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The Not So Great Recovery—
Economic Policy in the Making of the
European Crisis of Youth

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Abstract

The current economic misery in Europe is often framed as an inescapable consequence of the financial crisis. However, a multilevel comparison based on the European Quality of Life Survey shows that there are important differences in how different countries have faced the crisis. Results show that structural economic changes has contributed to the crisis of employment as much as the sovereign-debt crisis has. Results also suggest that social expenditure has been one of the most efficient ways to support young adults' employment and wellbeing, while the effects of non-social fiscal stimulation are disadvantageous. This study then argues that while the role of cabinet composition is negligible when controlled for welfare and fiscal policy, the focus should be put on the role of public expenditure and particularly its type. Moreover, in advanced welfare states the effects of the so-called fiscal devaluation are controversial. The study concludes that cuts to social expenditure have not only undermined the relative position of youth but also the sustainability of debt and the long-term prospects of economic and social recovery.

Keywords: European crisis, economic crisis, youth unemployment, social policy, fiscal consolidation

Introduction

We were all shocked when we first learned about the financial crisis in September 2008. Each day brought us news about Lehman Brothers, the American subprime mortgages and the associated collateralised debt obligations (CDS), things that were completely foreign to most of us before (Langley, 2008). Markets sank despite the faith in the highly technical risk assessment models like CDS and ABX introduced a few years earlier—or possibly because of them, failing to account to the geographical interdependencies in the housing market or the counterparty risk in the derivatives market. (MacKenzie, 2012).

The Federal Reserve was quick to stabilise the inter-bank market, however, and despite the economic 'frictions' following the melt-down (Hall, 2010) nearly doubled in the US unemployment rates (Appelbaum, 2011), the global recession ended soon, in March 2009, following with 5.3 % global growth in 2010.

The developments were very different in the EU, where the initial impact of the banking crisis was. Instead, it was the political frictions caused by its complex 'multi-layered' government (Christiansen et al., 2001; Dale, 2004; Marks et al., 1996; Rosamond, 2000; Walters, 2004) that made the financial fallout fall onto the shoulders of individual nation states instead of the currency union as a whole. As a result, the unemployment rates continued to grow in the EU when they were already falling elsewhere.

This suggests to ask whether the economic crisis is, above all, a banking crisis, or whether it rather reflects a more pervasive economic trend resulting in the seven year long increase in unemployment rates. At least part of the economically adverse effects could also be attributed to the failure of financial consolidation in the Eurozone, which was feared since the establishment of the common currency (e.g. Théret, 1999). Economic policy is increasingly dominated by the Eurogroup instead of the individual nation states, and has been driven by austerity, that is, the attempt to balance the public economies by cutting social security and other forms of public spending.

One of the most immediate victims of such policies have been the Greeks, almost a third of whose working age population is now yearning for jobs. It is true that the Greek economy benefited from debt driven boom prior to the financial crisis, but the price they

are paying for it has been characterised as ‘inhuman’, with half of the public income now spent on interest payments alone. The bailout money never saw the pockets of Greek citizens but were used instead to cover up the €1 trillion mistakes of German and French financial elites.

As a result, there has now been fourteen austerity packages in Greece. It all started with a pay freeze, cut in bonuses, cuts in overtime compensation, the firing of public employees and reduction of public work-related travel. The second austerity package, in March 2010, aimed to save another €4.8 billion, whereas not much later, in May 2010, €38 billion budget cut downsized wages, allowances, and pensions. The fourth package, 'mesoprothesmo', took place in June 2011 accompanied with 24-hour strikes and massive protests after the privatisation of government property worth 50 billion euro. The fifth package consisted of a 22 % cut to the minimum wage previously of 750 euro a month, a cut of 150,000 jobs by 2015, pension and holiday bonus cuts, health and defence spending cuts, privatisation worth €15 billion and so forth. The sixth austerity package passed in November 2012 included structural reforms and professional deregulation. Two other packages were installed in 2013 and 2014, including the lay-off of 15 000 public employees, pay freezes, and cuts to government expenses like health care. After the electoral victory of the leftist Syriza coalition, three additional austerity packages have been imposed, including tax hikes, reforms to the pensions system and the privatisation of €50 billion worth public property in unappealing prices, in addition to the further cuts to pensions and changes reducing the progression of income tax introduced by the Syriza-led government in 2017.

It is hard to believe such measures would lead to anything beyond moral fury. Instead of cultivating growth, people keep their hands on the little that they still have, affecting negatively not just on private spending but also on public income. Ireland, Portugal and Spain have faced similar, though less exaggerated sprawl of austerity, including salary freezes, public pay cuts and the rush to privatisation. And the measures extend also to those countries in Eastern Europe which are not the formal members of the Eurozone (cf. Fóti et al 2005; Baranowska et al., 2011), but have still chosen to avoid devaluation voluntarily.

Germany and other Protestant countries, on the other hand, have adopted policies like the weakening of worker rights and trade unions as part of the bargain, even without

running such high levels of public deficit. The emphasis has been on conducting the so-called 'structural reforms' in the labour market—a term which British conservative representative Norman Lamont has reflected as a 'phrase everyone uses but no one knows what it means'.

The rationale of this study is to take the 'economic' back to (social) politics, examining actual effects of fiscal policy during the crisis. We will focus not just on the outcome of fiscal consolidation overall, but compare its qualitatively different forms: the effects of *social* and *non-social*[i] spending during the crisis. Even if cuts are viewed as being mandatory, governments at least choose from where to make the cuts from.

We will first overview the existing literature on austerity during the crisis. We will then introduce multilevel and variance decomposition methods. The relevance of fiscal policy will be assessed based on several policy indicators in the context of unemployment, deprivation and subjective representations of economic wellbeing. Finally, we will discuss the extent to which fiscal consolidation has been necessitated by the crisis and whether national governments have room to conduct meaningful fiscal policy even under economically tight circumstances.

