

Why the lump of labour fallacy helps explain some countries being more anti-austerity than others

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Why do citizens in some countries oppose austerity policies more forcefully than citizens in other states, even when the impact of such policies on living standards is relatively similar? [Achim Kemmerling](#) presents a psychological explanation for this variation in opinions across Europe. He argues that countries with a stronger belief in the 'zero-sum' nature of labour markets are more likely to oppose austerity measures.



Economics is fifty per cent psychology and the rest is imagination. This *bon mot* sounds exaggerated, but the global financial crisis has revealed how accurate it is. The truth is that whatever approach economists adopt – be it neoclassic, heterodox or neo-Keynesian – they can never be right if the people don't believe their narratives. If people don't believe in the benefits of debt reduction then they will save, protest or emigrate; but if people don't believe in the benefits of increased spending then they will also save, protest or emigrate.

Economic policies can only work if the people accept and believe the rationale behind the policy in question. A good economic equilibrium is therefore only as good as the underlying political equilibrium of accepting economic outcomes. European governments are now facing a gulf in expectations as the two equilibriums diverge.

A psychological explanation for why people don't believe in austerity

The basic story put forward to justify austerity is that a reduction in debt will generate an economic turnaround, but why have people rejected this narrative? Some economists would say that people have rejected it simply because it is wrong, but the problem is more protracted than this. Everything depends on the individuals in question, and there are fundamental structural reasons why interpretations in Europe differ to such a large extent. Many scholars argue that the reasons lie in huge differences in national culture and norms. There is clearly some truth in these claims, but these factors are nevertheless difficult to change or evaluate.

My focus lies somewhere else, namely on the belief that labour markets are zero-sum games. This is the notion that there is an upper limit to the total number of jobs in a society, and hence that jobs cannot be generated but only redistributed. In order to give a job to a younger or unemployed person, the idea goes, you need to remove a job from someone else in society. In its dynamic version, people may even think that this upper limit of total jobs will fall as time passes, due to processes of globalisation or technological change. The belief is old, dating back at least to the Luddite movements which destroyed mechanical weaving looms in 19th century Europe.

Economists like Paul Krugman call this belief the '[lump of labour](#)' fallacy. Alternatively, Jeremy Rifkin has described a similar process as the '[end of work](#)' problem. Again, we can fight ideological, philosophical and empirical debates over the veracity of these claims, but the important aspect is not whether this claim is true or false, but rather whether people believe in it. It turns out that Europeans differ very much in this belief.

