Technical Change, Sectoral Dislocation and Barriers to Labor Mobility: Factors Behind the Great Recession

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Abstract

The global financial and economic crisis, which began in late 2007 (Great Recession) is the worst international crisis since 1929 (Great Depression), and still affects many countries. This paper attempts to determine if the theory of “extended crises” presented by Delli Gatti et al. (2012) is consistent with empirical evidence. The analysis is carried out using two approaches. The first part of the paper is purely descriptive and is dedicated to a comparison between structural differences and different patterns of development in six countries: France, Germany, Italy, Spain, UK and US. Using data on the major world economies (KLEMS and STAN) since 1970, we show that the fundamentals behind the “extended crisis theory” apply to these economies. We focus particularly on Italy, Germany and the US. Among large economies, Italy is one of the most affected and still not recovering, even though the Italian financial sector appeared to have been less exposed to the 2008 shock than other countries. The crisis in Italy could be directly connected to the failure of the Italian economy to move to an economic system based on more skill-intensive production, in particular in the service sector (as in the US). The US financial sector was extremely exposed to the 2008 sub-prime crisis but US economy recovered much faster than in many European countries. Germany is the leading European economy, generally considered in European public debate as the example to be followed. In the last part of the paper the analysis is broadened, involving more countries in a panel analysis approach: different specifications of panel probit/logit models are presented, in a first attempt to investigate the roles of both structural features and financial shock in explaining the extent of the crisis in different countries.

Keywords: Extended Crises, Structural Change, Productivity, Knowledge Economy

1. Introduction

The global financial and economic crisis, which began in late 2007 (Great Recession) is the worst international crisis since 1929 (Great Depression), and still affects many countries to this day. Its causes, consequences, and potential solutions have been researched and discussed by numerous scholars, world policymakers, and media. Traditional explanations range from lack of regulation, unjustified optimism about the housing market, and in general about prices and equity risks. Wrong policies pushed housing and financial assets to unsustainable values. However, this crisis is lasting longer and doing more damage than any other post-WWII crisis (only Japan is experiencing something similar since the nineties). Faced with such a prolonged and damaging crisis, it is legitimate for scholars to look for less traditional and more structural explanations. In this context, the approach proposed in Delli Gatti et al. (2012) seems particularly promising.

This paper aims to verify if the theory of “extended crises” proposed by Delli Gatti et al. (2012) is consistent with empirical evidence. We summarize the theory as follows: an uneven (positive) productivity persistent shock
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