Background: The Crisis, Austerity and Fiscal Devaluation

The standard narrative frames the financial crisis from an epistemological point of view, referring to the CDS and ABX technologies whose inter-dependencies behind the market failure (MacKenzie, 2012; Bryan et al., 2012; Davies and McGoey, 2012). The crisis is then viewed as being caused by factors outside the control of national parliaments, at least other than the proposed regulatory responses (cf. Engelen et al., 2011; also Woods, 2005), even though it was national governments that had to pay a drastic price for bank failures. We must also not forget that the 'cognitive interdependencies' (Beunza and Stark, 2012) followed a real economic recession that began already in late 2006, and it is clear that the recessionary fabric of the European economies, which have struggled with youth unemployment and public account imbalances for years, exposed the faulty functioning of the derivatives markets. Real economic problems were then further exaggerated by 'frictions' (Hall, 2010) induced by the global, but brief, financial meltdown.

The crisis, which became prolonged largely only in Europer, thus turned into a political symbol of the problems inherent to the European economy. The Eurozone has a shared financial policy subject to political conflicts between the member states. Therefore, this study adopts a view that treats the crisis as a narrative combining various economic, governmental and national tendencies, seeking to address their mutual relevance. We particularly address the qualitative differences in national economic policy, focusing on after what kind of austerity we might expect to see the best outcomes.

Austerity has indeed been a predominant economic policy following the crisis (Chung and Thewissen, 2011), especially in Europe, even if it has not been proven to expedite growth. Stiglitz and Krugman both have argued that austerity in Greece has been way beyond the limits of economic sanity (Sklias and Tzifakis, 2012), and the crisis has turned into a vital one as austerity has resulted in a vast increase in suicide rates among older Greeks, while the younger ones have fled the country (Antonakakis and Collins, 2014). Austerity has been promoted as a technical necessity, referring to budget constrains as the banks in the Eurozone were 'too-big-to-bail'. But other reasons are 'ideological', based on flimsy, scientifically unproven principles of what promotes economic growth (Blyth, 2013). In particular, the idea of treating the welfare state as being too expensive involves the infusion of micro- and macro-economic ideas: governments are not like households who can balance the economy by cutting spending. This is because at the level of the economy as a whole, gross spending and income are close to equal, so any cuts in spending are balanced by a similar cut in production.

Even so, periods of 'fiscal consolidation' have been typical to all recessions of the 1970s, 1980s and 1990s (Burton, 2016: 4), not to name the Great Depression. And as public spending now accounts to an increasing share of all economic spending, the question of austerity has become even more urgent. What is particularly debated is the question of proper economic policy during crises: the Keynesian scholars emphasise the role of public spending in covering for the shocks in private demand. The neoclassical school, by contrast, is more inclined to think that public economies should adjust to budget constrains, because the private sector better ensures the economic rationale of production.

Both of these views are economistic, however, in that they treat public spending principally as a single category, whereas this paper seeks to examine the effects of

different kinds of public spending during the crisis. Even under economically tight circumstances there is room for political decision making, as governments choose to emphasise *non-social public expenditure* or decide to maintain adequate level of *social protection* instead, transferring spending capacity back to the private sector. This could be taken as a sign of the compatibility of welfare transfers with the neoclassical market ideology, as spending capacity is then distributed through a large range of consumers. Yet social protection is seldom treated that way. Instead, the so-called 'internal' or 'fiscal devaluation' has now been proposed as a measure by which countries could reduce the costs of labour while 'making companies more competitive'. The proponents of such policies expect 'reducing social security contributions for employers' to 'strengthen economic growth', 'stimulate exports and result in positive employment effects'. (Bernoth et. al., 2014: 12.)

Such policies have been proposed as a solution to stimulate growth at the detriment of existing social models in the Eurozone (Hermann, 2013, also Kvist, 2013) and even countries like Latvia with their own currency and financial policy (Weisbrot et al., 2010). Given the negative effects of fiscal consolidation on aggregate demand, cuts to protection are compensated by lowering value added tax (VAT) for goods like food that the poorest are believed to spend relatively more on, as was done as part of Portugal's initial arrangement with the IMF. However, Mooij and Keen (2012) argue that the rich still spend more on food in absolute terms, which is why such changes to VAT do not notably eliminate the regressive nature of such taxes, that is, the fact that those with low income pay a relatively higher share of their income on VAT. The cuts to social transfers have similarly a regressive effect on the overall level of taxes and transfers, risking to contribute to financial inequality.

Based on these debates, what is the most important is not only the overall level of public spending but its wise usage. Yet we argue that in advanced welfare economies the effects of fiscal devaluation could be the opposite to the desired ones, which are more likely to be realised in countries highly dependent on exports (Monastiriotis, 2014). Eastern Europe has, indeed, benefited more due to its export driven growth and the lower wages to begin with (cf. Győrffy, 2015), while the application of such policies for example in Greece has clearly failed. What economists ignore is the sociological fact that different kinds of expenditure have a constitutive role over the market: the history

of welfare states is also a history of wage-labour (cf. Castel, 2003). Fiscal devaluation results not only in regressive forms of taxation but insecurity and discontinuity, bearing adverse effects on social inclusion (Frazer and Marlier, 2011). It also tends to lower the fiscal multipliers, that is, the portion of income spent and thus flowing back to the economy (cf. Marinaş, 2010).

In this study, we do not focus directly on the effects of fiscal consolidation or devaluation but they are reflected instead in the changes in the level of social expenditure (excluding health related costs and ageing which are less directly controlled by the state). It is also worth noting, indeed, that the studied forms of social protection and fiscal devaluation are almost negligible from the point of view of to budget constrains: for instance, social protection on employment forms only 1–3 % of total expenditure. Such policies are thus indeed *policies* rather than necessities, targeting to reshape the labour market. It can be reshaped either through decommodification, allowing the unemployed with more negotiable position (Esping–Anderssen, 1990), or through recommodification, cutting protection to create higher incentives to work (Jessop, 2002; Silverman, 2003). By contrast, from the point of view of budget constrains, non-social government expenditure is the major economic factor explaining the growth of public spending over the past decades.

