Unemployment in Mediterranean EU Countries.

Fighting Youth Unemployment

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Abstract

The most dramatic problem of European economic policy is the exploding unemployment rate in the Mediterranean EU-countries. This chapter sets out to explain the causal links leading to this major bottleneck in Europe's economic dynamics. In the first part the causal chain is described in detail as follows: Unemployment is increased by austerity policy of governments – austerity policy is enforced by rapidly rising government debt – government debt has been rising due to bailout of banks and speculative interest rate attacks on countries – banking crisis and aggressive interest rate policy are a consequence of exploding demand for (uncovered) financial promises at global financial markets – uncovered financial promises are the only remaining channel for capital accumulation if increases in (real) labour productivity are dying away on a global scale. The phenomenon of European unemployment thus is explained by the impasse of the dominant global mode of production, which had surfaced first as the financial crisis in 2008.

The second part of the chapter uses the insights of part 1 to study the contours of a possible EU employment policy, which can keep welfare levels in Mediterranean EU-countries as high as possible. It is evident that welfare mainly is determined by income, which for the majority of EU-households in turn depends on employment. Employment decisions can be divided into three sets:

(1) Employment decisions of public institutions (e.g. reversing austerity policy?)
(2) Employment decisions of small and medium size enterprises (e.g. changing work-time regimes?)
(3) Employment decisions of transnational corporations (e.g. EU regulation and incentive structures transcending national boundaries?)

I all three areas special attention will be on youth unemployment and the inevitable consequences that changes in retirement age will have. In a concluding section it is discussed how far a specific European economic policy (a 'Pilot Project Europe', see [Hanappi, 2013]) that differs from other policies followed in other parts of the world economy is feasible and can be embedded in the global context.

1 - Why is unemployment exploding?

There is no doubt that during the last five years unemployment, in particular youth unemployment in Mediterranean EU countries is by far the most dramatic economic disaster since the end of World War 2. It is sufficient to take a look at figure 1 to get an impression of the human tragedies that are summarized by these simple lines.

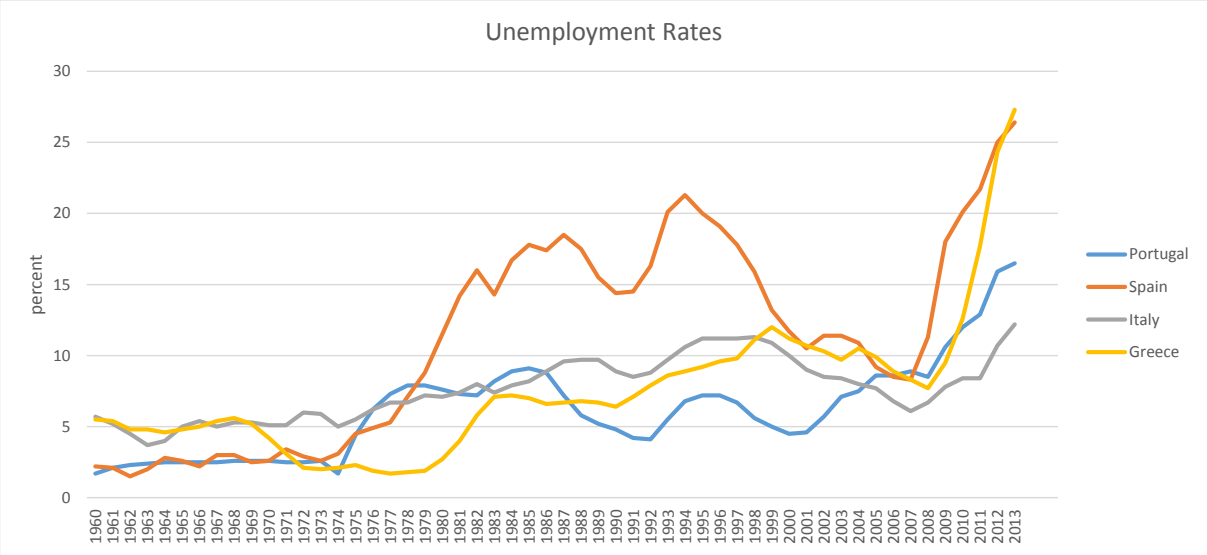

Figure 1: Unemployment in Mediterranean EU Countries

Source: Eurostat, AMECO

The reason for being unemployed can be formulated rather profane: It is equivalent to the fact that a firm or public institution has fired its employee, or there never has been a firm or public employer that wanted to employ this individual. In capitalist countries the means of production which are necessary to transform an unemployed individual into an employed worker are either in the hands of private owners or are state owned.

