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Title of paper: Unemployment around the North Atlantic, 1948-2014

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Abstract

In 2008 William Mitchell and Joan Muysken argued that there after about 1978 there had been a shift from public policies aimed at full employment at the macro level to full employability at the micro level, accompanied by a larger emphasis on the budget balance of the government and low inflation. At the same time, unemployment rose to levels unheard of in decades. After 2008, however, unemployment increased to even higher levels while extending the analysis to countries from the ‘fringe’ of Europe and to data on ‘broad’ unemployment reveals that extreme levels of unemployment in these regions where a rule instead of an exception. Flow data on the labour market show that during crises there is a temporary and relatively small increase of inflows into unemployment and a decrease of outflows out of unemployment, which however combine into a fast increase in the stock of unemployment – which is not countered by higher rates of outflow and inflow after the crisis. This evidence shows that major crises tend to shift countries to a semi-permanent situation of higher unemployment. Instead of countering this situation, after 2008 public policies shifted away from even the idea of employability and, led by EU institutions, a public discourse which tended to stress the moral and ethical advantages of extreme unemployment, like increased levels of ‘discipline’, developed. At the same time and led by EU institutions, government transfers to banks increased, leading to a deterioration of government balances and less room for government spending. The solution proposed by Mitchell and Muysken – a job guarantee financed by money printing and shredding - might still be a good idea but has to be accompanied by a central bank buying bad debts from banks (the catch: increased government guidance for bank lending) while, considering the elevated levels of unemployment, allocation of unemployed over the guaranteed jobs might have to be enhanced by using the same kind of planning algorithms which are, at the moment, used to match donor kidneys with patients.

Keywords: Unemployment, job guarantee, North Atlantic

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1. Introduction

Wow. In 1993 employment in Spain was 12,2 million. In 2008, this had increased to 20,4 million. This meant that 29% of the increase of employment in the entire EU (+28,5 million) had taken place in Spain, a country with half the amount of inhabitants of Germany. In 2001 employment growth in Spain even took account of about 50% of total employment growth in the EU! Despite these astonishing increases, in 2008 Spanish unemployment had only decreased to a still high 8%, partly because unemployment in 1993 was a whopping 22%, but to a much larger extent because of an influx of immigrants as well as a rapid increase of the participation rate of women had led to an increase of the labour force which almost matched the increase of employment. When, in 2008, foreign private capital stopped flowing into the Spanish construction sector employment decreased again, of course, to 17,1 million in 2013. Which is however still 5 million (!) up on the 1983 level and twice the size of total German job growth between 1993 and 2008.

This example serves to underscore the dynamic nature of the Spanish labour market and the enormous potential of an expansive economy, but also to emphasize the, nowadays, inherently international character of labour markets, and capital markets. Remarkably, however, downward changes in unemployment often seem to be much less dynamic than changes in employment. High as low levels of unemployment seem to be downward sticky -characteristic which economists call 'hysteresis', despite all the dynamic developments on capital and labour markets. This implicates a dangerous development: a sudden increase of unemployment might lead to a higher level of unemployment for quite some time. This short article sets out to map the development of unemployment around the North Atlantic to an extent (excluding Canada, but including 'Emerging Europe') since, for some countries, 1948 and, for a much larger sample, 1983. The main question is: can more or less permanent upward changes in the level and of unemployment be identified? Such changes will not be rigorously explained by either an accounting exercise (i.e. population changes, changes in the activity rate and the number of jobs etcetera) or by an econometric exercise (i.e. correlating changes with changes in the policy stance of governments and central banks, wage levels, education etcetera). We will, however investigate if the theoretical grid put forward by Joan Muysken and William Mitchell as published in their paper (based upon their book with the same title) *Full employment abandoned: shifting sands and policy failures* (Mitchell and Muysken, 2008) can be used to understand and describe shifts. To be able to do this, the ideas of Mitchell and Muysken will be extended a little. Hendry and Mizon (2014) show that British unemployment data are not just characterized by hysteresis but also that, looking at the really long run, there are sudden shifts in the level and variability of unemployment between epochs, epochs which themselves are characterized by 'hysteresis'. Mitchell and Muysken implicitly use such an idea to relate the shift between the 'trenteglorieuses' (i.e. the 1948-1978 period) and the (neoliberal) period after 1978. The Mitchell and Muysken data will also be updated to include the 2007-2014 and will also be more granular while information on 'broad' unemployment, i.e. people available to work, but which are not counted as unemployed as they are not immediately available as they are not actively seeking ('discouraged workers'), and people with a part time job who want to work more hours). Flow data on labour will be used to add some theoretical background to the empirical observations of Mitchell and Muysken as well as Hendri and Mizon. The results will be discussed with the question if, considering engineered 20%+ unemployment in a number of countries, we've recently witnessed the shift to a new epoch.

2. Conceptual background I: the nature of unemployment.

A difference has, alas, to be made between the concept of unemployment used in many economic models and the concept which is used by economic statisticians to estimate unemployment. To start

with the last: after the war until some time in the eighties of the twentieth century estimates of unemployment were, in many countries, based upon administrative data: people inscribed by some kind of employment/social security agency were counted as 'unemployed'. In the eighties, such data were, for one reason, to counter criticisms that a considerable part of the rapidly increasing number of unemployed people was not actually looking for work, increasingly replaced by surveys. These asked, among other things, asked if people were actually seeking work. This change fits with the shift from 'fullemployment centered' to 'full employability centered' public policies identified by Mitchell and Muysken, which took place around the same time. 'Full employability' policies shifts the burden of responsibility for finding a job entirely to the unemployed, which enables policy makers to put a blind eye to macro variables – like the level of unemployment. And quite some of the questions in the survey indeed focus on direct employability – anyone who was not directly available or was not actively seeking for a job was not counted as unemployed. These surveys showed, on one hand, that unemployment as defined in the survey (people not having any kind of paid work, immediately available for work, seeking actively) was often somewhat lower than 'administrative' unemployment. On the other hand, these surveys enabled statisticians to define 'broad' unemployment which consists of underemployed part time workers, people not immediately available for a job (like students which are almost graduated but which are already seeking) and 'discouraged' workers, i.e. people who want a job and are immediately available. And these data showed that (a) total unemployment, including 'broad' unemployment, was quite a bit higher than old style administrative unemployment. While (b) downward swings in the business cycle led to increases of the number of discouraged workers – unemployment itself had a negative effect on employability, as defined by policymakers. And (c): broad unemployment was massive, in many countries. Eurostat (2014) shows, not even counting the underemployed part-time workers, that the 'potential additional labour force' (another phrase for: 'unemployed people') in the EU was no less than 4,8% or almost 50% of official unemployment. In Italy it was even, because of a very large amount of discouraged workers, as high as 13.6% of the labour force (defined as people with a job plus the official unemployed!) - a level which really changes *any* political or economic calculation about the output gap, the sustainability of pensions and government spending, prosperity or whatever.