Research Design

Purpose of the Study

The purpose of this study is to examine the effects of national policy during the crisis. First, we will compare the effects of national policy with other regulators like the depth of the sovereign-debt crisis and the structure of the economy. Second, we will contrast the effects of fiscal policy with the composition of the cabinet. Third, fiscal policy will be studied by comparing the effects of specific forms of social expenditure with non-social expenditure. They allow us to address the effects of different kinds of fiscal stimulation and consolidation.

Multilevel and Variance Decomposition Methods

Multilevel methods were developed in response to several social scientific critiques arguing quantitative social research to fail to distinguish between levels at which data has been collected (e.g., Blau, 1960; Hauser, 1970; Lazarsfeld, 1959; Lazarsfeld and Menzel, 1961), leading to 'atomistic' or 'ecological' errors depending on how the data is used (Diez Roux, 2003). The methods decomposes the variances of the effects *within* and *between* countries. By looking at changes in between-country variances—the so-called random effects—as national level predictors are added, it is possible to assess their relative importance. At the same time, unlike the generalized estimating equations standardly used in epidemiology (Frank et al., 1998), the generalised linear mixed modeling (GLMM) allows estimating the so-called fixed effects as well, making the approach compatible with the logistic regression models traditionally used by social scientists.

Description of Data

The data is modeled both on the *individual basis*, in different demographic and socio-economic groups, and across *national contexts*, based on the public financing crisis, the structure of the economy, policy and equality. The individual level data comprises the *European Quality of Life Survey* (EQLS). It is a cross-sectional data collected by the European Foundation for the Improvement of Living and Working Conditions (Eurofound), from 1000–2000 randomly selected individuals in each EU-country in every four years. The purpose of the data is to 'examine[] both the objective circumstances of European citizens' and 'how they feel about those circumstances and their lives in general'. We will compare the two rounds collected in 2007/2008 and 2011/2012 in the 27 EU-countries, restricting the analysis to 18–64 year-old respondents. The national level data is provided by Eurostat.

Structure of the Model

In regression analysis there are two kinds of variables: predictors and outcomes. In this study, the *outcomes* consist of variables like the employment-status, deprivation and

social exclusion indices, as well as of two variables related to subjective economic wellbeing. The *predictors* instead affect or regulate the different outcomes. In two-level analysis, the latter occur at two levels, reflecting either respondents' demographic status and socio-economic situation, or the economic, financial and political context.

We are particularly interested in the changes of different effects through the crisis: how outcomes have generally changed (e.g., the level of unemployment), but also whether different predictors, like economic growth, regulate these changes. To estimate the general effect, we included the the year of response (*wave*) as an individual predictor in all models. To examine the changes of other effects, in turn, we included their all interactions with the wave-effect. The model can thus be expressed as:

$$Y \quad = \quad \alpha + u + \sum_i \beta_i X_i \quad + \quad \text{wave} \cdot \left(\alpha' + u' + \sum_i \beta_i' X_i \right) \quad + \quad e$$

where u and u' are the random parameters and X_i's stand for both the individual and national level predictors.

Separating the general wave-effect and its interactions with other predictors allows us to distinguish between two temporal perspectives over the crisis: (1) it is both a catalyst of pre-crisis differences (the effect on the constant term) and (2) induces new ones (interactions with other variables). The other effects can in turn be examined in two ways. First, we can compare these interactions as fixed effects directly (coefficients β_i'), or by examining changes in the wave-related random parameter when altering the predictors (coefficients u').

The former approach is necessary for identifying the direction of the effect, whereas the latter approach instead is useful because it allows us to examine the relevance of entire blocks of variables rather than only single ones. Of course, this relative importance is an empirical rather than an analytic issue: even if national policy matters a great deal, it does not contribute to random effects if all countries adopt similar policies. When they do differ, however, the method helps to ensure the validity of the (fixed) effects by indicating which of them make the most important contribution to understanding the observed differences between countries. In most cases, these relevant effects make a significant contribution also when all other effects, including the less reliable ones, are

added. Therefore, we chose to include all predictors when reporting fixed effects (Appendix) in order to control for those variables, even if the fixed effects themselves should only be considered when they are supported by notable changes in the random effects (Tables 2a and 2b).

There are few conditions that need to be taken into account when comparing the residual variances of *u* and *u'* across models. In logistic models the level 1 -error variance cannot be independently identified (e.g., Amemya, 1975; Winship and Mare, 1984; Cramer, 2003) and is standardly fixed at 1. Models (also the variances of *u* and *u'*) are then scaled differently depending on the chosen set of predictors. While alternative methods have been suggested (e.g., Mood, 2010; Karlson, Anders Holm, and Breen, 2012), in the context of multilevel research the error variance is independent of the level 2 –predictors. To enhance the reliability of the analysis, and to account for the possible indirect effects, we will average between models consisting of a different sets of level 2 –predictors.

Variables Used in the Models

The different country-level predictors were divided into four blocks. Three of the blocks consist of variables beyond immediate state control (financial crisis, structure of the economy, welfare) while one of them consists of those reflecting national policy. In addition to the cabinet composition[ii], these include the level of social government expenditure, changes in non-social government expenditure and the overall tax rate. We assessed the relevance of each block as a whole but also several specific policy-effects separately.

One of the most difficult choices was to choose the variables representing social and non-social expenditure. This is because non-social expenditure is more directly controlled by national fiscal policy, whereas social expenditure depends on the number of claimants and thus automatically increases as a function of the unemployment crisis. The focus on the effects of policy also justified exluding health related cost or pensions, which resonate more strongly with demographic change. Therefore, while it makes sense to analyse the changes in non-social expenditure as an indicator of fiscal policy, changes in the level of social expenditure are slower to become visible. We thus used

the overall level of social expenditure, and not change, as a proxy of national welfare policy. However, to ensure that relevant changes from the point of view of fiscal devaluation are also covered, a variable which represents change in the average unemployment-related transfers per claimant was separately analysed.

