Unemployment: The Great Recession and Beyond

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1 Introduction

The Great Recession has severely affected the economic scene in many countries. Real GDP growth was negative in the OECD countries during the period 2008–2009 to an extent not experienced before in the post-war period. The large economic shock has led to a decrease in employment growth, a fall in labour-market participation rates and a substantial rise in unemployment rates in many countries (OECD 2014). Although the adverse shock has been felt worldwide and has been comparable throughout most OECD countries in terms of GDP effects, the rise in unemployment rates has been very different.

Understanding unemployment patterns and discussing policy options has been the main reason for the Ministry of Social Affairs and Employment in the Netherlands to organise the conference *Unemployment: The Great Recession and Beyond*. The conference was organised in cooperation with the CPB Netherlands Bureau for Economic Policy Analysis and *De Economist*. The idea was to discuss recent labour-market developments in the Netherlands in an international comparative perspective. This *special issue* of *De Economist* consists of four papers that were presented at the conference.

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2 Background

Before discussing the contributions of these four papers in helping to increase our understanding of the causes and consequences of unemployment, I first present a number of basic facts about unemployment patterns in the last decade.

Figure 1 consists of two panels. The figures from the second quarter of 2015 onwards are OECD projections. The two panels document the year-on-year percentage changes in real GDP growth and the unemployment rate for the OECD countries, the Euro area, Japan and the United States. The Great Recession hit these countries in 2008–2009 with strong negative effects on growth rates. Especially Japan experienced a large drop in GDP growth, measured as the year-on-year percentage change, whereas the United States seemed to be least hit by the adverse shock. Unemployment rates in Japan and the United States went up as well from 2009 onwards. Although the adverse shock to GDP was larger in Japan, the unemployment response seems smaller compared to the United States. What is also interesting to observe is that unemployment started to fall within a year after the adverse shock in both Japan and United States.

For the OECD as a whole, and especially for the Euro area, the story seems different. Although GDP growth rates have recovered, unemployment rates have remained high and are only slowly falling in the last 2 years. The so-called double dip is also visible in the figures for the Euro area. After the first adverse shock there was a second period of negative growth rates in 2012–2013. As a result, unemployment rates have increased further from about 8 % on average in the last quarter of 2008, to 10 % in the last quarter of 2010, to almost 12 % at the end of 2013. From 2014 onwards, employment growth has been positive for the Euro area as a whole. For comparison, positive employment growth was already observed by the end of 2010 in the United States and from 2012 onwards in Japan.

Among those who are unemployed, an increasing share is out of work for more than 1 year. The main reason for this seems to be the size and length of the recession. This possibly leads to higher levels of depreciation of human capital, more social problems and a higher risk of labour-market exclusion (e.g., Kahn 2010; Davis and von Wachter 2012). Recent studies by Kroft et al. (2014) and Krueger et al. (2014) report that although the unemployment rate is falling, the participation rate in the United States has also been falling. This implies that part of the unemployed have become discouraged and have withdrawn from the labour market.

Figure 2 consists of two panels. The panels show the change in long-term unemployment rates from the second quarter of 2007 to 2014. Long-term unemployment rates are measured as the share of unemployed who are unemployed for more than 12 months. With the exception of Germany and Luxembourg, almost all countries have experienced a strong rise in long-term unemployment. Southern European countries and Ireland are among the countries who have seen long-term unemployment increase the most, but also Denmark, the United Kingdom and the United States have experienced a rise in long-term unemployment of about 11 percentage points. Denmark and the United States are usually characterised by low rates of long-term unemployment because of their institutional setting which encourage re-employment (e.g., Andersen and Svarer 2012; Freeman 2013). Of course the initial level of long-term unemployment is important for understanding the developments in the first panel of Fig. 2. That

Fig. 1 Real GDP growth and unemployment, 2007–2016. *Source* OECD Economic Outlook (database), <http://dx.doi.org/10.1787/data-00688-en>

Fig. 2 Long-term unemployment in OECD-countries, 2007–2014. *Source* OECD Economic Outlook (database), <http://dx.doi.org/10.1787/data-00688-en>

is why the second panel shows a scatter plot of the level of long-term unemployment in 2007 and 2014 (final quarter). The first conclusion is that long-term unemployment rates in 2007 correlate positively with those in 2014. Portugal, Ireland, Greece, Spain and Italy had a high share of long-term unemployment in 2007 and have also experienced a relatively large increase. On the other hand, Denmark, Sweden and the United States had a relatively low rate of long-term unemployment but have also seen a relatively strong rise in the share of long-term unemployment. There does not seem

to exist a pattern of convergence in the sense that those countries with low rates have experienced stronger increases nor does there seem to be a strong pattern of divergence in the sense that long-term unemployment has particularly risen in countries who had already high rates at the onset of the Great Recession.