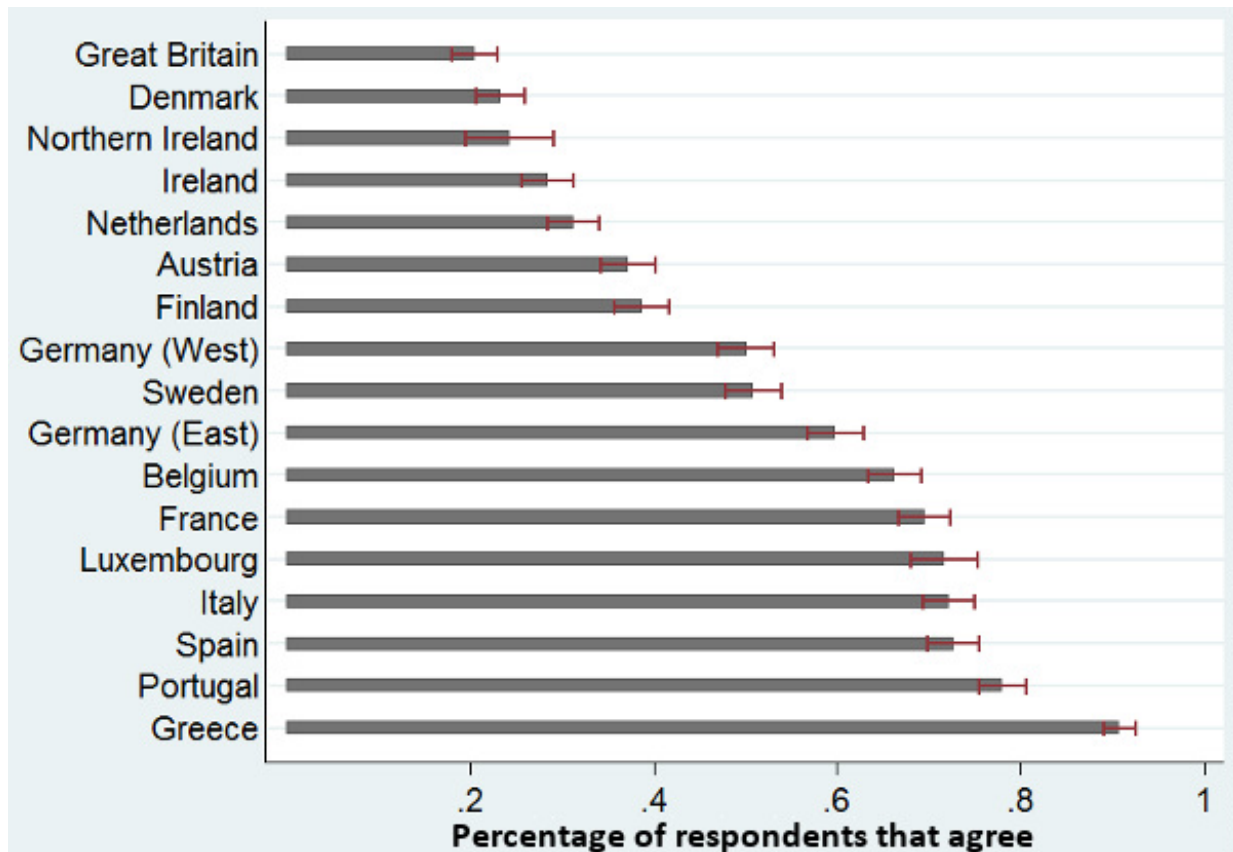
Chart 1 below shows that around a quarter of those in the UK would accept the statement that "people in their late 50s should give up work to make way for the young and unemployed". In contrast, more than 90 per cent of Greek respondents indicate they agree with the statement. If these respondents take the view that jobs are only created by people leaving the labour market, then a preferred option will clearly be people going into retirement.

Chart 1: Percentage of citizens in selected EU countries/regions who agree that "people in their late 50s

should give up work to make way for the young and unemployed”



Anti-austerity protest in Paris, Credit: [philippe leroyer](#) (CC-BY-SA-3.0)



Note: The chart was created by the author using [Eurobarometer](#) data (2001 series). The extensions to the bars represent 95 per cent confidence intervals.

What are the political consequences of this belief? For a start, people who believe that trade-offs between the old and the young exist are liable to find the policy recommendations of recent austerity packages particularly ill-conceived. Take the example of pushing back the retirement age. While this might make sense to experts who worry about the sustainability of public pension schemes and the public debt arising from demographic change, those who believe that working longer takes jobs away from younger generations will have precisely the opposite perspective.