Table 1. Outcomes and predictors used in the multilevel analyses.

Block	Predictors
Null	No national predictors
Public finance situation	GDP growth 2007–2012, % National debt 2012, % of GDP EMU conversion criterion bond yield, 2012
Economy and equality	The portion of 30–34 year old with acquired tertiary education degree GDP per capita, PPP, euros Gender life expectancy gap, years GINI (economic inequality index, between 0 and 0.5)
Welfare	Southern and Anglosaxon Eastern Nordic and Continental (ref.)
Policy	Cabinet composition Change to cabinet composition The level of social expenditure (excl. health and pensions), % of GDP Increase in non-social expenditure, % Change to tax on income and wealth, 2007–2012, percentage points Change in the level of unemployment benefits per claimant

Procedure

The entire blocks of national predictors were evaluated while comparing the random effects on models with or without a given block. These figures were averaged over models consisting of several combinations of other blocks. This resulted in 12 different models for each outcome, and 300 different models altogether. In each of them two random effects were included (intercept, year of response).

The five policy-effects were then tested individually, so that each model was built with and without the particular predictor. This was done to the 18 different outcome-variables. They were chosen so that the national policy variables reduce the contingency of the model the most significantly. For each of these variables, 12 models were built, totaling in 1080 models altogether.

In both settings, the reduction in random effects was compared for both simpler and more complex pairs of models, allowing us to examine which effects were explained away by other, intervening variables. Based on these values, the relevant predictors were first identified on the basis of how they affect the random effects. Fixed effects were then used to determine their direction.

Results

The current economic crisis in Europe is often framed as the sovereign-debt crisis that was rooted in the global banking crisis. However, the European economies are affected in multiple ways, and some countries might even have benefited from the public financing crises due to historically low bond rates[iii]. To understand the extent to which the crisis stems from these different aspects, and in order to specify the role of national policy, we started by analysing the relevance of the entire blocks of variables to different outcomes. The variables related to national policy were then analysed separately. The average reduction in random effects are reported in Tables 2a and 2b, whereas the fixed effects of the full model are reported in the Appendix.

A Financial or a Structural Economic Crisis?

In terms of unemployment, the analysis confirms that only the *structure of the economy* regulates the pre-crisis levels of unemployment, reducing inter-class variances by 38 %, whereas the unemployment crisis has been further exaggerated depending on the *public finance situation* –block, with the reduction in variance being 46 %. Therefore, as the crisis had a strong multiplying effect catalysing differences that existed before the crisis and making unemployment particularly common where it was high to begin with, the national banking crises as such explain only part of the unemployment crisis whereas the structure of the economy plays similarly important role. Rather, it appears that higher pre-crisis rates of unemployment preceded the emergence of the banking crises.

This interpretation emphasising the role of structural economic change is further supported by the effects of the crisis on *long-term* unemployment: the crisis has not only catalysed pre-existing differences but the structure of the economy itself affects the

way in which long-term rates have changed through the crisis. In particular, it is not the financial crisis alone but other factors that determine what *kind* of unemployment has resulted.

There is little governments themselves could have done in terms of long-term unemployment, though, but there are various other aspects of the crisis which similarly resonate with structural economic change, and possibly more so than with the sovereign-debt crisis. One of them is the number of fixed term contracts, which have been criticised already before the crisis (e.g. Schömann et al., 1998; Fenton and Dermott, 2006), and have become more important since (Heyes, 2011; Heyes et al, 2016). They have greatly increased in number in those societies, where higher education is common, while the effects of the sovereign-debt crisis have been more ambivalent.

Another relevant theme is material deprivation. Similarly as unemployment, deprivation has resulted *both* from the sovereign-debt crisis and from structural economic change. Indeed, deprivation indices have increased particularly in those countries, where higher education is common and where the job market has become otherwise more insecure. In addition, low level of GDP explains part of the differences, with people becoming even more deprived in poorer countries.

[Table 2 here]

Politics of Distribution: Economic Policy as An Intergenerational Problem

We then examined the role played by national policy, and whether governments can tackle the financial and structural economic tendencies of the crisis or might instead reinforce them. Starting with deprivation, it is slightly regulated by national policy, with a 10 % decrease in inter-class variances. The level of social expenditure, indeed, largely explains differences in deprivation indices prior to the crisis, though less so in the Eastern regime, where deprivation is more likely to occur as a result of the low level of GDP. Therefore, because the supportive effect of social expenditure has been maintained during the crisis, any changes to social expenditure bear a direct effect on the level of deprivation.

Interestingly from the inter-generational perspective, the connection is further enhanced among the young adults (18–29 year olds) to whom the random effects are reduced by 30 % when considering all national variables. This is because, in addition to social policy variables, fiscal stimulation and other forms of non-social expenditure are associated with higher deprivation indices among the youth. Even among them, however, the governments have little control over the crisis-specific effects on social exclusion, which are instead explained by the overall structure of the economy.

On the other hand, even if governments play a less important role in regulating the overall level of employment, they have a certain control over the unemployment-rates specific to youth (18–29 year olds). For instance, the leftist cabinets seem to have been able to reduce the vast gap in the adult and youth unemployment rates. At the same time, *non-social* public expenditure stands out in association with higher youth unemployment rates, whereas *social* protection as well as higher unemployment benefits have a *supportive* effect on young adults' employment.

These findings, which are reported in Table 3, are at odds with the conventional economistic suggestion that the level of social expenditure should be lowered because of the associated incentives to work. It might have done so in the older population but, instead of resulting in the creation of more jobs, on the detriment of young adults' employment rates. Indeed, in light of the data the current unemployment crisis is a structural problem rather than a motivational one and cuts to benefits and other dominant policy measures have at best expedited such changes (cf. Callan et al., 2011), furthering inter-generational conflict without increasing the overall number of jobs (cf. López-Andreu and Verd, 2016; Means, 2015).

