

Open Letter to President José Manuel Barroso

Main Line of Argument

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 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 (EEAs)** 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.

Refinements and Comments

- 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 depreciation 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***.

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