

## On Economic Policies of Unemployment in Europe

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Résumé de l'article

La croissance soudaine du chômage en Europe a causé d'énormes problèmes sociaux dans les dernières années. La rupture de la cohérence sociale, la marginalisation d'une grande partie de la main-d'œuvre et la baisse du niveau de vie pour un nombre significatif d'Européens ont ébranlé la foi dans l'idéal de l'Europe sociale à un tel point que, dans certains pays, les supporteurs de l'Union monétaire et économique constituent maintenant une minorité.

Cette croissance du chômage a confirmé les sceptiques sur la façon dont la nouvelle Europe est construite et plus particulièrement sur la façon dont l'Euro est établi. Le scepticisme, basé sur la théorie de l'aire de la monnaie optimum, porte sur la médiocrité des traités de Maastricht et d'Amsterdam où l'emphase est mise exclusivement sur le ciblage de l'inflation et la réduction du déficit public plutôt que sur la croissance et l'emploi.

Cependant, la majorité des auteurs, au lieu de blâmer les politiques économiques implantées depuis 1992, attribuent le malaise européen du chômage — et de la production perdue en conséquence — à des facteurs tels que la technologie, la mondialisation, les rigidités du marché du travail et ces supposés États-providence européens. De façon plus spécifique, une partie importante des universitaires et de l'opinion politique portent le blâme sur trois facteurs :

1. La nature des nouvelles technologies globalement et, plus généralement, ce nouveau type de développement surnommé la « croissance sans emploi ». Certains économistes voient le problème du chômage comme un résultat de changements technologiques biaisés en termes de qualifications. On soutient qu'il y a un déplacement dans la demande pour les travailleurs qualifiés à l'intérieur des industries, que l'on peut expliquer par ce genre de technologies biaisées. Il y a alors baisse dans les salaires relatifs des moins instruits accompagnée d'une hausse de chômage pour ceux-ci.
  2. L'instabilité du marché du travail européen, le haut niveau de vie des Européens, les programmes sociaux, les coûts de licenciement et, par-dessus tout, les hauts salaires tant directs qu'indirects. Plusieurs de ces inflexibilités dépendent de réglementations intentionnelles et sont vues comme le résultat de l'influence politique des employés. Selon cette opinion, les rigidités du marché du travail permettent aux employés en place d'atteindre indirectement un pouvoir de monopole dans l'établissement des salaires. Alors, on considère les niveaux de chômage comme la résultante directe d'influences politiques puissantes de la part de ceux qui ont déjà un emploi. La croyance populaire réfère également à la législation favorisant la protection de l'emploi et de généreux avantages sociaux en Europe préservant ainsi les rigidités, une réponse lente des salaires et des prix aux variations de la demande et, ainsi, augmentant le chômage.
  3. La croissance du commerce international et l'intensification de la concurrence internationale. En d'autres mots, les efforts de la prétendue mondialisation. On prétend que l'importation de produits des pays en voie de développement à coûts de main-d'œuvre bas mine la compétitivité internationale des produits européens. Comme résultat, les industries ferment et le chômage s'accroît, surtout chez les moins instruits.
- Ces facteurs sont-ils réellement la cause des hauts taux de chômage en Europe ? Non. À cause des politiques économiques très serrées en Europe, surtout comme résultat des hauts taux d'intérêts allemands et des politiques monétaires restrictives, la croissance de la demande totale et le PIB ne suivent pas le rythme avec les besoins du marché du travail. La croissance de l'offre réelle de monnaie, comme le suggère Modigliani, pousserait les taux réels d'intérêt suffisamment bas pour que les investissements et le PIB revivent et pour que le taux de création d'emplois s'accélére au point où l'actuel haut taux de chômage commencerait à se stabiliser. Un faible relâchement de la politique monétaire suffirait pour baisser les taux réels d'intérêts et, avec eux, les coûts de la dette publique. Cela mènerait à une croissance de l'investissement et du PIB. Alors, les coupures drastiques de dépenses et les hauts surplus fiscaux primaires qui minent le développement économique, ne seraient plus perçus comme nécessaires.
- Les revenus de taxation croîtraient avec l'expansion de la base taxable et le PIB réel commencerait à s'approcher de la production potentielle, i.e. celle qui serait disponible si les forces de production actuellement restreintes étaient pleinement utilisées. Cela aurait un effet de modération sur le niveau de chômage, renforcerait la balance des comptes courants et stabiliserait les devises nationales sur les marchés monétaires. Par contraste, aussi longtemps que l'on combat l'inflation et le déficit public avec des coupures dans la consommation et les dépenses, les coûts pour retenir les hausses de prix et réduire l'endettement vont croître de façon encore plus désavantageuse en termes de chômage, de production perdue et, ultimement, en termes de processus de convergence.