Table 3. Comparison of the effects of public economic policy during the crisis. The reported effects reflect change between 2007 and 2012.

Increase in non-social expenditure	Social expenditure (excl. healthcare and pensions)	Cuts to unemployment benefits
Youth unemployment	Lower **youth unemployment** rates	Higher **youth**
Deprivation of the **young**	**Young** better make ends meet	unemployment rates
	Less social tensions **among the young**	
Looked down because of job	Lower deprivation **among the young**	
Lower happiness	Higher political participation	

Non-social expenditure, in turn, is associated with qualitative changes in the job market: people feel like being 'looked down because of a job' more often when governments have created jobs. Also, the effects of national policy on the number of fixed term contracts falls upon youth, as such jobs are more common among the young anyway and have become even more common in result of the emphasis of non-social expenditure, increasing the polarisation in the labour market (cf. Hurley, 2013). The dominance of fixed term contracts, in turn, has made people more oriented towards the political 'right', indicating that insecurity and precarity have not induced solidarity (unlike what unemployment has done).

How Has the Crisis Affected Politics?

Based on the previous analysis, national governments have some, though limited and often misconceived power over the economic effects of the crisis. If the effects of policies adopted after the crisis—say the emphasis on non-social expenditure and creation of jobs not to mention austerity—are not just inefficient but harmful, it is an interesting question also to ask how the crisis contributes to politics. How have the policies following the crisis been legitimised even if they do not, necessarily, reflect the public good? After all, the crisis is not just a economic matter but a subjectively

experienced construct. For instance, it might seem contradictory that even if a higher level of welfare protection induces happiness during crises, in those countries where people report themselves as being more happy there is a tendency to vote for centre-right coalitions.

One of the most important themes we analysed is political participation[iv]. The pre-crisis participation rates were closedly linked to national policy variables as well as with economic structure, but participation is particularly explained by the level of social expenditure, as it seems that it takes a sufficient amount of material resources for people to recognise their political prospects, finding the time and energy needed for partaking political action. This interpretation is supported by the fact that cuts to unemployment benefits are associated with lower post-crisis levels of political engagement, diminishing people's capacity to engage.

Therefore, financial distress and opposition towards cuts does not itself make people more engaged, but the contrary. There are no significant crisis-related changes in the level of participation, however, except in those countries overshadowed by sovereign-debt crisis, and where political engagement has *decreased even more* than what would be otherwise expected, again suggesting that political engagement is contingent on the available material resources instead of letting the crisis evoke political engagement. Higher pre-crisis unemployment rates similarly predict lower political engagement, which in turn is associated with the dominance of centre-right coalitions, pressuring the level of social policy.

Subjective Crisis: Trust and Tensions

We then examined how national policy is visible at the level of people's own representations of the crisis—particularly how they trust government and their representations of social tensions (cf. Kroknes et al, 2015). The sovereign-debt crisis is associated with lower rates of trust, even after there has been a change in the composition of government. Trust in government does not result in higher participation rates but the contrary, and this could be one of the reasons why the crisis has not induced more democratic mobilisation of power in most European countries.

Moreover, it is leftist governments in particular that have been prone to generating political distrust. This is so after controlling for the general effect of the sovereign-debt crisis on trust. Furthermore, lower trust in leftist governments is visible regardless of whether the leftist coalition emerged only after the crisis or has been ruling for a longer period of time. The effects are similar on other trust variables considered (e.g. trust in national parliament, legal system).

While we cannot explain this correlation exclusively, it is worth noting that even many leftist governments have focused on creating jobs by the means of fiscal stimulation and public infrastructure projects, instead of extending social security. Such forms of non-social expenditure are, in turn, associated with deteriorated levels of trust. In effect, the lack of political engagement following the crisis seems to follow the lack of trust which, however, has adverse consequences for representativity and democracy. In particular, distrust does not explain the emergence of more leftist coalitions in some countries.

Instead, whether or not people perceive social tensions predicts such changes. This association is even stronger among the youth: when the crisis has made people more aware of tensions, the left seems to be the policy of choice—particularly those countries where the emphasis has put on social rather than non-social public expenditure. Indeed, in addition to lowering trust, non-social expenditure makes people more ignorant of social tensions. These policies, which have been predominant during the crisis, have thus proved 'anti-social' not only economically but at the level of whole society, undermining not just trust but also solidarity.

Finally, as we suggested that the economic policy during the crisis is an inter-generational problem, it is interesting to study these themes in the context of subjective representations as well. Even if many effects of the crisis are youth-specific, there seems to be no difference in the crisis-related awareness of social tensions between the younger and older adults. Moreover, the specific variable reflecting whether people think that 'there are tensions between old and young' does not resonate with the depth of the crisis, as neither national policy variables or the public financial situation have induced age-related awareness of tensions.

Conclusion

The public economy is often framed through the household metaphor, criticising governments for living beyond their means. This attitude is based on a partial understanding of the macro-economy. Namely, public expenditure has positive effects on national output, contributing to public income as well as maintaining social infrastructure, that is, by creating jobs and ensuring the continuity of demand. Some scholars argue that such rewards are undermined by much higher benefits associated with private spending and tax-cuts, and based on our data this seems to have been so especially during the crisis. The reduction of taxes through the crisis also demonstrates that fiscal difficulties are voluntary in part.

We examined the freedom exercised by governments by comparing the effects of social and non-social public expenditure in particular. Results show that even if there is little economic policy could have done in terms of the overall level of employment, the economic policy during the crisis is particularly an intergenerational problem. In general, higher social expenditure is associated with higher satisfaction and lower deprivation levels, whereas the focus on non-social expenditure is associated with harsher effects specifically for youth, in addition to bearing a negative effect on solidarity. Moreover, against conventional beliefs, the data does not support the assumption that the unemployment crisis could be solved by imposing higher incentive to work for example by cutting unemployment benefits. Instead, also these measures bear an intergenerational effect on the labour market.