Though partly consistent with the neoliberal, individualist *Zeitgeist* of the eighties and beyond, these survey data are still not consistent with many neoclassical models which often model unemployment as a kind of 'leisure': people spend time, money and effort to escape the situation while empirical investigations as well as common sense of course without a shadow of a doubt show that unemployed people are less happy and less healthy than the employed. The concept plus the results of the surveys (including data on broad unemployment), however, do square with the 'Keynesian' idea that the economy can be understood as a huge and often growing machine which needs labour, but which, until labour shortages appear and impose a limit on the growth of this machine, develops, when left to its own, more or less independent from the level of unemployment. More on this below.

3. Conceptual background II: gross and net flows of labour and hysteresis

Modern labour market statistics do not only look at the net number of unemployed but also at the number of employed and (using other surveys) the number of jobs as well as to flows on the labour market: how many new jobs are created, how many old jobs are destroyed, how many people flow from employment into unemployment or into 'inactivity' or from 'inactivity' to employment or employment? The surprising result of this way of looking at the labour market is the enormous dynamism which these data show. In the UK for the first quarter of 2015 (ONS, 2015) there was a net flow from inactivity to the employment of 27 thousand people, but gross flows from inactivity to

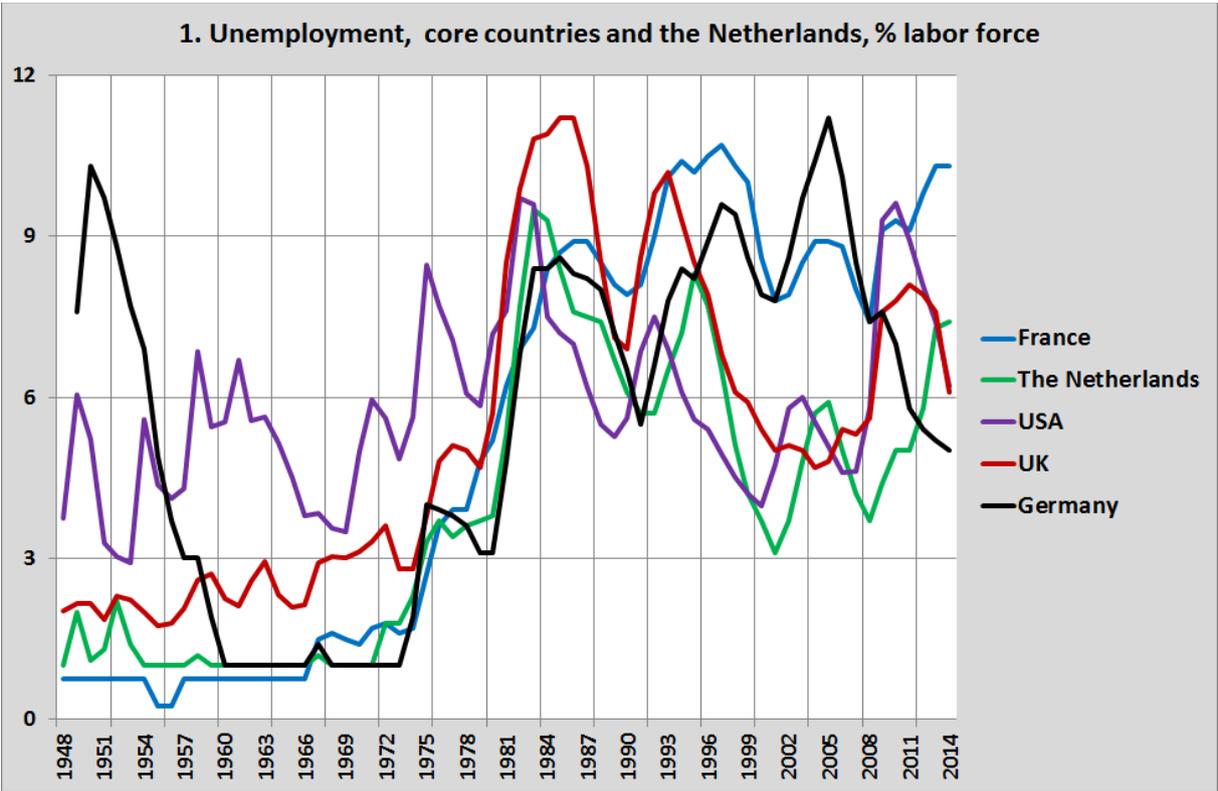
employment and vice versa were 573 and 546 thousand people – flows which are twenty times as high as the net flow (ONS, 2015)! For the flows between inactivity and unemployment this ‘leverage’ factor is ‘only’ 3 to 4 (gross: 333 and 434; net 101 from inactivity to unemployment) while for the flow between unemployment and employment this ‘dynamism coefficient’ was 2 to 3 (net flow of 169 out of unemployment to employment, gross flows of 340 and 509). These results do not only show a more complicated labour market (it’s not just about the employed and the unemployed, but also about the inactive, as we have already seen in Spain, which is fastest rise in the female participation rate) while also underscoring the known fact that when unemployment is 10% the total amount of people which experience a spell of unemployment during a year is much higher than this 10%. When we look at the long run development of these data it shows that (1) during crises *relatively small and temporary changes in the gross flows* lead to large changes in unemployment (for financially inclined readers: there is a leverage factor at work). And during severe downturns, these changes are, albeit temporary, not that small and lead to an explosive increase in unemployment, which, despite the temporary nature of the changes, tends to be quite sticky (hysteresis) as, after the crisis, the flows tend to return to their previous levels. There is no catching up. This pattern is consistent with the machine metaphor of the previous paragraph: the machine stutters and goes on – but its pace after the stuttering is independent of the increase of unemployment caused by the stuttering.¹ As stated, Hendry and Mizon show that the long run statistical properties of unemployment in the UK are consistent with this idea and not with the idea that a market economy, when left to its own, slowly (or quickly) returns to some kind of ‘natural rate of unemployment’. When the temporary increases of outflows and decreases of inflows related to a crisis do not lead to changes in the ‘permanent’ level of inflows and outflows it becomes easy to explain the differences in levels between epochs (though we still have to explain the ‘permanent’ level of inflows and outflows). And the flow concept is of course fully consistent with the endeavours of Mitchell and Muysken, which try to identify and analyse the consequences of policy differences between periods – periods with differences in unemployment levels which are clearly robust! In the following paragraphs we will try to identify some of these ‘epochs’, paying more attention to differences between clusters of countries than Mitchell and Muysken did.

4. The long run: 1948-2014

Graph 1 shows the development of unemployment in a number of core western countries (plus the Netherlands) and is more or less an update of figure 2 in Mitchell and Muysken, 2014 (additional years added, Australia dropped, ‘Europe’ split up in four different countries). It confirms and sometimes underscores their ideas: the high post WW II level in Germany may look out of sync, but can easily be explained by domestic turmoil, an undefined political situation and the inflow of around 10 to 12 million refugees into what would become Western Germany. Taking account of this the relatively fast decline of German unemployment to a consistently low rate after 1950 underscores the ideas of Mitchell and Muysken about the success of postwar economic development and policies. Mind that at the time 11% unemployment in a devastated Germany was considered to be very high, while at the present it is pretty ‘normal’ in non-devastated countries in Europe! Below, we will use this level as a benchmark. The elevated level of unemployment after the 2008 crisis (for obvious reasons not shown in the 2008 publication of Mitchell and Muysken) might be consistent with their argument that neoliberal governments abandoned ‘the full employment framework’ and embraced ‘the full employability framework’. Or maybe not. While the employability framework exists of the idea that in case of unemployment the unemployed have to be retrained and ‘incentivized’ to seek harder while gross flows of new and destroyed jobs (not the same as gross flows of labour!) have to increase – without any guarantee that an increase of gross flows also increases net job creation. But, also

¹This metaphore is also consistent with Harrod-Domar type growth models.

considering data on broad unemployment, it can also be argued that a shift to a new ‘epoch’ has occurred with an even higher level of unemployment in which even the employability framework has been abandoned in change for a framework where high levels of unemployment are seen as necessary for the moral and ethical purification of political systems! See for instance Coppola, 2015, for the extreme stance of Brussels based EU bureaucrats on government deficits already in the spring of 2009, when the worst of the downturn still had to come: Hooverism.