# *On Economic Policies of Unemployment in Europe*

THEODORE PELAGIDIS

*This article deals with the unemployment problem in Europe. While the prevailing explanations sources of unemployment such as jobless growth, rigid labour markets and the process of globalization are rejected, it is argued that technological backwardness, slow growth and investment rates are responsible for the high European unemployment rate. A change in the mix of economic policy implemented in Europe is proposed in order to decelerate real interest rate, increase investments, GDP and employment.*

According to official figures, around 10% of the working population of the European Union (EU) is unemployed. Eighteen million European citizens, five million of whom under the age of twenty-five, are officially looking for work.

The continuing high levels of unemployment in Europe have caused huge social problems in recent years. The rupture of social cohesion, the marginalization of a large part of the labour force, the fall in living standards for a significant number of European citizens have shaken the faith of Europeans in the European ideal of a "Social Europe" to such an extent that, in some countries, the supporters of Economic and Monetary Union (EMU) now constitute a minority.

The high rates of unemployment lends credence to the sceptical view of the way the "new Europe" has generally been constructed and, in

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particular, the way the EURO was established. Drawing on the theory of Optimum Currency Area (OCA), this sceptical view highlights the problems of the treaties of Maastricht and Amsterdam in which the emphasis is exclusively on "inflation targeting" and public deficit reduction rather than on growth and employment (Pelagidis 1997b, 1997c).

However, instead of blaming economic policies implemented since 1992, the majority of authors in the relevant literature attribute the European disease of unemployment and resulting lost production on factors such as technology, "globalization", labour market rigidities and the so-called generous European welfare states. More specifically, an influential section of academic and political opinion places the blame on three factors.

First, the nature of new technologies and, more generally, "jobless growth" lead some economists to view the unemployment problem as a result of skilled-biased technological change (Lawrence 1994; Krugman 1995; Baldwin and Cain 1997). It is argued that the shift in the demand for skilled workers within industries which can be explained by skilled-biased technological change. There is a consequent decline in the relative wages and increased unemployment of the least-educated or low-skilled workers.

A second purported factor concerns the inflexibility of the European labour market, the high living standard of Europeans, welfare programs and firing costs (Bean 1994) and, above all, high wages, both direct and indirect (in the form of social expenditure). Many of these inflexibilities have to do with institutional regulations (Wyplosz 1997) and are understood to be the outcome of the political influence of incumbent employees or "insiders". According to this view, labour market rigidities allow such "insiders" to achieve monopoly power in wage setting. Thus, high levels of unemployment are considered a direct result of the powerful political influences exerted by people who already have jobs (Saint-Paul 1996, 1997). Conventional wisdom also points to European legislation favouring employment protection and generous welfare benefits. In turn, these preserve rigidities, slow the responses of wages and prices in disturbances demand, thereby increasing unemployment.

The increase of international trade and intensification of international competition, in other words the effects of the so-called "globalization", are a third factor. It is claimed that products from developing countries with low labour costs undermine the international competitiveness of European products. As a result, industries close down and unemployment rises, especially that of the least educated workers (Wood 1995; Baldwin and Cain 1997).

Are the above factors really the cause of the high rates of unemployment in Europe?