Of course, the intergenerational point of view is just one way to address the effects of the crisis on inequality. We had to omit studying the crisis in other aspects like gender in similar detail, but it seems that such effects are less uniform across the EU, depending more on the welfare regime and economic culture, whereas the inter-generational issues appear to be .

Finally, the traditional way of classifying politics based on the orientation of cabinets is only partially relevant to the outcomes of the crisis, while we should instead focus on national economic policy which reflects long-term change of the economy. Results also

indicate that at least in the context of only few years, the institutional organisation of welfare, when controlled for its financial level, is negligible both from the point of view of the studied objective and subjective outcomes of the crisis, except in the Eastern regime where the crisis occurred during the still ongoing process of post-Soviet transition. Eichhorst et al. (2010) have similarly found that variations in labour market institutions generally play a weak role in explaining the response of labour markets to macroeconomic shocks.

Discussion: A Crisis of Public Economic Policy

The discovery of the relevance of different types of economic policy is crucial because the crisis of the public economy has been justified to make cuts particularly in social expenditure. However, when comparing the level of public expenditure in different countries—at least apart from pensions and health care related costs—it appears that only the level of non-social expenditure resonates with the increase in the level of total public expenditure. Both the public and academics are unaware of many aspects of the crisis, including the relevance of different types of economic policy, their inter-generational effects and generally the effect of the crisis on people's conceptions about government and social tensions.

This puts the fiscal devaluation programs in dubious light, at least in the European context. First, the proponents of such policies do not recognise the intergenerational and other effects they have on the functioning of the labour market, in addition to their failing to increase the competitiveness of the economy as expected. By contrast, the negative consequences of austerous policies are sustained over the long-term, as many scholars argue that the effects of prolonged unemployment (Hauser et al., 2000: 37; also Blanchard and Summers, 1986), illustrated for example by the economic depression in Finland in the 1990's (e.g., Machin and Manning, 1999), lead into long-term changes in the socialisation processes and unnecessary 'hysteresis' (i.e. structural unemployment).

The complex links between the economy and national policy bring forward the question whether the crisis in part stems from such policies and, consequentially, from the way in which the crisis itself is being framed and represented as such. Are we in a crisis only because we believe so, making 'crisis-thinking' a self-fulfilling prophecy that 'generates

meaning in a self-referential system' (Roitman 2011: 2)? This question resonates with the studies focusing on the performativity of economic technologies in the context of the crisis (e.g., MacKenzie, 2012), although we are now interested in policies themselves (e.g. welfare techonology), emphasising the role of national actors (cf. Mirowski and Nik-Kahn, 2007) rather than material technologies. Like Alberto Toscano (2014: 1035) recently critiqued, equating the loss of tens of millions of jobs with the subprime crisis involves 'an impossible kind of asceticism', confecting a 'methodological illusion […] whereby only what can be traced is visible as a cause or condition'. Therefore, instead of saying that the failed technologies injured the capacity of the market to 'produce' knowledge, thus causing the failure of the neo-classical epistemological statements (cf. Beunza and Stark, 2012; Bryan et al., 2012; Davies and McGoey, 2012), it might have injured the capacity of the state to produce or perform security and continuity.

Indeed, the crisis should not only be viewed as an external condition or a set of causal mechanisms but the very act of framing the implosion as a public economic crisis can be viewed as being constitutive to certain kinds of policy. Originating from the Greek phrase *krinô,* a crisis refers to the feeling of the need to 'judge', 'cut' or 'decide' (Roitman, 2011: 3), that is, the 'compulsion to judge and act under the pressure of time' (Koselleck, 2002: 244) making the crisis to be 'of theological derivation' (Toscano, 2014: 1025).

The belief in the necessity of cuts and more or less austerous economic policy, particularly at the expense of the welfare state, is an intergenerational problem. It both undermines the balance between age cohorts in the current economic environment but scholars like Piketty (2014) argue that the price we pay for such imbalances could be sustained over the age of multiple generations. Although inequality is argued to be beneficial for growth (Welch, 1999), this is only so for what Welch himself names as 'good inequality', that is, the kind of differences that people voluntarily engage while they are now rather forced to becoming more unequal, both within and between European countries.

Another 'counter-performative' matter relates to the confusion between the micro- and macro-economic tendencies when framing the crisis in terms of debt payments and budget constrains, as public economies are often compared to households when arguing

for the necessity of cuts, instead of recognising the strong correlation between public spending and income (unlike household spending and income). The link between national output and financial policy are historically contingent: depending on whether we look at the 1930's or the 1970's, economic stagnation has been associated with both the contraction (deflation) and inflation in the level of liabilities. What is alarming in in the European economy is not the overall level of debt, which only grew from 66 % to 87 % in the Eurozone between 2007 and 2011, but its unequal distribution.

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Tables 2a and 2b. The reduction of the country-level variance of the general and wave-effects when different blocks of or separate national variables are added, %

Outcome	Unemployed		Unemployed (young)		Long-term unemp.		Fixed term		Job shame		Deprivation		Deprivation (young)		Social exclusion	
	orig	change	orig	change	orig	change	orig	change	orig	change	orig	change	orig	change	orig	change
Variance decomposition: blocks																
Policy		6	6	6		30				29	20	10		29	15	8
Welfare regime + policy		6	6	7		32				32	8	10		26		
Public financing crisis		46		36	12	80	48				15	29		19		6
Structure of the economy	38	14	19	21	45	28	39	23		13	76	44	64	28		18
Welfare regime							32					16		7		
Variance decomposition: policy effects																
Social expenditure (excl. Health or pensions)										8	21		14		na	na
Increase in non-social government expenditure		14		28		16								28	na	na
Change to the level of unemployment benefits				23											na	na
Cabinet composition (left higher)												8			na	na
Change to cabinet composition	8				14		10		12			8			na	na
N	48486		9441		48486		29984		29984		45784		8780		46766	