Currently, unemployment is declining and employment rates seem to recover as economic growth rates improve. However, many of the jobs destroyed during the recession are not coming back in the recovery (e.g., [Farber 2015](#) for the United States). Especially in construction and manufacturing the rates of job growth seem to be low. New jobs seem to be created in business services, which benefit white-collar higher educated workers most ([OECD 2014](#)). In addition, there is some evidence that the recession disproportionately affected the position of underrepresented groups, such as minorities (e.g., [Cerveny and Van Ours 2013](#)) and youngsters (e.g., [Bell and Blanchflower 2011](#)). This raises concerns about mismatch of demand and supply and rising inequality because of better labour-market perspectives for higher educated workers compared to lower educated workers.

3 Contributions to this Issue

Research about the impact of the Great Recession on OECD labour markets is scarce, but knowledge about the mechanisms and consequences is increasing (e.g., [Cazes et al. 2013](#); [Ball 2014](#); [Hoffmann and Lemieux 2014](#); [Van Ours 2015](#)). This *special issue* contributes to the literature by first presenting two papers on unemployment trends in the Netherlands. Since the Great Recession, Dutch unemployment has increased substantially. The unemployment rate has more than doubled from 4% in 2008 to over 8% in 2014. Figure 3 shows the development of the GDP growth rate and the unemployment rate in the Netherlands. The GDP growth figures seem to be similar to the ones for the Euro area as a whole. The pattern of unemployment is also similar to that of the Euro area with a first mild increase in the period 2008–2009 and an acceleration from 2010 onwards. The very low rates at the onset of the crisis suggest that concerns about high natural rates of unemployment and hysteresis, which were characteristics of the Dutch labour in the 1970s and 1980s—and documented in this journal before—have been losing importance (e.g., [Van den Berg 1982](#); [Graafland 1988](#); [Broer et al. 2000](#)). Nevertheless, the current rate is high and only slowly coming down.

[De Graaf-Zijl et al. \(2015\)](#) analyse the economic mechanisms that caused the increase in long-term unemployment during the Great Recession in the Netherlands. Compared to many of its Northern European peer countries and Germany, the Netherlands experienced stronger unemployment growth and lost its leading position in terms of low unemployment rates (see Figs. 2, 3). The paper presents a decomposition of GDP changes during the Great Recession. A shock can be absorbed by price and/or quantity adjustments. The analysis shows that a relatively large part of the adverse shock translated into unemployment. By contrast, in countries such as Germany, wages absorbed a larger part of the shock (e.g., [Weber 2015](#)). As a result, the Netherlands faced a relatively strong increase in long-term unemployment, particularly in recent years. The estimates in the paper also show that long-term unemployed workers are

Fig. 3 Real GDP growth and unemployment in Denmark, the Netherlands and Germany. *Source* OECD Economic Outlook (database), <http://dx.doi.org/10.1787/data-00688-en>

on the margins of the labour market: neither real wages nor the number of vacancies seem to respond to an increasing rate of long-term unemployment. This is consistent with the findings of [Krueger et al. \(2014\)](#) for the United States and could possibly be an indication of long-run problems for those on the margins of the labour market and of structural problems in terms of lower future participation rates. Finally, the composition of long-term unemployment reveals that older workers are more often long-term unemployed than others, a feature also addressed in [Bosch and Ter Weel \(2013\)](#). About 40 % of the long-term unemployed workers are over age 50, which is almost twice as much as the EU average.

[Erken et al. \(2015\)](#) analyse the extent to which mismatch in the Dutch labour market plays a role in the relatively slow recovery of the Dutch economy and labour market. Policymakers have been concerned about mismatch and the OECD hints to problems in this area as well ([OECD 2014](#)). The paper investigates different types of mismatch. The estimated coefficients suggest that mismatch has not structurally increased since the Great Recession. About 13 % of the total unemployment rate can be attributed to mismatch between sectors. The discrepancy between the concerns of policymakers and the findings in this study seem point at the fact that sector size plays an important role. For example, there could be “shortages” of certain ICT specialists or specific technical personnel or “over supply” of bookkeepers and administrators, but these have only limited impact on unemployment at the macro-economic level. These sectors or occupational groups seem to be too small to absorb the increase in (un)employment from other sectors and occupations. The view that mismatch is a major problem in the Netherlands could also trigger ineffective policies, for example large-scale retraining courses or relocation arrangements to places where there is higher demand. There are already regulations that have as main objective to improve mobility between sectors and encourage retraining. These arrangements may of course be useful for individual companies and sectors that are experiencing difficulties. But, based on this study, one should not expect that unemployment will be significantly reduced.