## *PRETEXTS FOR EUROPEAN UNEMPLOYMENT*

### *Technological Unemployment and Jobless Growth*

Unemployment is not, as claimed, a world-wide phenomenon. In both Japan and the United States, the level of unemployment is below 5% (Economist 1998, OECD 1998). Yet, it is well known that both the United States and Japan are in the forefront of technological innovation. By contrast, Europe is characterized by low levels of investment, low levels of expenditure on Research and Development (R&D), and a particularly slow rate of "producing" and implementing new technologies (see tables 4 and 8 below). As a result, as has been pointed out in a relevant study carried out on behalf of the European Commission (1996), over the past thirty years, the European Union has created only half as many new jobs as Japan and a fifth as many as the United States. Europe's technological backwardness is faithfully reflected in the high cost of production of services related to entrepreneurial activity and traditionally linked to state investments, such as communications and transport.

As far as the case of Japan is concerned, recent data confirm that unemployment is now 4.6% and increasing (Economist 1998). Despite the fact that this is still a "sustainable" rate, and 2.5 times less than the EU rate, Japan seems to be infected by the European disease. This is because Japan's investment and growth rates are deteriorating together with unemployment, just as in the EU case, confirming that technology is not the culprit for both Japan and EU.

The logical conclusion, then, is that unemployment is a European phenomenon and a reflection of the technological backwardness of the European Union and its resulting inability to match the performance of its competitors in increasing productivity and creating new job opportunities. Technological backwardness and the resulting sluggish rates of growth of the Gross Domestic Product (GDP) are responsible for the high levels of unemployment. It is worth pointing out that the average rate of GDP growth between 1992 and 1998 was only 1.9% for Europe, while in the United States it was around 3.2%.

### *Wages and the Welfare State*

The argument that direct wage payments are higher in the European Union than anywhere else would be supported only if it had been the condition in all member states of the EU. But in Greece, for example, as it has been demonstrated elsewhere (Pelagidis 1997a), labour costs, real wages and their share as a percentage of GDP are all at very low levels. None of this is inconsistent with official unemployment rates exceeding 10% (OECD 1997).

Any tendency in real wages ( $Dw-Di$  where  $w$  = wages and  $i$  = inflation) to exceed the rate of growth in productivity (production per hour or  $Dq-Dh$ ) should logically, in accordance with the above argument, be reflected in an increase in the share accruing to labour ( $Ds$ ) in the European Union (Gordon 1996). With labour cost increasing relative to its marginal product, if the share accruing to labour were to increase, profit levels should have been depressed, demand for labour should have diminished and unemployment should have increased (Gordon 1996).

The figures taken from European Economy (1995, 1996b, 1997a, 1998) show that, in spite of the arguments focusing on the high wage levels in the European Union, the share of wages as a proportion of GDP has steadily declined since the early 1980s (see table 1). From 76.7% in 1981, it fell to 68.3% in 1998, while in the United States it remains stable at around 72%

TABLE 1  
Adjusted Wage Share in the Total Economy (% of GDP at factor cost)

|       | 71-80 | 81   | 85   | 90   | 91   | 92   | 93   | 94   | 95   | 96*  | 97** | 98*** |
|-------|-------|------|------|------|------|------|------|------|------|------|------|-------|
| EU    | 75.4  | 76.7 | 73   | 70.7 | 70.9 | 71.0 | 70.8 | 69.5 | 68.8 | 68.7 | 68.4 | 68.3  |
| USA   | 72.1  | 71.7 | 71   | 71.8 | 72.6 | 72.4 | 72.0 | 72.1 | 71.9 | 71.3 | 72.4 | 72.4  |
| Japan | 78.0  | 78.6 | 74.6 | 74.1 | 74.1 | 74.2 | 72.9 | 72.1 | 71.7 | 74.3 | 72.4 | 72.7  |

Source: European Economy (1995).

\* European Economy (1996b); \*\* European Economy (1997a); \*\*\* European Economy (1998).

The average annual increase in real wages in Europe between 1992-1997 was around 0.7%, while the corresponding increase in productivity has been around 2.0% (Eurostat and DGII 1997). In also taking account of the reduction of the labour share of income, we are clearly led to the conclusion that real wages and what is characterized as inflexibility in the labour market are not responsible for the increase in unemployment and poverty in Europe.

As far as the social wage is concerned, and the European welfare state more generally, it should first be pointed out that unemployment in the European Union is a phenomenon of the past ten years. Throughout the post-war period, low rates of unemployment were eminently compatible with a welfare state. Indeed, this latter was even looked upon as a competitive advantage for Europe because it was conducive to the production of the kinds of high-quality competitive products that predominated on international markets.