For the world of private firms the decisions to reduce wage cost were straight forward: When in September 2008 they got the news of a global financial crisis this immediately influenced their expectations concerning future sales. An expected decrease in demand even with constant or slightly reduced prices had to lead to a drop in expected revenues. And since profits are just the difference between revenues and total cost, the level of profits could only be maintained by reducing cost. Within a few years the omnipresent shibboleth of business was cost reduction, or *streamlining* of production processes – to use a more optimistic sounding word. Since in most firms wage cost constitute the largest part of total cost it is clear that wage cuts and reduction of the work force were the consequence[1]. Depending on the relative difficulties either to reduce wages or to get rid of employees, as well as some other country-specific institutional details, private firms tried to maximize their profits by reducing their total payments to workers. Of course, this strategy made the expected decrease in sales a self-fulfilling prophecy, the demand of unemployed is always

[1] As a side effect for those who remained employed their labour intensity, i.e. the tasks to be performed in one unit of time, increased tremendously.

lower than that of a workforce in employment. So far these processes might nevertheless have remained within the usual bandwidth of capitalist business cycles: There is a countervailing force to the downward movement that can become stronger the deeper the economy falls; the basis for this force is the diversity of private firms. As weaker firms go bankrupt new market shares become available for the survivors. If only few firms are left and the conditions for the workers have deteriorated enough, then it only needs a strong export market and recovery is in sight. But in the crisis from 2008 to 2009 this did not work.

First, the crisis had a more global character than anything that had happened before. There was no outside saving demand. China kept its exchange rate low and kept its domestic markets closed, and also the other possible candidate, Germany, felt itself so frightened by the crisis that it kept its wages low.

The second element that this time was different in Europe was the fact that on the one hand public employment had become a substantial part of total employment while on the other hand the ideological force of the conservative 'war for privatization' had influenced governments strong enough to make them imitate firm behaviour. This was the source of what was called austerity policy[2]. Instead of profits the state had another difference to optimize, the difference between total government revenues and total government expenditure. In this case optimization meant to minimize budget deficit by firing public employees (cost reduction) and increasing government income by selling or closing state-owned production units – usually leading to further unemployment. An important consequence was the deterioration of infrastructure (education, health systems, pensions, public transport, etc.) that previously was provided by state institutions.

And this explains to a large extent why young people were hit by unemployment particularly hard: It is much more difficult to find a first job than to defend ones position in a firm, once the number of employees has been reduced enough those who remain are relatively save – but no new workers will be hired still. To survive, young people will stay with their parents and (if this is possible and affordable) will continue to go to schools or universities – but this does not improve their labour market position much. Youth unemployment is exploding (compare figure 2). In particular the young in Mediterranean EU-countries are in a terrible situation, many of those who could achieve a better education leave their countries; and this will put these countries in an even more disadvantageous position in the mid-run.

The content of austerity policy thus is a set of policy measures which has emerged as a mix of short-cuts based on conclusions drawn from inadequate macroeconomic models and some even lessen scientific rules of thumb copied from the behaviour of private firms. The latter behavioural maxim had been propagated by conservative politicians as the need for privatization of state institutions to return to the 'natural' capitalist mode of behaviour since the early eighties. Austerity policy therefore has no sound and consistent theoretical basis

[2] The malicious influence of inappropriate economic theory, i.e. neoclassical theory, probably has been less important than economists believe. For a state representative of the ruling class to act like the CEO of a large transnational corporation had become attractive enough anyway, both types of leaders despised complicated economic science.

and best can be understood as a political agenda of class struggle from above; a bundle of actions aiming to increase exploitation of Europe's working population[3].

Percentage of total youth labour force (15-24)

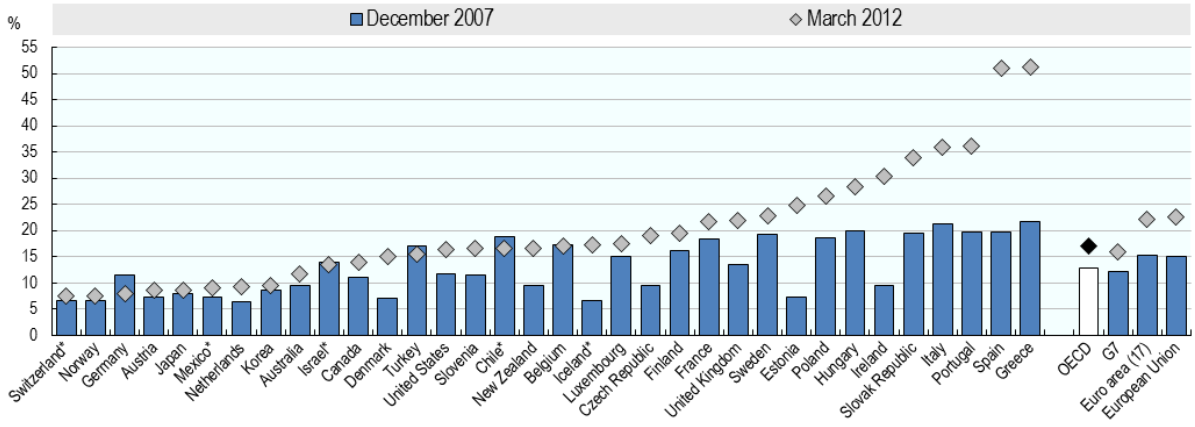

Figure 2: Youth unemployment rates in OECD countries, December 2007 to March 2012