Outcome	Happiness		Political participation		Trust government		Social tensions		Social tension (young)		Age-related tensions (young)	
	orig	change	orig	change	orig	change	orig	change	orig	change	orig	change
Variance decomposition: blocks												
Policy	33	22	46		21	30		11		16		
Welfare regime + policy		30	46		6	33		25		28	12	
Public financing crisis		10		13		30						
Structure of the economy	7	36	44		30	6		11		16	20	28
Welfare regime	26			11	13			25		22		
Variance decomposition: policy effects												
Social expenditure (excl. Health or pensions)	13	9	20							9	5	
Increase in non-social government expenditure			8		9		17				8	
Change to the level of unemployment benefits	9			9	25							
Cabinet composition						13						6
Change to cabinet composition			30				10			21		
N	48266		48486		48486		39932		7794		9441	

Appendix: Full Models of the analysed Outcomes

The following analyses are presented for instructional purposes as they involve a large number of higher level predictors and cross-level interactions. In addition to evaluating the full models, the actual effects reported in the text are based on variance decomposition methods (Tables 3a and 3b) and, when necessary, the use of corresponding fixed effects in suitable submodels with a lower number of predictors.

Table 4. Fixed effects of the multilevel models on outcomes related to employment and deprivation (*: p < .05, **: p < 0.01; ***: p < 0.001).

	Outcome															
	Unemployed		Unemployed (young)		Fixed term contract		Looked down because of job		Deprivation index		Deprivation index (young)		Social exclusion	
N	pre-crisis	change	pre-crisis	change	pre-crisis	change	pre-crisis	change	pre-crisis	change	pre-crisis	change	pre-crisis	change
	48486		9441		29984		29984		45784		8780		46766	
Individual level														
intercept	-3.327***	.481	-3.896***	.700*	-.226	.603**	-2.079***	.019	-.073	.194	-.055	.042	2.063***	-.242
18–29 year old	.394*	.370*			-.189	-.125	.287*	-.235	.071	-.153			.049	-.050*
30–35 year old	.361**	-.233			-.243*	-.048	.058	.038	.021	-.067			.025	-.009
female	-.096	-.294			.112	-.150	.021	-.009	.157***	.020			-.012	.002
low income	.957***	-.085	.651*	-.028	-.275*	-.009	.248**	.028	.268***	.003	.192*	.099	.136***	-.016
lower middle income (ref.)														
higher middle income	-.354**	-.357*	-.409*	-.118	.057	.190*	-.085	-.293**	-.321***	-.029	-.344***	.094	-.078**	-.017
high income	-1.084	-.221	-.865*	-.145	-.011	.223*	-.330***	-.200	-.964***	.013	-.728***	-.005	-.182**	-.005
income not reported	-.127	-.062	-.399*..	.173	-.195*	.046	-.271**	-.138	-.326***	.076	-.306***	.116	-.105***	.040
primary education	.050	.070	.507*	-.111	-.172	-.142	.234*	.004	.215***	-.087	.338**	-.274	.044	-.011
secondary education (ref.)														
tertiary education	-.506*	.399**	-.914*	.150	-.080	.083	-.361***	.168*	-.455***	.202***	-.512***	.215*	-.168***	.042
education not reported	.198	-.483**	-.114	.176	-.100	-.210	.142	-.278	.024	.055	-.104	-.196	.060	-.104
services, sales and clerical support	-.202*	.337***	-.362**		.445***	-.214***	-.105	.274**	-.061*	.148***	.012	.153*	-.003	.062**
elementary jobs	.266*	.138	.116		-1.322***	1.078***	.239**	.114	.065*	.220***	.048	.351***	.082***	.034
managerial, professional and high skilled (ref.)														
occupation not reported	.738	-.397	.373***		-.334**		.179**	.115	-.096	.262*	.448***	-.177	-.027	.105
Number of children	-.202***	.184**	-.106	.533**	-.061	.103	-.008	-.052	.078***	-.056**	.155***	-.129*	-.008	-.017*
health limitations	.136	-.282*	.065	.205	-.157*	.106	.354***	.095	.300***	-.012	.037	.197	.188***	-.025
National level														
GDP growth 2007–2012	.217*	-.403**	.730***	-.647***	.303*	-.230***	.116	-.085	-.129***	.065***	.064	-.087***	-.067	.129
Change to tax on income and wealth	.090	-.167	.104	-.293***	.036	-.202***	.103	-.422***	.425***	-.275***	-.076	.046	.088	-.079**
National debt	1.227***	-.125	.374*	-.024	.594	-.334*	.543**	.292*	-.167***	.202***	.487***	-.241***	-.374	.161
Bond rate	-.216	-.008	.173	-.101	-.436**	-.049	-.349**	.097	-.156***	.222***	-.158*	.204***	.097	.061
GDP per capita, PPP	-.507*	.251	.479**	-.139	.439*	-.280	-.162	-.391***	-.240***	-.173***	-.577***	-.303***	-.097	.032
Portion of 30–34 year old with tertiary edu.	.392***	-.021	-.200	-.107	-.470**	.539***	.268*	.263**	.194***	.105***	.097	.114*	.125	.118
increase in non-social expenditure	.278***	.092	.019	.140**	.143	-.078*	.010	.366***	.159***	-.082***	.101	.060*	-.224**	.106***
soc. expenditure (excl. health and pensions)	-.084	-.112	.640**	-.478**	1.389***	-1.192***	-.409	-.629***	-.790***	.235***	-.586***	.098	-.466*	-.048
Cabinet composition (leftist higher)	-.112	.077			-.702*	531***	.206*	.365*	.084*	-.040	.086	-.084*	.538**	-.225
Change to cabinet composition	-.132	.058	-.057	.118	.333	-.111	.236	-.243	.118***	-.058	.153	-.071	-.356*	.202*
Southern and Anglosaxon	-1.220**	-.024	.946**	-.598***	1.376*	-1.128***	-.477	-.260	-.457***	.305***	-.305*	.093	-.592	.288
Eastern	1.059	.594	2.589***	-.333	3.425**	-2.920***	.626	-1.010**	-1.013***	.038	-1.270***	.135	-1.127	.195
Nordic and Continental (ref.)														