Sources: Centraal Bureau voor de Statistiek (Netherlands); Bureau of Labour Statistics (USA); Bank of England (UK, data increased a little to account for differences with ONS data); Villa (1995), France (data increased to account for the fact that they are presented as a % of the entire population while all other data are a % of the labour force); Statistisches Bundesamt (Germany);Eurostat .

It is true that unemployment in the Germany, the UK and the USA is reaching a lower level again and labour markets are (looking at the number of vacancies) showing signs of increasing tightness. This does not necessarily mean that the high unemployment epoch is over. At the time of writing the employment in the UK (Q2, 2015) showed a slight decline again while broad unemployment in the UK remains elevated. Also, lower unemployment in Germany might well be related to higher unemployment elsewhere in the Euro Area, as an analysis of the Eurozone Phillips Curve suggests (Knibbe, 2013). Counterarguments are however that Germany might be moving to a new epoch in a different way, because of demographic developments. Between 1945 and 1948 Germany experienced, unlike its neighbours, a severe baby bust, which means that the number of people going into retirement was, between around 2005 and 2013, relatively low. But at this moment the post 1948's are reaching their retirement age and the number of new 'Rentner' is rapidly increasing: an autonomous increase of the gross flow out of employment into inactivity. As starting in 1966 the German birth rate plunged again and remained exceptionally low 'forever after'. As a result, the generations entering the labour market at this moment are getting smaller and smaller: an autonomous decline of gross inflows. Don't

underestimate this: the number of 0 to 5 years old in Germany is less than 50% of the number of 50 to 55 year olds. This may lead to permanently lower unemployment as already shown by East Germany, which during the last ten years did not see any net employment creation, but which did witness steadily decline of its very high rate (20%+) of unemployment; at the time of writing the highest unemployment in Germany was not measured in one of the East German 'länder' but in Bremen). If everybody just leaves or dies, the problem will be solved! That seems what's happening. We might be in a new epoch where 15%+ unemployment is the new normal – Finland, which in the second quarter of 2015 boasted broad unemployment of over 22%, introduced quite some domestic austerity and keeps pushing for more austerity in the rest of the Euro Area - but it seems that demographic developments oppose the new political order of this world. In the Finnish case, it can be predicted that net emigration will increase considerably and quite fast. This will solve the problem, to an extent. But it's the very opposite of the policies of the 'trenteglorieuses', when the machine was adapted to the population.

5. The European experience post 1983

The next graphs are based upon Eurostat data as Eurostat provides a more or less consistent data set about unemployment – the data are however not always totally consistent with the data of graph 1. Also, the Eurostat data only start in 1983 and for Eastern European countries, even quite a bit later, which means that 1983 has to be used as the starting point. Graph 1 however, shows that, in 1983, the shift to a new epoch with a new 'equilibrium' level of unemployment had been completed while, in a historical sense, it's also after the British 'winter of discontent' of 1979 and the 1981 air traffic controllers strike in the USA, two landmarks in the advent of neoliberal policies. This means that there is economic as well as historical to using this year as a starting point. The series for the Eastern European countries, of course, start somewhere in the nineties, after their shift to more market oriented societies. Before this shift, unemployment as defined in this article in these countries was around zero, we'll return to this below. Countries have been clustered in more or less homogenous groups:

- a. Graph 2: The 'Nordics' (Sweden, Finland, Denmark, Belgium, Austria; the Netherlands can be joined to this club but Dutch data are already shown in graph 1)
- b. Graph 3. The Mediterranean countries (Portugal, Italy, Greece, yes, I do know that Portugal is not actually Mediterranean)
- c. Graph 3. Ireland and Spain: the housing boom countries
- d. Graph 4. Emerging Europe countries with high pre-2008 as well as high post 2008 unemployment (the Baltic countries, Croatia)
- e. Graph 5. Emerging Europe countries with high pre-2008 and lower post-2008 unemployment (Slovakia, Bulgaria, Poland)
- f. Graph 5. Emerging Europe countries with lower unemployment during the entire period (Czech Republic, Romania, Slovenia -more or less)

Using the 11% threshold mentioned above (German unemployment in 1950 was actually not 11%, but 10,2%!) the next conclusions can be drawn (see the graphs):

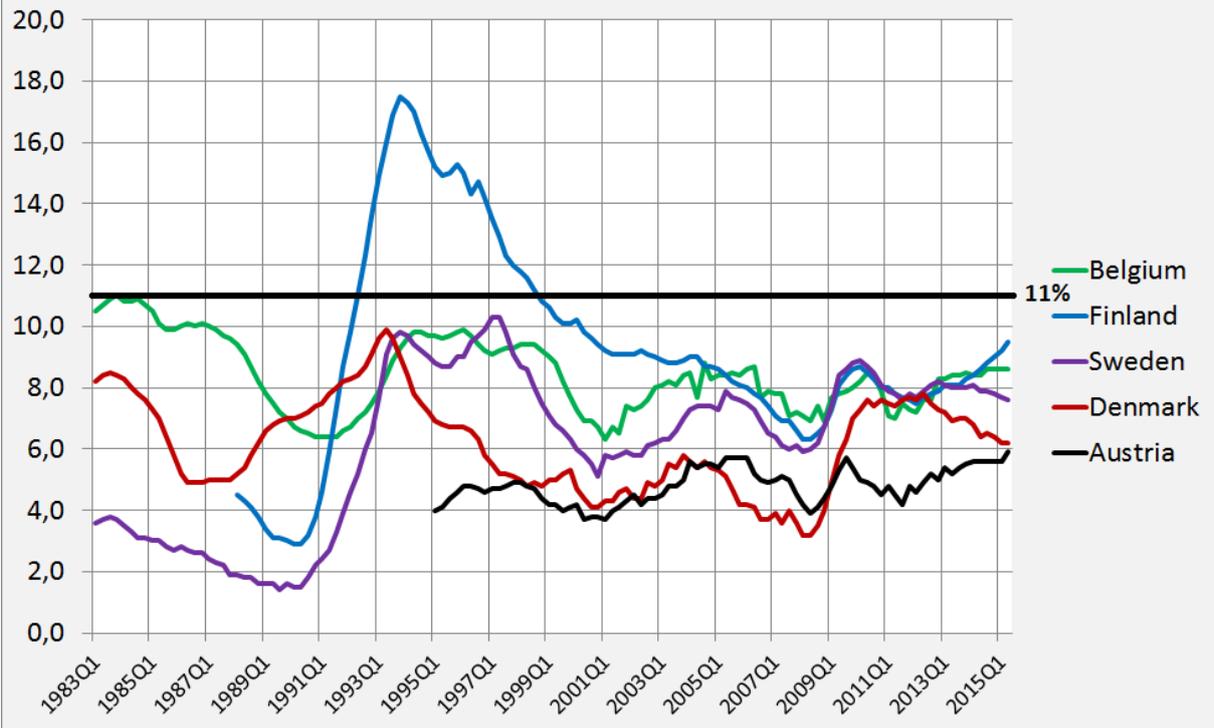
- I. This 11% maximum seems to have been a maximum too, for the Nordics except Finland as well as group f. *For all other countries*, the 11%, almost seems like a minimum: unemployment percentages of 15 and 20% are pretty normal and in Spain and Greece the 25% threshold was even surpassed. There clearly is a kind of core-periphery dynamism going on.
- II. Somewhat surprisingly, considering the severity of the 2008/2009 crisis and the double and triple dips and lackluster recovery after 2009, quite a number of countries managed to