Source: OECD

Nevertheless - and despite the difficulties that the split-up that the profit achieved from stronger exploitation brought about – the fractions of the ruling class had to agree on a common goal that could be used as a signal in ideological warfare. This common denominator has been determined to be government debt. And there is a good reason why the reduction of government debt could serve as a common goal of all parts of the ruling class. Since the end of World War 2 the European labour movement to an overwhelming extent (including the short intermezzo of Euro-communism) had been under the influence of a social-democratic strategy that tried to gain influence on social dynamics via conquering positions in state institutions. A central element in this sublimated class-struggle had been the installation of a social net (for health, pensions, education, and the like) that was financed by running government deficits. A modestly growing stock of government debt was also acceptable for the ruling class since interest paid on this stock did feed the fraction of financial intermediaries (banks and insurances) anyway; and its collateral, namely the guarantee of political stability without actual class-struggle, seemed to be worth the exercise. Over the decades since 1945 the amount of money parked in public funds by the government fraction of the ruling class had led to the surprising result that these funds – fed by the payments of the currently working population – constituted the majority of capital available for global finance. It was this type of 'surrogate profit' that made the finance fraction of the ruling class (with the help of the state fraction) so much stronger than the original fraction of firm-owners. The counterpart of this enormously amassed amount of public funds, of course, was the implicit promise – often secured by national law – that they could be used as finance for the social net. The hidden tenet of austerity policy, of the class-struggle from above, is to break this promise.

[3] It is not always easy to determine the borderline between exploited and exploiters (see [Hanappi & Hanappi-Egger, 2013]). In the case of one-person-firms and small firms in general the phenomenon of self-exploitation often lets this borderline run right through individual physical persons. Moreover the amount of exchange-rate-exploitation (compare [Hanappi, 2011]) is haunting European class analysis since more than hundred years.

Conservative governments started this fight in the early eighties, as can easily be documented by rising inequality in income and wealth, e.g. measured by Gini-coefficients. But the continuous economic warfare within OECD countries was moderate enough to be compensated counter-movements of rising exchange-rate exploitation and export of exploitative working conditions to the periphery of a quickly globalizing world economy. Good old division of labour of the *political* economy of the world made it possible that capitalism survived another two decades.

It is important to note that the implosion of the USSR as well as the surge of China was falling in this period. A closer look shows that there is a sequence: First came the high hopes of the West that with the defeat of the arch enemy USSR the 'natural' superiority of a capitalist mode of production will quickly incorporate the whole world. This expectation proved to be at least premature in 1993. But then the combination of China's still Stalinist command structure of production with its willingness to integrate itself in global trade, turned out to be quite compatible with the needs of global finance capital. It was this strange mixture of a politically strong Chinese government (with a long-run strategic time horizon) and US located big money (with an ultra-short non-strategic time horizon) that shaped global dynamics from 1993 till 2008[4]. This coincidence of global forces led to an unprecedented surge of capital accumulation, which was built on a landslide in the division of labour as well as a mediatized swarming of (contract-secured) high expectations in the world of international finance. Under this umbrella local national economic policy remained a rather negligible procedure. Even the continuous increase of government debt levels seemed to be manageable, in Europe the Maastricht Treaty[5] typically played the role of a good advice that could be followed – or not.

The definite trigger event that led to the sudden burst of radical austerity policy, of course, was the bail-out of banks by national governments. And this radical austerity policy evidently was the kick-off for exploding unemployment rates in the Mediterranean EU countries. It is clear that the bail-outs were a rapid political reaction on the burst of the financial bubble on 15th of September 2008. It was the US Federal Reserve Bank, which paved the way for this radically new policy reaction. To understand its rationale the US context has to be kept in mind. Two elements of this context are particularly important: (1) The USA (New York) was the centre of international finance which is the only economic force that already was completely global, and (2) the US Dollar, managed by the Fed, was the dominant world currency. These two facts made it possible for the Fed to ply the role of a global political counterpart to an unbound global capitalist force – in a sense the role of a substitute for a global government. Note that both players in this game were fractions of the ruling class in the USA, the finance fraction and the governance fraction, and moreover it is noteworthy that this quick policy reaction was carried out by a new administration, the Obama

[4] In this context it has to be mentioned that the state fraction of the US ruling class since 1980 has focussed on extending its military dominance in the world. In this fraction there is a deeply rooted believe that in the end all economic problems can be resolved by direct coercive intervention.

[5] To let the yearly budget deficit not exceed 3% of GDP (one of the Maastricht criteria from 1992) was just reformulating the wish that any such disequilibrium in flows (yearly government expenditure minus yearly government income) should be possibly be covered by the yearly growth of another flow (GDP). The 3% of GDP growth was the rather optimistic guess of the average post-war growth rate of real GDP.

administration, which had just been elected and immediately had to prove that capitalism can be saved by state intervention.

The European state fractions of the national ruling classes followed the US example with a considerable delay. The more fragmented political processes and time-consuming strategic games played between national elites postponed a common assault on the European labour movements' achievements for several months. Nevertheless in 2009 the crisis symptoms had become so severe that most governments took over the debt of the most endangered financial intermediaries, proposing implicitly to use their fiscal authority with respect to future incomes of their population as collateral. To demonstrate that this is a credible promise an immediate reduction in all social transfers and an effort to sell state-owned property has been either pushed through parliaments or has been carried out by circumventing to much democratic control[6].