### *Trade and Globalization*

Globalization of the economy and internationalized competition are meant to explain the change in current "conditions". The opening of national economies and the increase in the volume of trade internationally have pushed European salaries down because they have to compete with the low labour costs of countries outside the European Union. It is argued that European businesses close and investments are cancelled because of the relative inflexibility of European wages.

The above arguments seem less convincing if we take into account the fact that, as a proportion of nominal GDP, the level of trade between member countries in the OECD from 1982 to 1994 remained stationary at around 10% (OECD 1996: A71). And in Europe generally (not narrowly restricted to the countries of the European Union), trade has remained at the same level of about 14% of the combined European GDP since the beginning of the 1980s. As for EU trade with OECD members, the equivalent proportion has risen only minimally to around 17%. It is particularly significant that EU trade with low labour cost countries such as China, Taiwan, Hong Kong, Malaysia, Thailand and Korea, accounts for only about 1% of GDP (OECD 1996: A71). It is worth mentioning in particular that EU exports to Asia, a low labour cost region, increased from 4.5% in 1989 to 7.1% in 1995, while EU imports rose to some extent, but less, from 5.3% in 1989 to 7.5% in 1995 (IMF 1996). It is also worth pointing out that the EU imported more investment capital from the US (8.5 billion EURO) and Japan (1.4 billion EURO) than it exported (6.4 billion EURO to the USA, 0.3 billion EURO to Japan) (Eurostat 1997).

The rise in unemployment cannot therefore be explained by the supposed increase in the volume of European trade with OECD countries, and even less by the penetration of the European market by South-East Asian, low-labour-cost goods. EU trade openness is, thus, too low to explain the high rates of unemployment in its territory.

### *CAUSES OF EUROPEAN UNEMPLOYMENT*

Even if wages or social expenditures — with the resulting public deficits — were prohibitive for the profitability of European businesses, one could well ask what the effects of reducing them would be on the already weak increase in real total domestic demand in the European Union. The increase in overall domestic demand in the EU during the last couple of years, 1997 and 1998, was much lower than in the United States (see table 2). More generally, in the first years of the present decade, the average increase in final domestic demand in the EU was only about 1% (European Economy 1996b).

TABLE 2  
Final Domestic Demand and GDP in USA, Japan and EU

|                       | 1997 | 1998 |
|-----------------------|------|------|
| USA                   |      |      |
| Final Domestic Demand | 3.8  | 5.0  |
| GDP                   | 3.9  | 3.5  |
| Japan                 |      |      |
| Final Domestic Demand | -0.5 | -3.2 |
| GDP                   | 0.8  | -2.6 |
| EU                    |      |      |
| Final Domestic Demand | 1.8  | 2.8  |
| GDP                   | 2.7  | 2.8  |

Source: OECD (1998: 247–248).

Table 2 also illustrates the weakness of domestic demand in Japan. This keeps investments at a negative rate, despite increasing business profits. The explanation lies in the fact that in Japan, as Katz (1999) also argues, corporations no longer plow the profits back into the domestic economy through domestic investments. Consumption, then, is low because households earn too little and demand is consequently weak. The EU case is similar. Investment rates are weak (table 4), domestic demand is low (table 3) and business profits are the highest ever (15.4% for 1998 instead of 11.7% in Japan and 12.8% in Canada, OECD 1998: 215).

Because of the operation of fiscal and monetary policies of excessive austerity in Europe, total demand has not increased to levels required for full employment. As can be seen in table 3, the labour force growth rate in the European Union is close to zero (Japan's being an average of 0.5% for 1992–1998). This, combined with a slightly negative population growth (exactly as is, according to Krugman (1998), the case in Japan), proves that demographic factors have not contributed to increased unemployment in Europe (as well as in Japan too). As European Union GDP grew at an average rate of only 1.9% between 1992 and 1998 (Japan 0.8%), the European economy created less jobs than it needed (see table 3). According to OKUN's law, which posits that a 1% increase in unemployment is associated with a 3% drop in the ratio of actual Gross National Product (GNP) to full-capacity GNP, a growth rate of 3% was required to reduce unemployment by 1.0%. With an average growth rate of only 1.9% (1992–1998), the average employment growth in Europe was negative, thus increasing the rate of unemployment.