restrict the increase of unemployment after 2008 and succeeded in reaching unemployment levels which for these countries are historically (defined as: after the fall of the Berlin wall) relatively low, albeit often still elevated: Bulgaria, Slovakia and Germany while, as stated, unemployment in Romania, the Czech Republic and to a lesser extent Slovenia is also relatively low. And even the Baltic countries have lower unemployment at the moment.

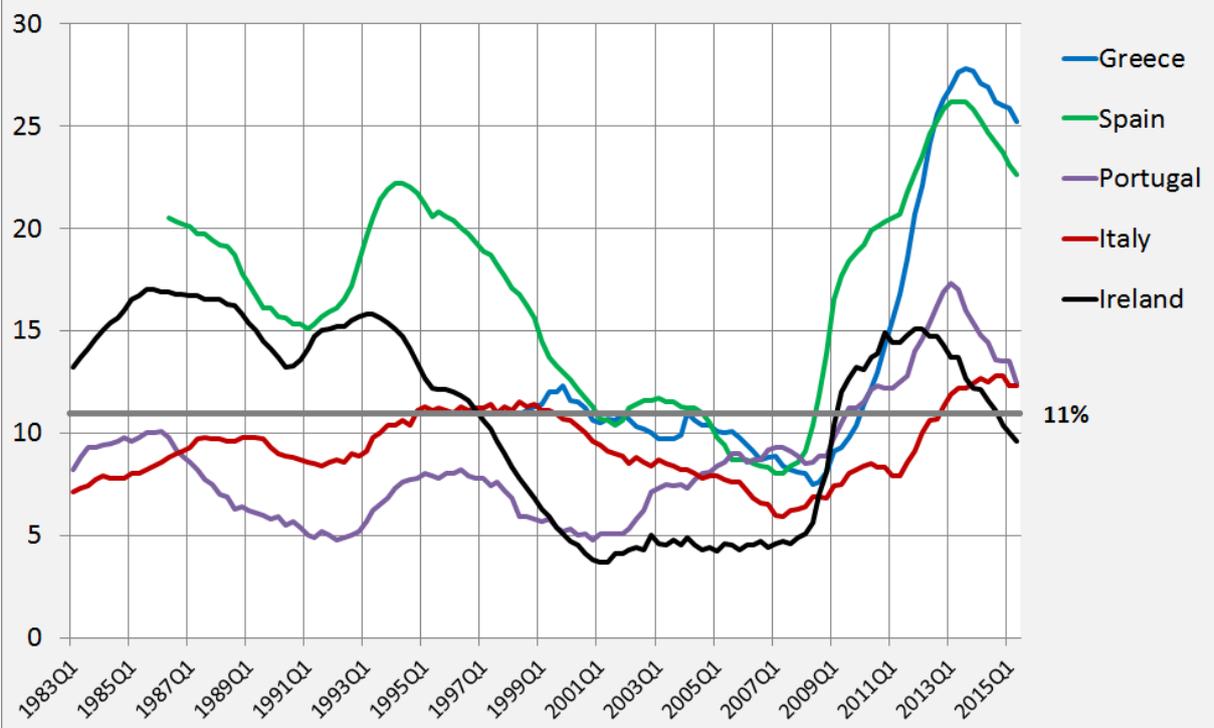
- III. In the medium run, the relative positions of countries are remarkably stable
- IV. The very comparable patterns of Ireland and Spain stand out. These patterns were of course caused by comparable booms and inflows of capital. They have interestingly underscored the hysteresis idea. The difference in unemployment between Spain and Ireland also stayed remarkably equal, surely when we take into account that the unwinding of the real estate boom in Spain went remarkably slow.
- V. A most remarkable aspect of unemployment in Italy and Portugal is the consistent increase since the introduction of the Euro.
- VI. Turning to the political realm: it is clear that the emphasis of economic policy is neither on employment or employability (do Spanish and Greek children already learn German in high school?) but on fiscal discipline. In the realm of expenditure and taxes and fiscal indiscipline are bad assets of banks and (at the end) real estate developers that shift to the balance sheet of governments and, hence, tax payers. The employability paradigm as described by Mitchell and Muysken at least acknowledges the importance of employment. But the new political paradigm (which, considering the structure of the EU and the ECB, is to quite an extent voted into existence by Eastern European countries with a history of lasting and extreme unemployment and extreme neoliberal reforms) seems to diminish this importance. 20%+ levels of unemployment seem to be considered as 'normal', also if we look at the estimates of the Non Accelerating Inflation Rate of Unemployment. For Spain, the European Commission estimated this rate to be 26,6% for Spain for a time, which meant that the Commission in fact stated that whenever Spanish unemployment would drop below 26,6% Spain would experience galloping inflation... Totally absurd, indeed, but economics professors at German universities do seem to take this serious (Tong, 2015).