Table 5. Fixed coefficients of the multilevel models on outcomes related to subjective experiences and social representations.

	Happiness		Satisfaction		Trust government		Social tensions		Social tension (young)		Age-related tensions (young)	
N	pre-crisis 48266	change	pre-crisis 46138	change	pre-crisis 48486	change	pre-crisis 39932	change	pre-crisis 7794	change	pre-crisis 9441	change
Individual level												
intercept	7.320***	.018	−.020	.052	.636***	−.215	−.905***	−.161	−.011	−.183	.798	−.819*
18–29 year old	.286***	.197*	−.046	−.006	.074	.321*	−.026	.039				
30–35 year old	.267***	.036	.006	−.010	−.172	.234**	.049	−.068				
female	.161***	.001	−.010	.007	−.045	.017	.127***	.054*				
low income	−.318***	.116	−.225***	.097	−.164*	.241*	.030	.052	−.031	.214*	−.222	.310*
lower middle income (ref.)												
higher middle income	.076	.093	.066*	.060*	.030	.042	−.006	−.004	−.060	.145*	−.025	.200
high income	.196**	.108*	.207***	.098**	.221**	.050	−.008	−.021	−.049	.023	.084	.008
income not reported	.006	.220*	.059*	.123**	−.069	.020	−.010	.063	−.036	.111	−.045	.168
primary education	−.126*	.018	.002	.002	−.061	.203*	.108	−.203**	.044	−.079	−.044	−.360
secondary education (ref.)												
tertiary education	.100**	.090*	−.004	−.004	.349***	.055	−.033*	.043*	.073	.046	−.010	.025
education not reported	−.100	.089	.037	.037	.020	.398	.075	−.334*	.252	−.04	−.095	−.860
services, sales and clerical support	−.050	.015	−.013	−.064	.026	−.106	−.002	.015	−.058	.129*	−.081	.282*
elementary jobs	−.116**	.120*	−.127***	−.027	.022	−.138*	−.028	.016	−.018	.008	−.097	.091
managerial, professional and high skilled (ref.)												
occupation not reported	.761***	−.806***	.506***	−.612***	.675	−.810	−.205	.178	.176**	−.224**	.534*	−.456
Number of children	.053***	−.029	.015	−.002	.061*	−.019	.001	.012	−.003	.101*	.062	.135
health limitations	−.732***	.040	−.418***	.000	−.222***	−.151*	.129***	.050	.147*	−.104	.455*	−.133
National level												
GDP growth 2007–2012	.077	−.281***	.019	−.167*	−.006	−.488**	.740***	.054	.015	−.019	−.095	−.167*
Change to tax on income and wealth	.021	.004	.130***	−.081**	−.008	.348***	−.281***	−.031	.003	−.124***	.136*	.116*
National debt	−.099	−.216*	−.230	.222*	−1.173***	−.329*	.492***	−.123*	.242*	.011	.612	−.750**
Bond rate	.077	−.198**	.159	−.182*	.498***	−.531***	.216	.037	.073	−.012	−.288	.094
GDP per capita, PPP	−.012	.019	.076*	.164	1.001***	−.786***	1.164***	−.193*	−.136	−.264***	.945*	−.962***
Portion of 30–34 year old with tertiary edu.	.162***	−.221***	.281***	−.236***	−.722***	.727***	−.386***	.125**	.105*	.110**	.089	.037
increase in non-social expenditure	.109**	−.104***	−.036	−.062	−.535***	.100	.056	−.109***	.018	−.044	−.062	−.159*
soc. expenditure (excl. health and pensions)	.081	.030	−.636***	.318**	.428***	.288*	1.424***	−.194	−.131	−.205***	.008	.045
Cabinet composition	−.101	.187**	.421***	−.155*	−.033	.343***	−.896***	.028	−.053	.034	−.245	−.227
Change to cabinet composition	.252***	−.412***	−.032	−.136*	−.581***	−.450***	.475***	.089	−.037	.182***	−.364	.090
Southern and Anglosaxon	.464**	−.511***	−.605***	−.124	.877***	−1.817***	1.232***	.168	−.616**	.057	−.957*	.307
Eastern	−.074	−.669**	−1.294***	.331	−1.036*	-3.466***	3.680***	−.592*	.314	−.344**	.693	−.640
Nordic and Continental (ref.)												

Notes

[i] By social expenditure we refer to welfare expenditure excluding health and pensions (as they resonate more directly with demographic variables) while non-social expenditure consists of administration costs, military expenses, investment in material infrastructure and other traditional forms of fiscal stimulation and spending.

[ii] The cabinet composition is measured by the so-called Schmidt Index: (1) hegemony of right-wing (and centre) parties (no seats in left and social democratic parties); (2) dominance of right-wing (and centre) parties (under 1/3 of seats); (3) balance of power between left and right (between 1/3 and 2/3 of seats); (4) dominance of social-democratic and other left par- ties (at least 2/3 of seats); (5) hegemony of social-democratic and other left parties (100 % of seats). Based at the University of Berne, the data is collected by Klaus Armingeon, Christian Isler, Laura Knöpfel, David Weisstanner, Sarah Engler who runt he Comparative Political Data Set service (http://www.cpds-data.org), currently covering yearly averages of government composition till 2013.

[iii] The bond rates started to 'bifurcate' in the Eurozone in 2010, when the Greece bond skyrocketed. While the average rates remained closely unchanged over the crisis, the yields in the AAA-countries, most of which happen to be Protestant, fell close to zero and, eventually, towards the negative territory. The prospects of the Eurozone are not undermined by the level of public debt in general but by its imbalances, which has further contributed to real economic 'frictions' and, in result, the inefficient alloction of public resources across the currency zone.

[iv] It was asked in the survey whether people report of having attended a meeting of a trade union, a political party or political action group over the past 12 months.