TABLE 3  
Selected Economic Indicators, 1992-1998

|      | GDP <sup>1</sup> |       |     | Labour Force <sup>2</sup> |       |     | Employment <sup>3</sup> |       |     | Labour force participation rate <sup>4</sup> |       |      | Unemployment <sup>5</sup> commonly used definitions |       |     |
|------|------------------|-------|-----|---------------------------|-------|-----|-------------------------|-------|-----|--|-------|------|---|-------|-----|
|      | EU               | Japan | USA | EU                        | Japan | USA | EU                      | Japan | USA | EU   | Japan | USA  | EU  | Japan | USA |
| 1992 | 1.1              | 1.0   | 2.7 | -0.2                      | 1.1   | 1.4 | -1.5                    | 1.1   | 0.7 | 67.1   | 75.9  | 76.6 | 9.6   | 2.2   | 7.5 |
| 1993 | -0.3             | 0.3   | 2.3 | -0.1                      | 0.6   | 0.8 | -1.7                    | 0.2   | 1.5 | 66.7   | 76.1  | 76.6 | 11.3  | 2.5   | 6.9 |
| 1994 | 3.0              | 0.6   | 3.5 | 0.2                       | 0.4   | 1.4 | -0.3                    | 0.0   | 2.3 | 66.7   | 76.4  | 76.9 | 12.2  | 2.9   | 6.1 |
| 1995 | 2.4              | 1.5   | 2.3 | 0.2                       | 0.3   | 1.0 | 0.6                     | 0.1   | 1.5 | 66.5   | 76.5  | 76.9 | 11.9  | 3.1   | 5.6 |
| 1996 | 1.8              | 3.9   | 3.4 | 0.5                       | 0.7   | 1.2 | 0.3                     | 0.5   | 1.4 | 66.6   | 76.9  | 77.0 | 12.3  | 3.4   | 5.4 |
| 1997 | 2.7              | 0.8   | 3.9 | 0.4                       | 1.1   | 1.8 | 0.6                     | 1.1   | 2.2 | 66.7   | 77.9  | 77.6 | 12.4  | 3.4   | 4.9 |
| 1998 | 2.8              | -2.6  | 3.5 | 0.3                       | 0.1   | 0.9 | 1.0                     | -0.7  | 1.3 | 66.8   | 78.1  | 77.5 | 11.7  | 4.2   | 4.6 |

Source: OECD (1998):

<sup>1</sup> Table 1: p. 191.

<sup>2</sup> Table 18: p. 208.

<sup>3</sup> Table 20: p. 210.

<sup>4</sup> Table 19: p. 209.

<sup>5</sup> Table 21: p. 211.

The problem relates above all to the inadequacy of the money supply in Europe – Germany being the number one culprit – which pushes real interest rates to high levels, thus undermining the increase in investment and income (Pelagidis 1997b, 1997c). Particularly interesting are the figures for investment in EU countries. These are appreciably less than in the United States (see table 4), with negative consequences for GDP growth in the EU.

TABLE 4  
Real Gross Fixed Capital Formation (cumulative % 1992–1998)

|       | <i>Private, Non-Construction</i> | <i>All Sectors</i> |
|-------|----------------------------------|--------------------|
| USA   | 56.7                             | 40.7               |
| Japan | -19.0                            | -27.3              |
| EU    | 8.9                              | 2.5                |

Source: OECD (1996: A9, A8) and OECD (1998: 196, 197); own calculations.

Given that European corporations sell about 90% of their products on the European market, a further contraction in overall demand, and particularly in public and private consumption, is even more damaging for the prospects of increases in production and productivity rates.

Technologically backward or otherwise, Europe has anything but a deficit in its trade with other countries of the world. European Union trade with countries outside Europe is in surplus, equivalent to approximately 1% of its GDP. Both the trade and current account balances have experienced a growing surplus in recent years, while the corresponding figures for the United States have tended in exactly the opposite direction (see table 5).