Radical austerity policy in European countries had a momentous and lasting effect on unemployment rates in Europe in 2009 (compare again figure 1). But note also that this effect was modified considerably by the structure of firms in Europe as well as by the specific national institutional settings. Large transnational corporations (TNCs), in particular German transnational corporations, closed down affiliates outside their home country, in particular those in Mediterranean countries, while small and medium sized enterprises (SMEs) first were a bit more robust with respect to employment, but then were hurt indirectly but permanently due to their inevitable links to TNCs. As the first shock of 2009 was over TNCs recovered faster – but not by re-opening their affiliates in Southern Europe, they rather preferred to move production chains to the East: Eastern Europe, China, Vietnam, etc.

With respect to the special role of national institutional structures a whole set of arguments for the different experiences in Southern Europe can easily be found. And since institutions are man-made and can be changed as soon as the necessary quorum in parliament is given, these specific elements are the first to address particular national sources of unemployment[7]. In Germany, where the traditional corporatist governance system had led to a dominance of representatives of financial intermediaries even in the boards of TNCs and in government bodies, a controlled and continuously freezing of the nominal wage sum combined with an aggressive export strategy (to non-European consumers, e.g. rich elites in China and Brazil) enabled a less dramatic development of unemployment. To misinterpret these special circumstances as a role model for all EU-states is the core mistake of the famous Troika specialists that regularly visit and consult Mediterranean countries. They usually point at the development of the (aggregate) labour productivity index of Germany and compare it to the one in the Mediterranean country. A lower index then is interpreted as economic backwardness and by the use of some – usually obscure – macroeconomic pseudo-model increases in government debt are shown to be caused by too high consumption of the Southern population. Too high, of course, with respect to the lower productivity index which is taken as an indication for an unfinished European convergence

[6] In that respect recent years have been an outstanding example to show that a law system is an epiphenomenon of a social power structure. Law follows and legitimizes ex post what currently prevails as dominant power structure – and not vice versa. Law accommodates power.

[7] See [Hanappi, 2014, chapter 6] for a detailed account of the case of Greece.

process. A convergence, which – needless to say – is meant to be a convergence towards the German model. Examples of this kind of arguments are numerous and come in all kind of formats, from simple polemics in everyday language to mathematical metaphors.

At a first level of critique of the view it is sufficient to take the concept of labour productivity serious. Aggregate labour productivity is defined as the ratio between total output (measured in Euro[8]) and total labour input (first measured in labour time, but then usually transformed into money paid for these inputs[9]); productivity thus is a derived scalar – and not an immediate technical property of the social production process. Using less workers for the same output, i.e. increasing unemployment and labour intensity of employed workers, is reported as an increase in labour productivity. Producing a higher output with the same number of workers and exporting the surplus (e.g. luxury cars) to non-European countries (because the constant wage-sum of domestic workers is insufficient to buy this additional supply) does not necessarily lead to additional unemployment, but certainly increases labour intensity. In both cases the increase in productivity implies increased exploitation of the European labour force; class struggle from above fiercely returns to Europe.

At a second level the homogeneity of output across different countries has to be questioned. In 1776 Adam Smith already considered the division of labour as the source of the wealth of nations. A few decades later the division of labour between countries was the topic of David Ricardo's famous theorem of the importance of relative advantages in productivity in two trading countries. Again the fact that the two countries differed in their production capabilities was the starting point for mutual welfare enhancement via trade. Much later any close investigation of the sources of welfare gains in Europe after WW2 reveals that the most important source has been the division of labour between European countries and their respective, *different* output vectors. Compare for a moment how these welfare gains derived from the division of labour typically are organized: In a private firm the organization is determined hierarchically with firm owner(s) on top[10]. In David Ricardo's comparative-advantage argument the result is brought about by a very specific monetary-market-mechanism[11]. In the case of European reconstruction after World-War 2 a considerable part of the organizational background was started by Marshall-plan aid and carried on by efforts in all Western governments to prove to the eastern hemisphere that capitalism works and can even pacify the labourers. The kick-start of renewed activities of European unification that started in the eighties has just been a political response to renewed US dominance under Ronald Reagan: Europe had to install an overarching political umbrella to provide free room for its firms. This policy enabled the greater flexibility of firms in applying Europe-wide

[8] Since the quantities of the diverse output commodities and services are measured in qualitatively different physical units, aggregation makes the use of their monetary value indispensable. Note that this implies that all elements of market processes that determine prices therefore co-determine aggregate output. Moreover, total output carries all the deficiencies that GDP measurement has been criticised for (neglect of non-market mediated work, neglect of several reporting biases, etc.).

[9] As in the case of output different types of labour time input (e.g. simple versus educated work) will make the use of the mirror image of monetary values necessary to be able to sum-up inputs. But now not only distortions of market peculiarities are interfering, there also is the basic difficulty that any type of hold-up cost and the whole exploding sector of financial services (with its 'imputed' cost) make the measurement highly dubious.