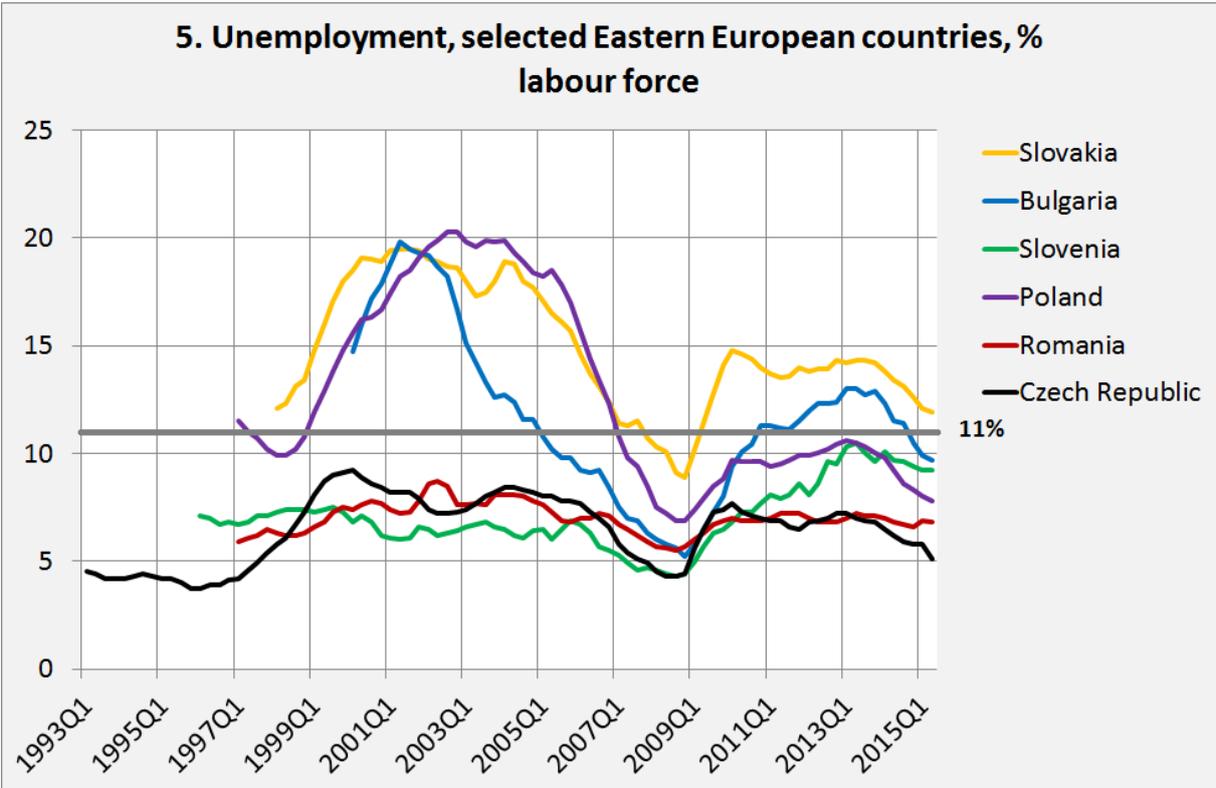
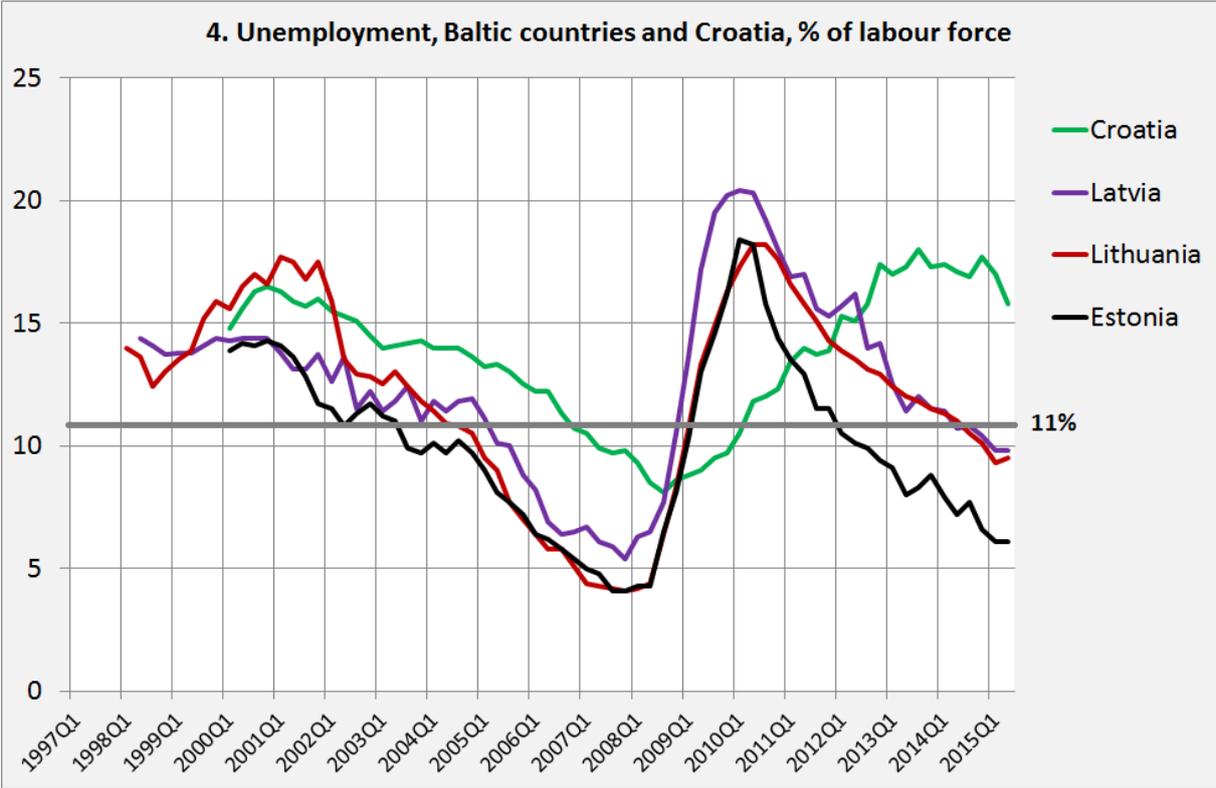
Summarizing: looking at a slightly longer period and a larger set of countries, the evidence shows a situation which is patently worse than the situation sketched by Mitchell and Muysken.

2. Unemployment, Nordic countries, Belgium, Austria, % labour force)



3. Unemployment, Mediterranean countries and Ireland, % labour force





6. How does incorporating ‘broad unemployment’ in our data alter the picture?

Eurostat data for ‘restricted’ broad unemployment (without underemployed part time workers) are available from 2005 onwards, data for total broad unemployment from 2008 onwards. These show that broad unemployment is cyclically sensitive though less so than normal unemployment (graph 7) and

has about the same level as normal unemployment.² Looking at data for individual countries, it shows that quite some countries knew or know broad unemployment levels of about 3% (graph 7). Taking this as a minimum it shows that in many countries, governments fail their citizens: adding 2% to take account of unavoidable cyclical developments gives a red line of 5%: everything above this should be considered 'wasteful'. And here are enormous pockets of unnecessary broad unemployment in the EU, in several countries levels are above 10%, twice my red line level level of 5%. Let's be harsh about this: last year I encountered an elderly very well educated Slovenian couple whose son works in the Netherlands. They were in shock about the high level of unemployment, the impossibility to find work and the people who had to leave their houses in Slovenia – a country which, according to Eastern European standards, does not even have very elevated levels of unemployment! Clearly, they had expected that a capitalist regime would deliver better results than the former Yugoslav variant of socialism – and they were reconsidering their expectations. The data are consistent with the statement of Branko Milanovic, based on macro statistics, that: *"Only 1 out of 10 people living in "transition" countries have seen a successful transition to capitalism and more democracy"*. (Milanovic 2014). One of the supposed successes of 'really existing socialism' in Eastern Europe was low (in fact: non-existent) unemployment, which, supposedly, came at the price of low efficiency. But to quote Alan Blinder (as cited in Mitchell and Muysken, 2014, p. 11):