On the other hand, the rise in nominal wages over the period 1992–1995 has been under 4%, with real per unit labour costs declining sharply (European Union 1995). Labour costs in the business sector have contracted three times faster in the European Union than in the United States (see tables 6 and 7), while on the technological front — as is argued previously — not only have investments and capital formation stagnated, but expenditure on R&D is even further behind the United States and Japan (see table 8).

The result of the low rate of R&D expenditures is, as the European Commission (1996) itself reports, much higher production costs in the European Union than in the United States and Japan, particularly in basic production coefficients such as energy, communications, and transport. Moreover, scientific research personnel constitute 0.47% of the workforce in the European Union compared with 0.74% in the United States and 0.80% in Japan.

TABLE 5  
Trade and Current Account Balances

|  | 1992  | 1993   | 1994   | 1995   | 1996*  | 1997*  | 1998** | 1999** |
|--|-------|--------|--------|--------|--------|--------|--------|--------|
| Trade Balances in \$ billions              |       |        |        |        |        |        |        |        |
| EU   | -9.5  | 70.9   | 99.1   | 122.2  | 156.1  | 155.5  | 176.7  | 188.3  |
| USA  | -96.1 | -132.6 | -166.4 | -177.6 | -187.3 | -200.5 | -255.7 | -286.2 |
| Japan                                      | 132.4 | 141.6  | 145.9  | 138.9  | 96.9   | 109.0  | 126.0  | 150.0  |
| Balances of Current Account in \$ billions |       |        |        |        |        |        |        |        |
| EU   | -78.3 | 8.9    | 10.5   | 58.4   | 83.3   | 87.9   | 115.2  | 119.5  |
| USA  | -67.8 | -103.9 | -155.7 | -147.8 | -149.5 | -157.4 | -228.6 | -271.9 |
| Japan                                      | 117.4 | 131.5  | 129.2  | 111.9  | 68.8   | 92.1   | 121.1  | 138.7  |

Source: European Economy (1996a: 24).

\* For 1996 and 1997: European Economy, Supplement A, no 5 (Brussels: European Union, 1997b: 24).

\*\* OECD (1998), estimates and projections.

Note: According to Eurostat services, the European Union enjoyed an 11 billion ECU surplus for the first half of 1996 in its commercial transactions with third countries. (In ECU: EU 1995 = 24.2 billion. 1996 = 46.3)  
(1 ECU=1.06\$)

TABLE 6  
Per Unit Labour Costs in the Business Sector  
(cumulative % 1992-1998)

|       | <i>Nominal Cost</i> | <i>Inflation*</i> | <i>Real Cost</i> |
|-------|---------------------|-------------------|------------------|
| USA   | 17.7                | 15.3              | -2.4             |
| EU    | 15.6                | 20.8              | -5.2             |
| Japan | 3.3                 | 5.1               | -1.8             |

Source: OECD (1996: A16, A18) and OECD (1998, Table 12: 202, Table 15: 205) for 1997 and 1998; own calculations.

\* Deflator of private consumption.

TABLE 7  
EU: Relative Unit Labour Costs in Common Currency Compared to  
Nine Non-EU OECD Countries, 1961-1973=100

|                   | 1991-5 | 1993  | 1994 | 1995  | 1996  | 1997 | 1998 |
|-------------------|--------|-------|------|-------|-------|------|------|
| Unit labour costs | 103.8  | 100.0 | 96.6 | 101.1 | 103.9 | 97.6 | 95.1 |
| Annual % change   | -2.0   | -11.6 | -3.3 | 4.7   | 2.8   | -6.1 | -2.5 |

Source: European Economy (1998).

TABLE 8  
R&D Expenditures as % of GDP (1996)

|       | <i>Overall Economy</i> | <i>Industry</i> |
|-------|------------------------|-----------------|
| EU    | 1.9                    | 1.0             |
| USA   | 2.5                    | 1.6             |
| Japan | 3.0                    | 2.2             |

Source: European Commission (1996).

The foregoing leads to the conclusion that the European Union has hitherto taken advantage of the benefit of cheap labour to enter international markets at the expense of other countries, without converting these profits into new jobs, since it is precisely the advantage of the low percentage of the workforce in employment that secures these profits. This explains why over the last twenty-five years the European Union has created 50% fewer new jobs than Japan and less than 20% than the United States (European Commission 1996).