The two analyses about the Dutch labour market are complemented by two other papers. The first paper is about unemployment in Germany. The German labour market seems to be unaffected by the Great Recession as [Fig. 3](#) shows. Regardless of the adverse economic shock, unemployment seems unaffected and is even falling over the last decade (e.g., [Dustmann et al. 2014](#)). Why is this the case? [Weber \(2015\)](#) documents and interprets the trends in the German labour market. His findings suggest that the Harz reforms of 2003–2005 have been key to the successful labour-market performance in recent years. Before the reforms (and after the unification) unemployment had risen to rates above 10 %. The reforms have put emphasis on incentivising the unemployed to search for new work fast and have stimulated self-employment. Also deregulation has opened avenues for more flexible contracts, such as temporary agency jobs and fixed-terms contracts. Finally, short-time work arrangements have provided measures to adjust hours during a recession but are not without costs because they could reduce labour supply without creating new employment opportunities (e.g., [Van Vuuren and Ter Weel 2011](#); [Balleer et al. 2013](#)). The overall result of the reform seems to be an increase in labour-market efficiency in matching supply and demand, which is for example documented by an inward shift of the Beveridge curve, i.e. a relatively strong reduction of unemployment without strongly reducing the number

of vacancies (e.g., [Fahr and Sunde 2009](#)). At the beginning of 2008 unemployment was about 8 %, but has been falling throughout the period until 2014 and is expected to fall further next year. However, although the rate of long-term unemployment has fallen substantially (Fig. 2), the level is still above the OECD average. The downside of the low and falling unemployment rate seems to be a higher rate of precarious employment in so-called mini-jobs. The policy discussion in the Netherlands about for example self-employed workers who earn relatively low wages and the level of the minimum wage has similar features of the trade-off between employment and wages.

The final contribution presents an analysis about the Danish labour market by [Andersen \(2015\)](#). The Danish flexicurity model implies that employers have sufficient flexibility to hire and fire workers, but at the same time workers are protected in the sense that they are actively supported to find work and receive relatively high benefits when they are temporary out of work. Such a labour market, with flexible firing rules, is expected to face a large immediate effect on unemployment when it experiences an adverse economic shock (e.g., [Andersen 2012](#)). Figure 3 shows that the Danish unemployment rate was low before the Great Recession. The Great Recession has also affected Denmark severely. Figure 3 shows that output has been falling by almost 6 % (from peak to trough) and the unemployment rate has increased by more than 4 percentage points to almost 8 % in the period 2010–2012. Unemployment is now falling, but at a relatively slow pace. Underneath this pattern of unemployment is the dynamics of the flexicurity model. Incentivising people who lost their jobs to search for work or enter training programmes has resulted in substantial labour-market flows that have kept long-term unemployment rates low. Nevertheless, the Great Recession has put pressure on the Danish labour-market model and induced reforms towards more flexible activation and training programmes that are both cheaper and more focussed. This could be a lesson for Dutch policymakers who are concerned about the mismatch between labour demand and supply. Mitigating problems of poaching and hold up by providing vouchers or tax credits could be useful but the effectiveness should be carefully monitored.

The overall picture of the development of unemployment during and after the Great Recession seems to be mixed across countries. Most countries have experienced a rise in unemployment, which now falls as the economy recovers. [Van Ours \(2015\)](#) reports that Okun's law is stable over time, which implies that fluctuations in unemployment are largely driven by fluctuations in GDP growth. Different experiences across countries in this *issue* seem to be due to differences in the shares of long-term unemployment, which is low in Denmark, moderate in the Netherlands and still high in Germany. Currently unemployment rates are falling in all three countries but the level from which it is falling and its pace is different. This is most likely due to differences in institutions. Investigating these differences is useful. Differences in unemployment insurance, employment protection legislation and activation are present between Denmark, the Netherlands and Germany. These differences should be studied and understood, but it is important to stress that these institutions are effective (or not) within a country-specific setting. This renders the naive copying of parts of these institutions unlikely to be successful. This does not mean that structural institutional shortcomings should be discussed and if feasible be taken care of.

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