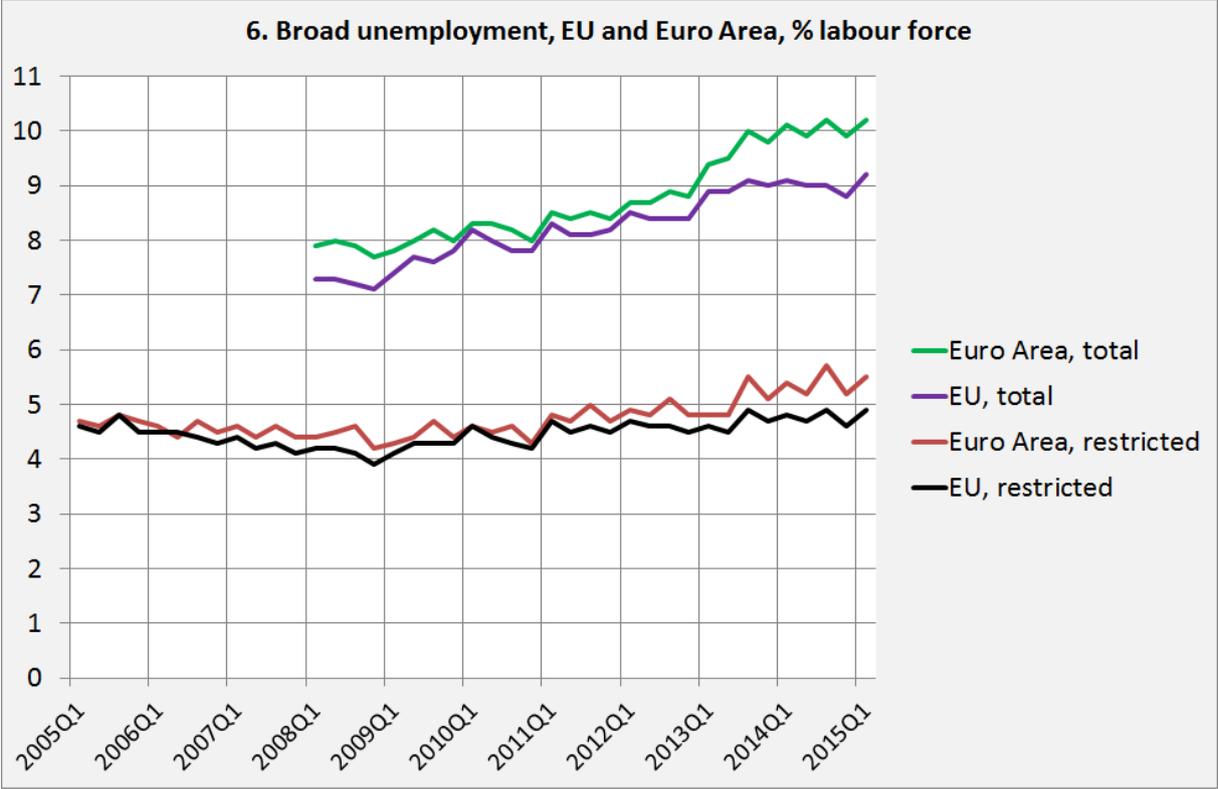
"The political revival of free-market ideology in the 1980s is, I presume, based on the market's remarkable ability to root out inefficiency. But not all inefficiencies are created equal. In particular, high unemployment represents a waste of resources so colossal that no one truly interested in efficiency can be complacent about it. It is both ironic and tragic that, in searching out ways to improve economic efficiency, we seem to have ignored the biggest inefficiency of them all."

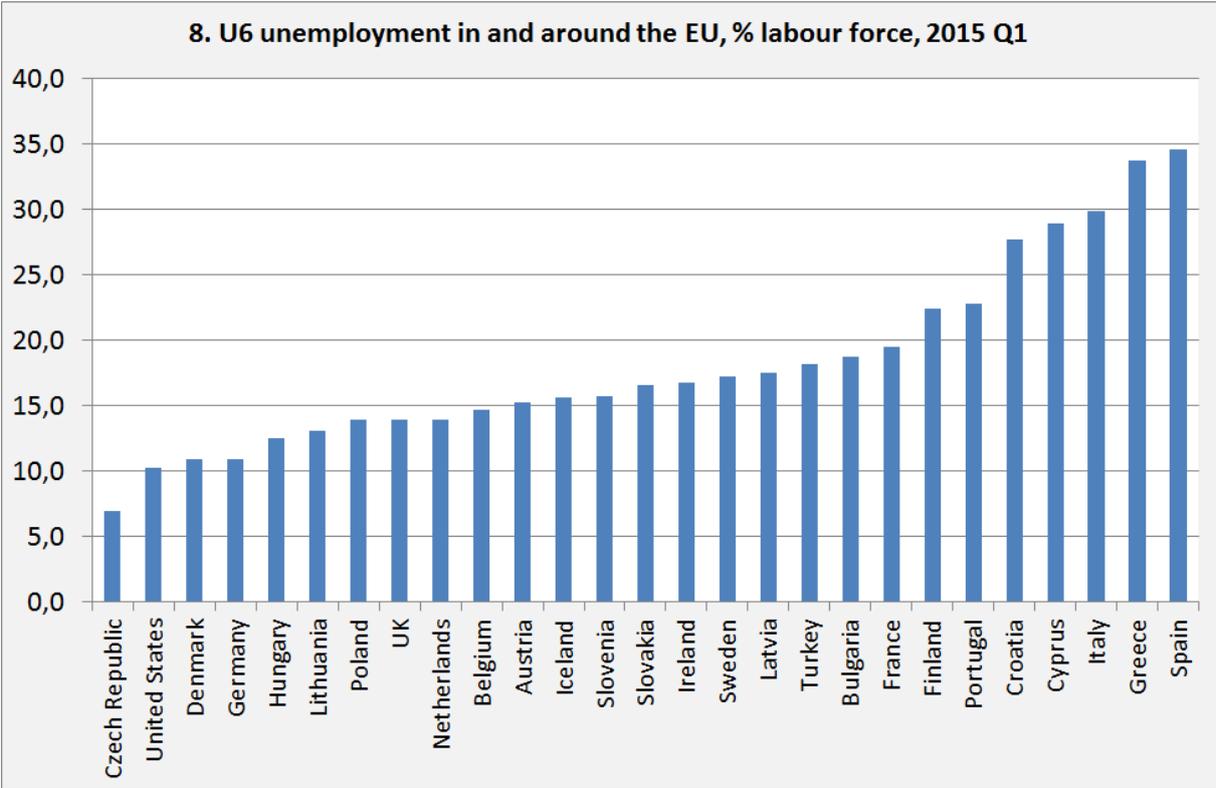
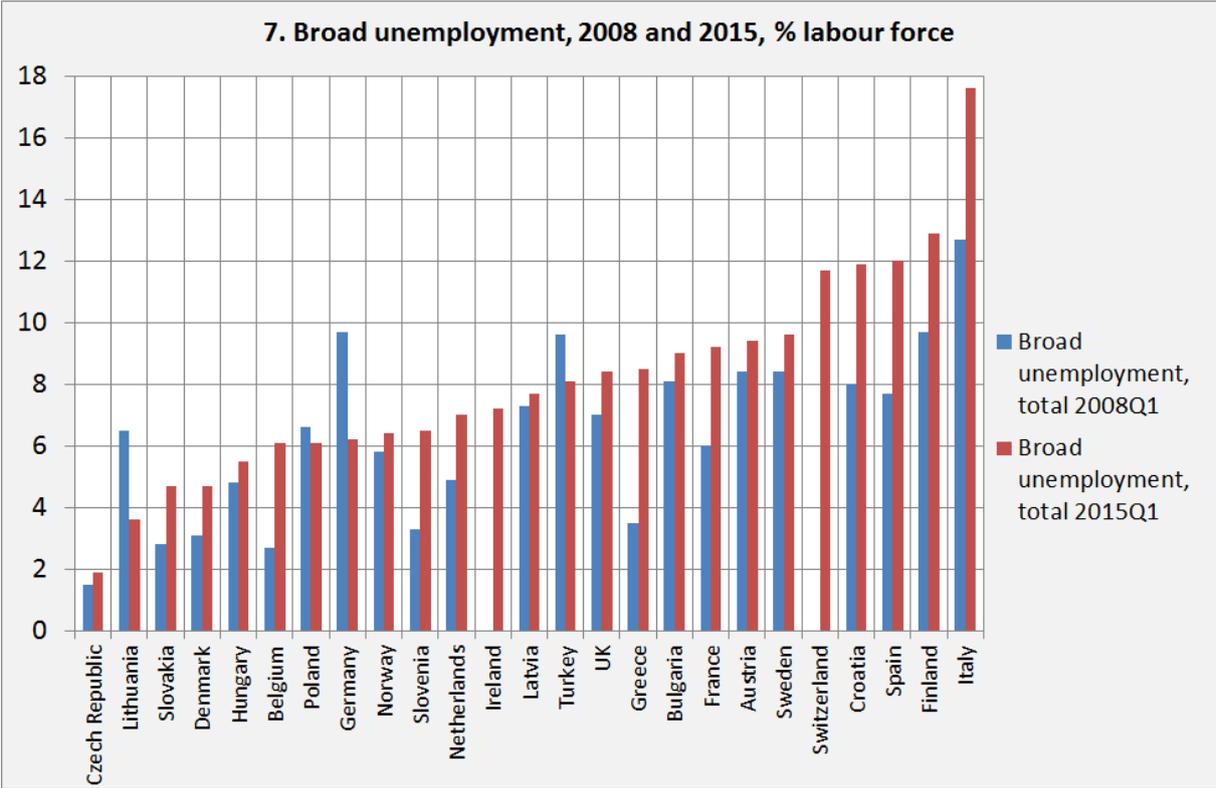
North Atlantic economies and surely the EU economies are at present not able or even willing to root out this inefficiency. And the data on broad unemployment show this inefficiency to be even higher than indicated by normal unemployment: for Slovenia 6.5 %-point have to be added to an already very elevated level of 'normal' unemployment – and Slovenia is one of the countries with relatively low 'broad' unemployment. On a micro level even more costs have to be added. A level of, say, 16% total unemployment in Slovenia means that around 20 to 25% of the total labour force are without paid work during a time of the year. This also means that next to production foregone the regular flow of money and spending is also interrupted in many households. Hence part of the social and personal dislocation caused by people who are forced to leave their houses and, the other side of the coin, the rapidly increasing rate of non-performing loans has not only to be ascribed to the amount of 'macro production foregone' but also to social and economic dislocation on the micro-level. Graph 7 shows that, in many countries, these costs are massive. Remarkably, the graph also shows that only three countries show a decline of broad unemployment between 2008 and 2015: Germany, Lithuania and Turkey. Turkey has been included to show the obvious: a growing labour force does not preclude declining unemployment. We will return to Lithuania and Germany in the last paragraph – what contributed to the decline in these countries?