To sum up, the backwardness of Europe in critical areas such as investment, capital formation, R&D, and job creation has led to a rise in unemployment in Europe comparable to the levels of the 1930s.

### *POLICY GUIDELINES FOR A "SOCIAL EUROPE"*

As has been argued in this article, decreases in real wages in the EU confirm that labour market inflexibility is no longer a distinguishing European feature. On the contrary, EU "labour market rigidities" have to do with the lack of dynamic/technological flexibility which is said to upgrade workers' skills, increasing, at the same time, total factor productivity with attendant spin-off effects. If Europe has to develop a much more "flexible" labour market, the appropriate policy should include measures for technological advancement promoting "functional"/technological as opposed to "numerical" flexibility.

The "alternative" Europe (*l'autre Europe*) — a "Social Europe" — is not an economically nonviable Europe. Quite the contrary, it is a Europe that should emphasize that high levels of employment and the high living standards of its citizens constitute competitive advantages, truly indispensable prerequisites for the production of superior-quality products and international market supremacy.

In Europe as a whole, policy measures for employment are being actively pursued. For example, in Germany, companies providing jobs for

unemployed workers are given an 80% subsidy for the first six months and 60% for the second, while in France the employer is exempted from social insurance contributions for a period ranging from six to eighteen months. All of this would be well and good if the unemployment were due to workers' lacking the appropriate qualifications to be appointed to a relative abundance of positions. But this is not the case. Very few new jobs are actually being created, since there has been no appreciable increase in the level of production.

Because of excessively tight economic policies in Europe, mainly as a result of high German interest rates and restrictive money supply policies, the increase in total demand and GDP do not keep pace with the needs of the labour market. Growth in the real money supply, as advocated by Modigliani (1996), the Nobel prize winner, would push real interest rates low enough for investments and GDP to revive and the rate of job creation to accelerate to a point where the present high rate of unemployment would start to level off.

A slight relaxation of monetary policy would be enough to bring down real interest rates and, with them, the cost of debt servicing. This would lead to a corresponding increase in the real rate of investment growth and GDP, so that drastic expenditure cuts and high primary fiscal surpluses (i.e., procyclical economic policies), which merely undermine economic development, would no longer be perceived as necessary. Tax revenues would rise with the expansion of the tax base and real GDP could begin to approximate the "potential output", that is, the "expanded product" that would be available if full use were made of the forces of production currently being restrained and depressed and which is estimated at approximately 8% cumulatively or more for the 1992–1996 period (OECD 1997). This would moderate the level of unemployment, strengthen the balance of current accounts and stabilize the national currencies in the money markets. By contrast, as long as inflation and the public deficit are dealt with through further cutbacks on consumption and expenditure, the cost of restraining price rises and reducing indebtedness will grow ever more disadvantageous in terms of unemployment, lost output, and ultimately, the process of convergence.

The logic of the "Stability Accord", decided upon in Dublin (December 1996) and ratified in Amsterdam (June 1997), in effect prohibits any exercise of anti-cyclical economic policy and instead institutes an absurd dialogue on the place of the decimal points in the fiscal deficits.

The political message from the European electorates (France, Germany, Great Britain, Italy, and Greece) points to the so-called *l'autre politique* and *l'autre Europe* or, in other words, an end to the process of building a Europe of the bankers and the backward-looking and conservative "establishment".

For those who subscribe to the European ideal of development, social cohesion, and solidarity, an economic policy of full employment represents a viable answer to the popular call for the transformation of Europe's high standard of living into a competitive advantage by a more satisfactory means than Germany's tragic anachronism of achieving competitiveness through a passively flexible labour market, hard currency and zero inflation.

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## RÉSUMÉ

### Les politiques économiques du chômage en Europe

La croissance soudaine du chômage en Europe a causé d'énormes problèmes sociaux dans les dernières années. La rupture de la cohérence sociale, la marginalisation d'une grande partie de la main-d'œuvre et la baisse du niveau de vie pour un nombre significatif d'Européens ont ébranlé la foi dans l'idéal de l'Europe sociale à un tel point que, dans certains pays, les supporteurs de l'Union monétaire et économique constituent maintenant une minorité.