[10] This productive contradiction between ‚Markets and Hierarchies' has been studied in detail by Oliver Williamson and his followers [Williamson, 1975].

[11] See [Shaikh, 1980] for an interesting assessment.

division of labour, the division of the firm structure in TNCs and SMEs was spurred. The major organizational effort thus came from (government supported) large firms, SMEs had to adapt. But to be sure: all these forms of division of labour - and as a consequence division of products and services – resulted in an overall increase of output. The important point, of course, is that it makes no sense to compare labour productivity changes in one part of the divided work with changes in another part of the divided work[12].

The sudden turn to austerity policy that kicked European countries into deep crisis in 2009 in the case of Greece was amplified by speculative attacks. This type of behaviour of some agents at financial markets has to be briefly described, since it recently occurs more often and with larger amounts of money at stake. First, consider a large firm and its top manager. Next assume that the reputation of the firm is good enough to enable a substantial build-up of debt. Now assume that the top manager is able to earn (e.g. via options) a larger sum of money, often proportional to the sum of transactions initiated by going into debt. Then, at a certain point the firm goes bankrupt, its bonds fall dramatically. At that point the previous top manager (eventually hidden behind a wall of straw men) buys back the most profitable parts of his old firm at a very low price. And that is the algorithm that, of course, has to be kept at the legal side of the law system by a team of specialized lawyers. Playing this game with large firms in the US is not too different from playing a similar game with a small country like Greece. For somebody living outside the world of speculative finance it nevertheless is clear that it is possible to shut down a large firm (say Lehman Brothers), while it needs a lot of imagination to see how a country can be simply closed (say Greece). The comparison ends with the huge unemployment that is produced in both cases. But what might look possible with government bonds of a small country, like Greece, is not conceivable with respect to a much larger country, like Italy. And this can explain differences in crisis dynamics in Europe's countries.

The final step in the line of argument presented so far is to provide a tentative explanation why the global financial crisis did occur at all. Without such a hypothesis any proposal for a remedy would be built on sand. The best interpretation of what had happened at financial markets - first with the ITC bubble in 2001 and then with the housing bubble in 2007 – is probably rather trivial: The total amount of capital looking for productive investment at a certain point in time had become too large to find places that promised a high enough expected profit rate. At this point it suddenly becomes more promising to kill your competitor and to increase your market share than to bet on the success of some innovative projects. What had been underestimated was how strongly interwoven the world of finance already was in 2007. To let Lehman Brothers fall fired back on the whole finance community. Nevertheless quickly some groups recovered earlier and these financial sharks soon looked for new prey on a global scale; and they are also looking at European countries. This does not mean that the financially weak parts of Europe are only in trouble due to speculative finance; there are numerous endogenous reasons calling for mid-run adjustments (compare

[12] If the labor productivity of growing oranges in Spain changes at a different speed than the labor productivity of the coal industry in Poland, then this does not give any hint on the quality of the division of labor in Europe. To evaluate the latter it is always the overall situation that has to be considered, and not just a comparison of two unrelated scalars.

[Hanappi, 2013]). But these global financial agents certainly will act as destabilizing amplifiers as soon as they see a chance to influence markets[13].

European politicians will have to defend Europe's specific social models, its welfare state aspirations. And defence will have to start where economic problems hurt hardest. This is the fight against unemployment.

2 – The Employment Policy of the European Union

The historical emergence of the European unification process, as briefly sketched above, owes most of its energy to the attempt of large European firms (the 'Copenhagen Round') to create a common European political agent that was needed to survive in a world economy that was dominated by the USA. In the beginning this creature was thought to be a mirror image of the United States, some called it a USB instead of a USA. And following this logic a first generation of enthusiasts replaced the 'American Dream' in the brains of US citizens by a 'European Vision' to be implanted in Europe's brains. After 30 years this type of vision looks more like a caricature. Several elements that had helped to consolidate a European vision have fallen apart.

The big and bad enemy in the East, the USSR, with which every European citizen could compare the own type of government has moved further away and has changed its physiognomy a bit. The favourable contrast with which social-democratic politicians could easily prove their superiority with respect to workers' welfare are now usually replaced by the failure to lead the newly joined eastern European EU members to comparable welfare levels. Moreover the social net that once was an outstanding feature of the European social model has been steadily eroded. The property that indeed more and more resembles the pendant in the USA is increasing inequality, inequality in income, in wealth, and inequality due to geographical location. Given these circumstances it is impossible to convince European citizens with the same type of European vision that was created 30 years ago.

In what follows 13 points, a line of argument, is presented that starts with exactly this problem of a European vision and finally leads to a concise policy proposal that could help to implement it[14].

1. The further evolution of the political economy of Europe - of ***the emergence of a continental political entity*** - is currently in a ***most critical situation***. The stakes are high. To keep the process of integration going a profound ***new impetus is needed***.