In graph 8, total unemployment (normal unemployment plus broad unemployment) is shown. Mind that not all unemployed want a full time job (a fortiori so for the underemployed part time

²I've used a slightly different approach than Eurostat (2014) to calculate broad unemployment as Eurostat does not add 'underemployed part time workers' to unemployment because they are already counted as employed. I do. I've also adapted the in my view suspect Eurostat database data for the Netherlands in 2013 and 2014 in the database of Eurostat to the data for the Netherlands as shown in Eurostat, 2014. My hunch is that Eurostat mixed up age groups for the Netherlands in the database. Database data for all other countries are consistent with Eurostat, 2014.

workers and their wish for additional hours). On the other side: some want more. How to understand these data? Dutch data from graph 1 show that, in 2001, just after the peak of the dot.com bubble unemployment in the Netherlands was 3.1%. Only at that level, employers started, as I remember, to snatch employees away from other employers and to use creative ways to attract people. This is what we want. Let's therefore define full employment at a level of 3% of normal employment plus (see above) 3% of 'broad' unemployment, i.e. a combined level of 6% unemployment (remember: quite a number of these people already have a part time job, see graph 6). This means that, at this moment, only the Czech Republic has anything like full employment. The other countries fail their citizens – sometimes in an epic way. And, of course, the EU fails its citizens, in an epic way! The level of total unemployment in the Mediterranean countries is even almost incomprehensible. In a sense this situation was foreshadowed by East-German where, after the fall of The Wall, despite massive outmigration, massive income transfers and radical structural reforms unemployment went up to over 20% and is only coming down because the labour force is shrinking – a striking contrast with developments in West-Germany after 1950. We're all East Germans, now.





7. What to do?

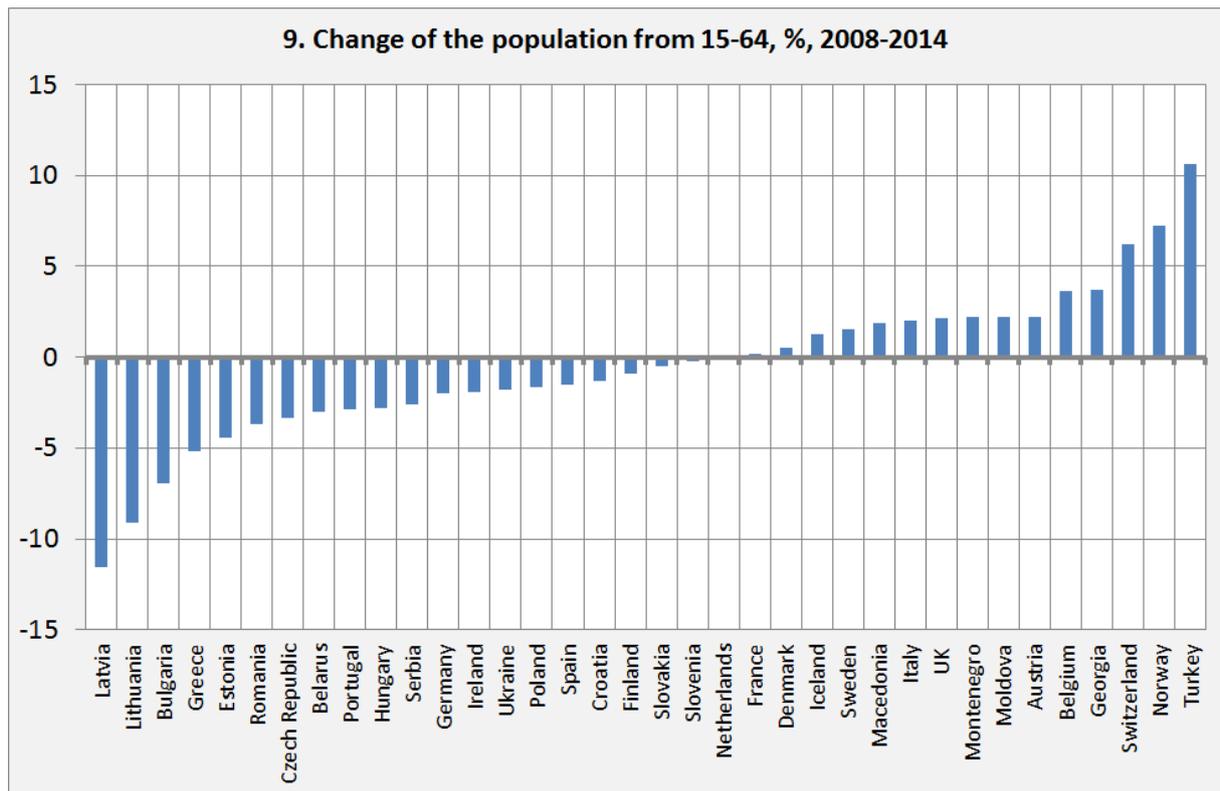
This paragraph does not set out to solve the problem sketched above in any comprehensive way. It will, however, elaborate a few of the arguments of Mitchell and Muysken. Mitchell and Muysken do not pay attention to three large differences between the ‘trenteglorieuses’ and the post 1980 era: up to