Cette croissance du chômage a confirmé les sceptiques sur la façon dont la nouvelle Europe est construite et plus particulièrement sur la façon dont l'Euro est établi. Le scepticisme, basé sur la théorie de l'aire de la monnaie optimum, porte sur la médiocrité des traités de Maastrich et d'Amsterdam où l'emphase est mise exclusivement sur le ciblage de l'inflation et la réduction du déficit public plutôt que sur la croissance et l'emploi.

Cependant, la majorité des auteurs, au lieu de blâmer les politiques économiques implantées depuis 1992, attribuent le malaise européen du chômage — et de la production perdue en conséquence — à des facteurs tels que la technologie, la mondialisation, les rigidités du marché du travail et ces supposés États-providence européens. De façon plus spécifique, une partie importante des universitaires et de l'opinion politique portent le blâme sur trois facteurs :

1. La nature des nouvelles technologies globalement et, plus généralement, ce nouveau type de développement surnommé la « croissance sans emploi ». Certains économistes voient le problème du chômage comme un résultat de changements technologiques biaisés en termes de qualifications. On soutient qu'il y a un déplacement dans la demande pour les travailleurs qualifiés à l'intérieur des industries, que l'on peut expliquer par ce genre de technologies biaisés. Il y a alors baisse dans les salaires relatifs des moins instruits accompagnée d'une hausse de chômage pour ceux-ci.

2. L'instabilité du marché du travail européen, le haut niveau de vie des Européens, les programmes sociaux, les coûts de licenciement et, par dessus tout, les hauts salaires tant directs qu'indirects. Plusieurs de ces inflexibilités dépendent de réglementations intentionnelles et sont vues comme le résultat de l'influence politique des employés. Selon cette opinion, les rigidités du marché du travail permettent aux employés en place d'atteindre indirectement un pouvoir de monopole dans l'établissement des salaires. Alors, on considère les niveaux de chômage comme la résultante directe d'influences politiques puissantes de la part de ceux qui ont déjà un emploi. La croyance populaire réfère également à la législation favorisant la protection de l'emploi et de généreux avantages sociaux en Europe préservant ainsi les rigidités, une réponse lente des salaires et des prix aux variations de la demande et, ainsi, augmentant le chômage.

3. La croissance du commerce international et l'intensification de la concurrence internationale. En d'autres mots, les efforts de la prétendue mondialisation. On prétend que l'importation de produits des pays en voie de développement à coûts de main-d'œuvre bas mine la compétitivité internationale des produits européens. Comme résultat, les industries ferment et le chômage s'accroît, surtout chez les moins instruits.

Ces facteurs sont-ils réellement la cause des hauts taux de chômage en Europe ? Non.

À cause des politiques économiques très serrées en Europe, surtout comme résultat des hauts taux d'intérêts allemands et des politiques monétaires restrictives, la croissance de la demande totale et le PIB ne suivent pas le rythme avec les besoins du marché du travail. La croissance de l'offre réelle de monnaie, comme le suggère Modigliani, pousserait les taux réels d'intérêt suffisamment bas pour que les investissements et le PIB revivent et pour que le taux de création d'emplois s'accélére au point où l'actuel haut taux de chômage commencerait à se stabiliser.

Un faible relâchement de la politique monétaire suffirait pour baisser les taux réels d'intérêts et, avec eux, les coûts de la dette publique. Cela mènerait à une croissance de l'investissement et du PIB. Alors, les coupures drastiques de dépenses et les hauts surplus fiscaux primaires qui minent le

développement économique, ne seraient plus perçus comme nécessaires. Les revenus de taxation croîtraient avec l'expansion de la base taxable et le PIB réel commencerait à s'approcher de la production potentielle, i.e. celle qui serait disponible si les forces de production actuellement restreintes étaient pleinement utilisées. Cela aurait un effet de modération sur le niveau de chômage, renforcerait la balance des comptes courants et stabiliserait les devises nationales sur les marchés monétaires. Par contraste, aussi longtemps que l'on combat l'inflation et le déficit public avec des coupures dans la consommation et les dépenses, les coûts pour retenir les hausses de prix et réduire l'endettement vont croître de façon encore plus désavantageuse en termes de chômage, de production perdue et, ultimement, en termes de processus de convergence.