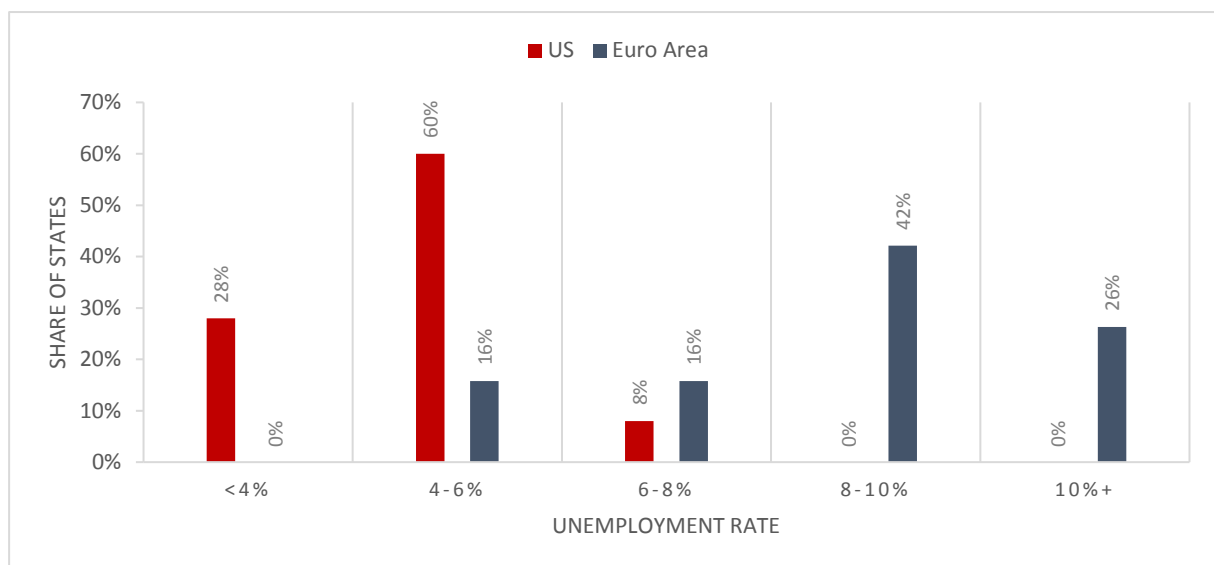
¹² Yuki Noguchi (2016), "[An Economic Mystery: Why Are Men Leaving The Workforce?](#)", National Public Radio, 6 September.

¹³ John Hanc (2017), "[Workers are Working Longer – and Better](#)", New York Times, 2 March.

3. Conclusions and recommendations

Some would downplay the significance of these factors, arguing that the euro area's labour market performance is highly differentiated and that its poor showing is largely due to a few lagging economies. But we find this reasoning unpersuasive. As shown in Figure 4, strong-performing member states and sub-regions have counterparts in the US, while weak performers do not. As of Q1 2017, the highest unemployment rates for the US were in Alaska and New Mexico: around 6.5%. By comparison, Greece's unemployment stood at 23% in October 2016. Even excluding Greece as an outlier, Italy has double the unemployment rate of the worst-performing US states, and Spain roughly triple. As of April 2017, 41 out of 50 US states have unemployment rates below 5%, 20 states stand below 4% and five states below 3%.¹⁴

Figure 4. Share of states by unemployment rate: US vs euro area (annual averages 2016)



Note: Unemployment rates are annual averages for 2016, using the 50 US states and the 19 member countries of the euro area. For example, Germany, Luxembourg and Malta fall between 4-6% unemployment, representing 16% of the euro area's member states.

Source: Own elaboration using data from the US Bureau of Labor Statistics and Eurostat.

In short, the labour market of the euro area is the most enduring loser of the Great Recession, whether one is considering unemployment rates or absolute employment numbers. A recent European Commission publication reported modest labour market improvements and praised a “job-rich recovery”,¹⁵ but policymakers must guard against interpreting such reports as grounds for satisfaction. Instead, they must redouble their efforts to stimulate the labour market, concentrating on its most vulnerable and problematic areas. That means targeting the

¹⁴ Bureau of Labor Statistics (2017), “[Local Area Unemployment Statistics](#)”, US Department of Labour.

¹⁵ European Commission (2017), op. cit.

regions where unemployment is the highest, as well as demographic groups whom the recovery has passed over – notably the long-term unemployed and youth. Above all, it means continuing the efforts to ensure that macroeconomic conditions are conducive to jobs growth.



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