about 1975 European productivity increased much, much faster than nowadays, a catching up process after the stagnation, war and again stagnation between 1929 and, say, 1951. Private debt levels were also much lower. Populations were younger and less inclined to save. And inequality was less high than today and companies and the government had a more powerful tool to adapt their production process to increasing costs. With this in mind, we can discuss if the present situation is still aptly described by the analysis of Mitchell and Muysken and investigate if their solutions still fit the situation.

- a. According to the data show above, Mitchell and Muysken (2009) understates the problem as it does not include the post 2008 data, restricts its empirics to the western ‘core’ countries (which never saw unemployment rise above 11%) and does not pay attention to broad unemployment. Extending and broadening the data set shows that the problem is worse than they stated.
- b. Also, unemployment seems to have become less of a policy priority than it already was, at least in the EU (aside – this might not hold for the ECB, it might even be thought that the ECB employment but also unemployment has become more important than it used to be). A ‘scientific’ metric of this idea is the total ridiculous nature of estimates of NAIRU by, among other institutions, the European Commission though they did lower the 26.6% estimate for Spain to a still ludicrous 20.7% in May 2015. For on oversight of such estimates which do not take account of the empirical downward stickiness of wages (technically: a ‘non-linearity’), see ECB (2013).
- c. There are however some countries which show surprisingly favorable developments. As stated above, this paper does not try to use any kind of labour accounting framework to explain these developments. But graph 9 shows that quite a number of countries show a considerable decline of the 15-64 age group. The largest declines are caused by austerity demographics: a combination of a gentle but consistent and increasing natural decline of this age group and sizeable out migration. These declines are sometimes as large as 10% (Latvia, Lithuania) – which of course explains quite a lot of the decline of unemployment (at one instant, Latvia even posted lower employment but an increase in the employment rate...). Considering that the decline in Spain took place in the 2013 and 2014 period and still continues (mainly because of the return migration of foreign workers) while it can be predicted that total net emigration in Greece and Portugal will increase we have something like the opposite of the situation of the ‘trenteglorieuses’: the machine is not adapted to the population but the population is adapted to the machine (though we do have to admit that, in the fifties, at least the Netherlands had an active emigration policy)! Finland will at this moment, probably experience the same process. Emigration will stop sometime, but the natural decline is set to continue and to add to the decline of the inflow into the labour market. A somewhat comparable development: during the fifties and especially the sixties average work weeks declined, which had a comparable effect while quite a part of the present success of the German labour market is caused by a recent (2008-2013) decrease of the average work week, too. Supply side developments do make a difference and at least part of the favorable developments in the countries mentioned has to be explained not by any kind of success of economic policies but by people fleeing poverty and unemployment. Aside: the data also show that the demographic balance between European countries is shifting, rapidly.
- d. Data on immigration and emigration in Spain show that potential EU labour mobility is much higher than generally assumed.

- e. Mitchell and Muysken suggest using a combination of a printing press and a shredder, loosening the budget constraint for the government, plus a job guarantee to enable a shift to a new low unemployment epoch. About this:
- I. Money printing and relaxing the budget constraint: after 2009, the opposite happened. Budget constraints became more binding and instead of money printing governments resorted to money destruction (Cyprus!) to solve problems.³ And government expenditure increasingly consisted of asset swaps. Greece was forced to cut pensions (i.e. transfer incomes which will be spent) and lend tens of billions of Euro to be able to refinance the banks (which will not directly lead to additional spending). Money printing in the EU will be necessary, not so much to finance government spending or a job guarantee, but by the ECB to buy the enormous amount of bad debts from the banks (while, of course, at the same time restricting asset based lending by the banks will force them to increase lending for GDP transactions).
 - II. A consistent critique of a job guarantee is that we've got a problem with the allocation of these jobs. When the market does not work its magic, who will decide which people will perform which guaranteed jobs. This is a good question. But in 2012 the Nobel price for economics was awarded to Alfred Roth and Lloyd Shapley for developing algorithms which take care of the problem how to plan an efficient allocation of 'items' (kidney's, study placements, jobs?) when there is no really existing market. Matching characteristics of donor kidneys to the characteristics of people needing a donor kidney is the same thing as matching characteristics of people in need of work to available guaranteed jobs. We do not always need markets (economists call the work of the Roth and Shapley 'market design' but it really is 'non market design').
 - III. Combining this information yields that there is quite a lot of work to do. Not doing anything might solve the problem, too, in the course of time, as the East German example shows. When there is nobody left, the unemployment problem is solved! But this clearly is not the preferred solution. The starting point has of course to be the realization that elevated unemployment is totally inefficient as well as personally debilitating. And, sad to have to add this, it does not lead to moral and ethical improvement (discipline!, discipline!) of a country but, if anything, to the opposite. And the realization that the problem is, in the EU, massive. It is about tens of millions of additional jobs while the political surrounding has, compared with the situation described by Mitchell and Muysken, hardened. In that sense, we're indeed in a new epoch. Demographics are, however, a countervailing power when it comes to labour supply. As the Japanese example shows an ageing population is however also a less spendthrift than a young population and a situation the opposite of stagflation can ensue: relatively low unemployment in combination with a continuous deflationary pressure because of declining domestic demand. Lower inequality and policies aimed at less priority for asset purchases and private lending (houses!) may help these policies.

³Unless, as the Fed does in the USA, QE also consists of purchases of assets from pension funds and not just from MFI banks it will not directly result in an increase of M-3 money, as the banks have to transfer the new money to their amount of 'reserve money', which does not count as M-3.



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