2. To create such an impetus it needs more than just the rational appeal to consider economic advantages of further division of labour, or the implementation of a 'new European spirit' in the brains of European citizens engineered by the EU marketing

[13] With the help of modern media technology in a milieu of media concentration, market manipulation has become one of the most flourishing activities. For good reasons this is in stark contrast to the propaganda of the agents active in this field, who emphasize the objectivity of financial markets: They are mystified as a kind of 'weather condition', exempt from any human influence or manipulation.

[14] This line of arguments was also sent as an ‚Open Letter' to president Barroso answering his request for policy proposals at the Global Jean Monnet Meeting in Brussels in December 2013.

department. What it needs is a ***vision of Europe*** that unites its population because it ***promises*** to solve its most pressing problem, a vision that proposes a plan how to ***free Europe from its most dangerous enemy***.

3. The ***biggest problem*** that Europe is confronted with is ***how to fight unemployment***. Every European citizen - employed as well as unemployed, firm owner as well as worker and public employee – is confronted and fully aware that this is the danger that threatens his/her living standard. The ***fight against*** this ***common enemy*** thus is the key issue that can unite an overwhelming majority of Europeans.

4. To achieve this goal, to show how to fight unemployment, the ***European Union*** has to ***provide an example*** in those countries where the problem is worst: in the Mediterranean countries. The ***successful fight against this common enemy*** is the foundation of the implementation of a ***new vision of Europe*** that will be immediately recognized and acknowledged by the population.

5. In a ***first step*** to develop a solution – and ***to establish itself as a problem-solving political entity*** – the ***European Union*** has to analyse ***why the economic policies*** pursued in the last 6 years ***failed so dramatically***.

6. It is immediately evident that such an analysis has to distinguish between at least ***three levels of agents***: (i) Unemployment is ***effectuated*** at the firm level (bankruptcy, layoffs) and the level of certain public institutions (closing public services); (ii) it is ***modified*** by national economic employment policies (national labour laws, employment programs, etc.); (iii) it is only ***observed*** at the European level, where then just some theoretical recommendations for the lower levels are issued (by ECFIN, some DGs, etc.). ***This structure of agents and corresponding activities*** has proved to be ***unable to fight unemployment***.

7. The ***policy stance*** that the ***European Union*** can use to generate the ***new profile of a problem-solver*** has to ***start with a change*** of this ***failed decision structure of agents***. Neither have low interest rates induced firms to increase employment, nor have higher national budget deficits (and accompanying higher interest on government debt) allowed for higher public employment. For firms the shrinking expected demand was the decisive element to reduce employment and for nation states the focus on the budget led to reduction in government expenditure (mainly by layoffs) – both processes leading to a ***downward self-amplifying spiral***.

8. **Economic policy of the EU** necessarily has to run from the top level down to the lowest levels that organize the actual economic labour relation. This **inverts the direction** of the just mentioned sequence of actions, which start at the lowest level. And this is the pivotal source for the current inability of the EU to fight unemployment: The relevant decision power runs from the bottom to the top, while money (and regulatory advice) runs in the opposite direction. At any point on its journey from the top to the bottom the money stream is reduced (in economic

terms: **bureaucratic hold-up cost**) and the regulatory advice is re-interpreted (adjustments to locally ruling practice). In the end **EU-policy had no impact on the still rising unemployment**.

9. To implement an **effective EU policy** fighting unemployment in the Mediterranean EU countries it is mandatory to **circumvent the interrupting and diverting intermediating levels** on national and on firm level as far as possible.

10. To achieve this goal it is proposed to found **European Employment Agencies** (**EEA**s) in **Lisbon, Madrid, Rome, and Athens**. These EEAs are run directly by the European Union and only a minority of their staff is recruited in the respective host country. Their task is **to provide work for the unemployed** in the area of local **infrastructural improvements**. To do so they **organize procurement processes** that link **local production units** to **local infrastructural needs** (public health, public transport, housing utilities, education, etc.). Furthermore they **arrange payment** of the newly employed as well as of local production units. With respect to the latter they implement a strict control of reimbursement of cost (including entrepreneurial wages) only.

11. The **finance of the EEAs** is provided directly by the **European Central Bank**. It includes all internal cost of the EEAs as well as the cost incurred by the payments it arranges. The success of an EEA is measured in direct relation to the reduction of the national unemployment rate.

12. The activities of the EEAs are supported by a newly founded **Labour Organization Task Force** (**LOTF**). This group of economists elaborates three important elements necessary for the **matching of economic activities to infrastructural deficiencies**. (i) It identifies the **characteristics of the unemployed** in the Mediterranean countries (age structure, gender, skill structure, immigration-emigration flows, etc.); (ii) it identifies which **infrastructural necessities** are most urgent and provide a most durable welfare benefit for the local population; (iii) it surveys the different **national institutional settings** concerning labour organization. Besides these more empirically oriented tasks it also comprises of a more **theoretically-oriented group**, which works on the design of **anti-bureaucracy measures** and **mechanisms of democratic decision making**.

13. The **LOTF is a centrally located group** whose work on the one (empirically-oriented) side is tightly linked to **Eurostat and ECFIN**. On the other (theoretically-oriented) side close cooperation with the group of **European Jean-Monnet Professors and EAECE** in general has to be envisaged. Finance of the LOTF again has to be provided by the ECB.