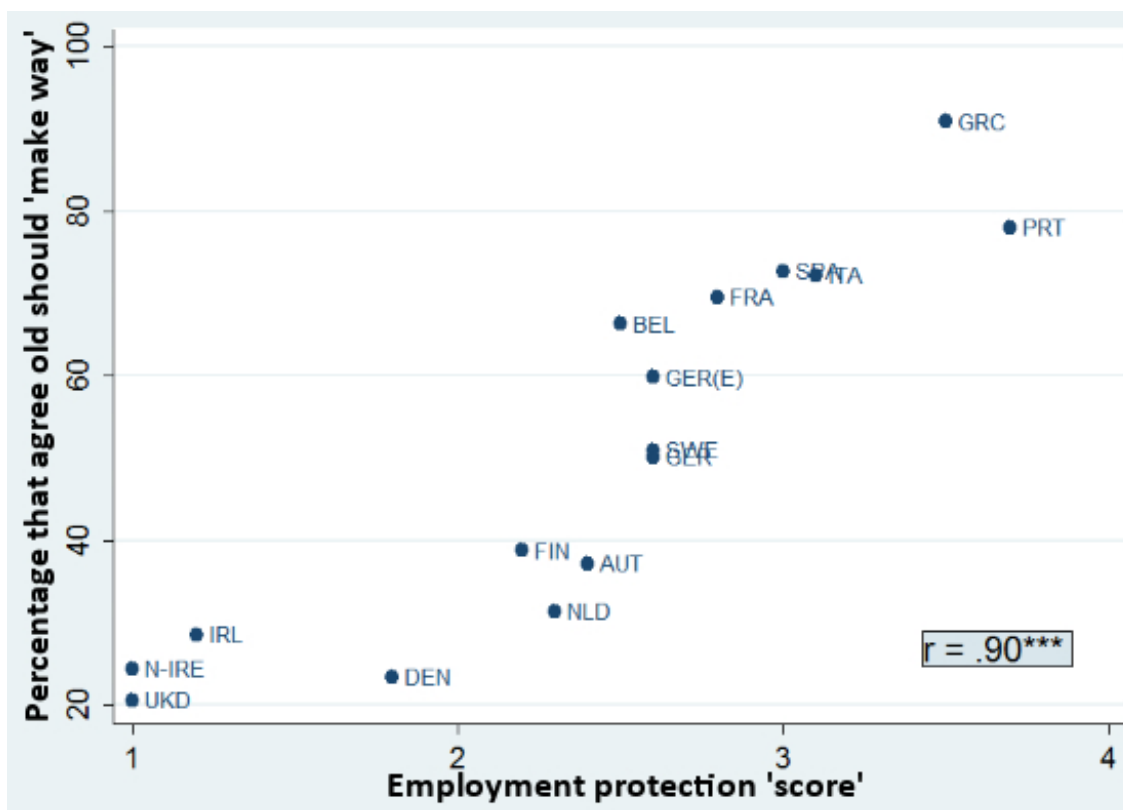
Similar dynamics exist with other perceived trade-offs. The link between high levels of unemployment and opposition to immigration is well established. There is also likely to be opposition to policies aimed at deregulating or increasing working time regulations. Under this reading, those who believe labour markets are zero-sum games will 'instinctively' reject all types of labour market policies that entail an expansion of labour supply. In a [recent paper](#) I show that political preferences for people on diverse issues such as early retirement and immigration are indeed related to their belief in trade-offs within labour markets.

The role of employment protection legislation

So why do people in certain countries believe in these trade-offs? Again the answer is multi-layered and complex, but we can nevertheless identify some reasons. The belief is not restricted to those who are most directly affected such as the unemployed. Granted, if you are unemployed you are much more willing to believe in trade-offs. But people also learn about the way labour markets operate from other individuals and from other cues such as national rates of employment. Most importantly people who grow up in labour markets in which transitions between jobs, professions, or regions are difficult are much more likely to believe in these trade-offs.

Chart 2 shows the relationship between the data in Chart 1 and the level of employment protection legislation. The latter is an indicator of how difficult it is for firms to hire and fire people, and a proxy to measure these barriers to labour market transition. The chart illustrates that there is a strong bivariate relationship: countries with a higher percentage of people believing in the trade-off are also those with more heavily regulated labour markets. More sophisticated statistical evidence shows that this finding is robust to changes in the years observed, and persists when we control for other factors.

Chart 2: Relationship between belief in the idea that older citizens should make way for younger workers and existing employment protection legislation



Note: The horizontal axis provides a measure of how extensive employment protection legislation is within a country (based on OECD figures from 2004 where a higher score signifies stricter protection). The vertical axis shows the percentage of citizens within that country who agreed with the idea that older citizens should make way for younger workers (shown in Chart 1). Chart is compiled by the author from Eurobarometer and OECD data.

Does this mean that countries should remove all laws regulating employment contracts? Clearly not. These laws show the fundamental policy preferences of the people, which can and must not easily be upset. Yet an austerity package without any popular deliberation, without any information campaign, without any components of compromise or package deals will push the will of the people and the will of the markets further apart. Ultimately, if governments and international organisations don't learn how to communicate the necessity of reforms and renegotiate their contents, their efforts will either be in vain or excruciatingly painful.

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Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

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