These 13 points clearly are only compressed statements of a rather broad research and policy program that might be specified in more detail in the future. It will be useful to specify

such refinements in the form of a tree-structure, going deeper into these questions with every additional step. To demonstrate this procedure some first branches of the next level are proposed below:

First level of refinements

1.1 Unification has hit ***bottlenecks in several dimensions***: With respect to economics the political cleat binding countries with different public debt levels is most important; with respect to the political (and in the background military) expansion of the EU (and in the background NATO) towards East and Southeast - this has come to a halt. Internally standard neo-classical as well as Keynesian economic policy has finally lost all credibility to be able solve the unemployment problem. Europe's population feels this ***multi-dimensional stagnation*** and either is reluctant to participate in politics at all, or even turns to nationalist right-wing movements. To wake-up Europe's citizens again a strong wake-up call is needed.

2.1 As history shows it is much easier to unite a diverse community against a ***common enemy*** than it is to find and to promote a commonly shared positively connoted goal. Of course, most of the time this feature has been ***misused***: anti-Semitism, religious civil wars and other atrocities have played on this piano. Since we can already observe how such misuse starts to develop again with respect to immigrants and general xenophobia it is ***particularly important to fix*** another – ***welfare-enhancing*** – ***common enemy: Unemployment!***

3.1 An ***immediate difficulty*** arises from the fact that unemployment is a ***macroeconomic social fact*** and ***not*** a ***visible property of a material carrier*** (e.g. the colour of the skin of certain people). Nevertheless it is ***personally experienced***: either by the restrictions on consumption of already unemployed individuals, or as fear to become unemployed by those still employed. Leaving the ***explanation of the causal structure*** of this ***rising danger*** to ***demagogues*** is most dangerous, and thus has to be replaced by ***countervailing action***: The implementation of a program to fight unemployment.

3.2 This task ***unites Europeans of all countries***! In its general form it implies a re-organization of labour relationships all across Europe. Starting point for such a redesign has to be the enhancement of welfare at the household level, i.e. family income has to provide a ***sustainable level of income*** to ***finance social reproduction***. In Europe this is an ambitious, but achievable task, which naturally ***implies*** a ***certain amount of re-distribution of income and wealth***.

4.1 The step from a general goal (point 3) to an ***actually envisaged exemplary action*** (point 4) is pivotal to overcome the usual scepticism in face of 'grand rhetoric'. Only with a feasible short-run ***action plan*** in sight European citizens will ***follow the vision of EU politicians***.

5.1 Any development of a problem solutions has to start with an ***analysis of the roots*** of the problem. In the current case there exists a ***dominance of mistaken analysis*** which led to erroneous proposals for remedies in the last six years. ***Some of these misconceptions*** will have to be ***made visible to derive more sensible policies*** –

though no time should be wasted to lead unnecessary theoretical and ideological battles.

6.1 Here a ***possible stringent line of analysis*** of the roots of current difficulties is sketched. It is specific to the European context and tries to incorporate aspects that ***often have been experienced*** by European citizens.

7.1 This is a side-step to a ***mild critique*** following the standard Keynesian investment function and the role of expectations in the accelerator principle – as these elements in their vulgar form often occur in public discourses. In this context it is meant to take some already existing pieces of explanation for self-amplifying disasters (in more informed minds) to ***lead the laymen*** to some ***deeper levels of explanations***.

8.1 This then is the radical turn to be taken: To initiate an anti-bureaucratic policy stance that empowers a benevolent central bureaucracy! This difficult (in ancient Greece: dialectical) policy in plain economic jargon has been called the ***fight against hold-up cost***.

8.2 Note that it is the ***distance between*** the ***source of money*** (the ECB) and the ***final purpose*** of this money (namely the establishment of a work contract with a currently unemployed worker) measured in the number of intermediate nodes (possibilities of leaking) ***shall be minimized***.

8.3 Note also that an ***adjustment of the direction of action stream and money stream*** – both shall flow in the same direction – makes a ***mutual control mechanism much easier*** and less time consuming. But remark that this effect reduces the power of (bureaucratic) federalist agencies and therefore needs strong decisions from the top to overcome their resistance.

9.1 To ***start this strong type of European policy*** an appropriate small and at the same time most acute set of countries has to be focussed on. These evidently can only be the ***Mediterranean EU members***.

9.2 As ***unemployment is spreading across the continent***, a process that will not be stopped in the next five years, it can be anticipated that similar measures will have to be envisaged in ***other EU member countries*** too. Typical candidates would be Eastern European members, though their special types of problems will need some specialized design features for such a policy.

10.1 This is a very ***detailed description*** of a set of specific actions that can be immediately implemented. As any such proposal its detail can be debated and modified. Nevertheless it is extremely important to ***nail down action*** as something that leads to a ***material (physical) change of the problem*** at hand. It is not just another expression of hot air.

10.2 At this point implementation details will have to be made ***even much more specific*** to become ***operational***. In particular the individual country specifics will have to be taken into account.

11.1 Since the European Union is in a position to produce the money Eurozone countries use, there is no direct limit to the increase of money supply (credit). Of course, the indirect effects have to be observed. The overall impact of the finance of EEAs on the money supply will be rather small, and might lead only to ***minor deprecation effects*** on the Euro (rather for reputational reasons than for any other mechanism). Furthermore this will imply some help for European international exporters and will (mildly) hurt importing households and firms – ***it remains to be seen if there is a net effect at all***.

11.2 The expected generalization of unemployment and the fight against it implies a ***further extension of the Eurozone*** to keep its finance on track. The ***banking union*** as well as other steps towards a better democratically controlled monetary system are ***steps in the correct direction***.

12.1 The **Labour Organization Task Force** should ***not duplicate efforts*** that are already taken care of by other parts of EU institutions. But it should ***organize, bundle and focus its staff*** on these very specific questions.

12.2 The LOTF will have to be structured into a more ***theoretically oriented group*** and a more ***empirically oriented group***, which have to be ***institutionally forced to permanent interaction***. The core group of scientists should be ***political economists*** (economists), helped by sociologists, lawyers, game theorists (e.g. for voting theory), media experts (for spreading ideas) etc.

13.1 To ***embed the LOTF in the currently existing network of EU institutions*** is of ultimate importance. This has to be carried out by top level decision makers of the EU and cannot be delegated to lower levels. The backbone of LOTF with respect to its personnel should come from existing think tanks, from selected academic backgrounds and from existing EU institutions. To start it a small group of a few board members (3 to 5 persons) could be directly assigned by the European Commission, which then shall actively and rapidly set up the organization.

13.2 Before this action of assignment is started a ***preliminary discussion round*** shall be ***quickly*** announced (and selected invitations sent) to prepare this step ***in Brussels***.

3 – Conclusions

The discussion of the problem of unemployment in Mediterranean European countries put forward in this chapter emphasis two important aspects. First, it underlines that a theoretical understanding of this phenomenon has to start with a broad, history-rich approach; but second this sophisticated and time-consuming work should not prevent economists to produce immediately proposals for an economic policy that can be operationalized and helps the European unification process to survive in the short-run.

With respect to the first task the difficulties mainly arise due to the tremendously increased interaction between the different parts of the global political economy and its accommodating communication networks. Yesterday's analytical device called ceteris-paribus assumption that allowed to deal with problems one after the other and thus – via theoretical division of labour - produced isolated specialists for different theoretical fields,

this device has proved to be an impasse for theorizing today's society. Dealing with unemployment immediately implies a debate on state functions, on pension systems, on global trade and productivity patterns, on the role of cultural differences, etc.

The final element highlighted here is that the role of the historical mission of capitalism, namely the increase of labour productivity by innovative entrepreneurship, in the most advanced parts of the world has reached its goal so perfectly that further accumulation (driven by profit rate expectations) only leads to ever more disastrous financial bubbles. A glance at the development of labour productivity growth (adjusted by hours actually worked and the increase in human education) since 1974 shows that entrepreneurial activity has run out of steam[15]. As figure 3 shows the long-run vanishing of growth (below 1%) not only occurs in the four Mediterranean EU countries but follows a very similar development in Germany[16]. If entrepreneurs cease to offer innovation opportunities, then investors are seduced to believe in the empty promises of stock exchange charlatans – bubbles are growing.

Figure 3: Growth of Labour Productivity in 4 Mediterranean Countries (ITA, ESP, GRE, PRT) and in Germany

Source: [Feenstra, Robert C., Robert Inklaar and Marcel P. Timmer, 2013]

[15] The year 1974 has been chosen as starting point because a marked turn in the world economy followed the breakdown of the fixed-exchange rate system (Bretton Woods) in 1971. This was immediately followed by the turmoil at crude oil markets, which it initiated (oil crisis of 1973). Only with 1974 the new system started to consolidate itself.

[16] While this disappearance of investment opportunities in Europe is a sign of stagnated entrepreneurship, there were different reasons for the same difficulty in other parts of the world, e.g. China, India, Russia, Latin America, and Africa. The cumulative effect of these different impacts at some point (September 15 of 2007) led to a sudden switch of strategy of some big players in international finance.

With a short delay these bubbles surface – inter alia – as exploding unemployment rates in those countries of Europe which seem to be easiest to be transformed into a regime of substantially increased exploitation. The set of policies to achieve that (disguising themselves as 'austerity policies') currently are changing labour laws and other institutional elements providing a social net for populations, but in some countries they might even be topped by more authoritarian (military) solutions that promise to organize coercively advanced exploitation. This danger for European welfare increase hopefully will stimulate theoretical work proposing a pilot project Europe that can provide a blueprint for the European political economy.

For the second aspect, on a much more modest line of argument – since long-run visions[17] can only come alive if the carrier system survives in the short-run – it is insisted that there has to be immediate economic action based only on a preliminary understanding of the object of investigation. It is within this range of issues that first successes will have to be achieved.

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[17] Compare [Hanappi, 2012] for a sketch of such a vision.