Introduction

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For Western Europe in the 1960s, full employment seemed a nearly achieved reality while full integration seemed an unattainable goal. Today, the opposite is true. The movement for European integration has yielded a European Union of fifteen states with a unified monetary system that will eventually connect over 370 million people (OECD 1998: 19). With an independent budget of over a billion dollars and a combined GDP of over 8 trillion dollars, the EU's economy is only slightly smaller than that of the United States (Cottrell 1999). Its rate of joblessness is, alas, much larger. Europe's days of nearly full employment began to wane in the mid-1970s and never returned. Now, an average of one in ten West Europeans is without work. Unemployment among Europeans under the age of twenty-five hovers around 20%. Over 50% of those who are jobless have been without work for over twelve months (OECD 1999: 242). Not surprisingly, the European public ranks joblessness among its primary political concerns.

This book focuses on both unemployment and economic unification.[1] It examines the consequences of each and their interconnections. The connections between high unemployment and European Monetary Union are of special concern. The book's scope is ambitious, and thus the contributors' essays are wide-ranging. The first three offer, at the empirical level,

[1] Most of these essays began as working papers for a Princeton University conference titled "Unemployment's Effects" held in November 1997. Neither the conference nor this volume would have been possible without the generous assistance of the Luso-American Development Foundation, the Stanley J. Seeger Fund of the Hellenic Studies Program at Princeton University, the Spanish Ministry of Education and Culture, and Princeton University's Center of International Studies and Center for Regional Studies. Sincere thanks for editorial and research assistance go to Ugo Amoretti, Megan Kennedy, Rogelio Pier-Martínez, and Brad Simmons.

broad overviews of the New European landscape. David Cameron sets the different national patterns of unemployment in relief, drawing our attention to cross-national contrasts and relating statistical peaks and valleys to the chronology of unification. Peter Hall looks at the institutional and economic bedrock beneath the patterns that Cameron describes. He points out the contrasts between the organized managed economy model long associated with continental Europe and the liberal market economy model associated with the United States and questions whether their recent performance trends (in the areas of unemployment and elsewhere) mean that the former should be abandoned. Martin Rhodes focuses on the corporatist and welfare institutions that lie at the foundation of the organized managed economy and analyzes the extent to which the economic liberalization drive associated with unification has changed Europe's bedrock institutions already.

Each of the opening essays thus provides the empirical background against which unemployment and unification can be understood. Yet they offer something more, for their empirical components yield a common general theme: the organized managed economy served Europe well in the past and, with renovation, may yet do so in the future. Though they each work with different materials, Cameron, Hall, and Rhodes all craft cautionary tales about the embrace of neoliberalism. Cameron concludes that "institutions that regulate labor markets" or "provide a locus for bargaining between economic actors" still have a salutary effect on job creation and deserve to be preserved. Hall concedes that the liberal economy has some advantages but insists that the organized managed economy offers a second viable model for economic success. He finds no "grounds for dismantling the organized market economies" and concludes that they are "capable of returning to reasonably low levels of unemployment." Rhodes ends his argument in a similar place. Though he concedes that "boosting employment will certainly mean redesigning welfare systems," he finds no valid "a priori justification for an assault on the public sector as such" and concludes that "neither welfare state retrenchment nor labor market deregulation is necessary" for Europe to "remain competitive." Rather than destroying corporatist institutions, the "completion of a single market and movement to full monetary union are likely to lock bargaining partners more closely."

The essays that follow the opening section, on macroeconomic contexts and models, legitimate the defense of the organized managed economy (OME). Two essays using aggregate data on unemployment and trade unions challenge some key arguments used to legitimate neoliberal reform. Bruce Western and Kieran Healy examine whether unemployment dampens real wage growth, as pro-market analysts would predict. They find that the relationship varies greatly across time and institutional context. Prior to the mid-1970s, unemployment did discipline wage growth: they estimate that in liberal market economies (LMEs) a three-point rise in joblessness lowered wage growth by about one point. In OMEs corporatist bargaining made wages twice as sensitive to unemployment, though these effects were nullified when collective bargaining coverage was extensive or when social democratic parties were in control. After 1974–75, when labor institutions began to weaken, wage sensitivity began to change. In the United States, the model LME, wage behavior is now "largely unrelated" to unemployment, whereas in Europe, the opposite is true. "Where union representation remains extensive and wages are set administratively rather than by the market, wages are now highly responsive to labor demand."

Western and Healy's focus on the explanatory power of institutional context is mirrored in the essay by Lyle Scruggs and Peter Lange. Scruggs and Lange examine the argument that unemployment correlates with a drop in union density. They find that the effect varies greatly depending on two factors: whether union density is high when unemployment begins to rise and whether unions are responsible for the administration of unemployment benefits. In countries where union density is low or medium or where unions do not administer benefits, unemployment does drive density down. Yet, where density is high, unemployment has no effect, and where unions do administer benefits, unemployment actually increases density. Thus the connection between unemployment and union density – a key form of associational life – is not purely a market one but is heavily mediated by institutional arrangements.

The positive effects of the institutions of the organized managed economy are illustrated by the three case studies in Section III. Portugal used its state-owned enterprises to avoid high unemployment during the first decades of its newly consolidating democracy. Unemployment has risen and has had a deleterious effect on union density and bargaining power, as the essay by Alan Stolleroff illustrates. Yet for a variety of institutional reasons, Portugal's state sector shed labor and privatized only after redundant workers could be absorbed by other sectors of the economy. As a result, Portugal has consistently maintained one of the lowest rates of unemployment in Western Europe.

Spain did not avoid high unemployment as the Portuguese did. Instead, its rate of joblessness was at or near the Continental high for well over a decade. The essay by Javier Polavieja and Andrew Richards shows how the rise in joblessness reduced identification with unions and raised their tolerance for liberalizing reforms. Yet, as José Maravall and Marta Fraile show, Spanish political elites used welfare spending and corporatist bargaining to mitigate unemployment's most negative effects. Support for the democratic system has remained remarkably high.

The Netherlands adds an interesting gradation to the contrasting cases of Portugal and Spain. As Steven Wolinetz illustrates, the Dutch began to struggle with a sharply rising unemployment rate beginning in the late 1970s. Yet, they managed to reverse the trend by 1983, through the revival of older corporatist structures and the creative reform of state spending. In this case, as in each of the others, institutions fundamental to the organized managed economy performed a positive role – either preventing unemployment, reversing unemployment, or softening its impact through compensatory spending.

The fact that political institutions were able to play a positive role in each of these cases helps explain Christopher Anderson's findings in the closing section of the book. Anderson examines the effects of unemployment on the political opinions and behavior of the unemployed and finds that the jobless are neither especially given to political extremism nor especially xenophobic. He also finds that unemployed citizens in the more extensively developed welfare states are significantly more satisfied with their own lives and with the functioning of their own national political systems than the unemployed who live in less protective policy environments.

In the book's conclusion, I show how various European institutions mediate the effects of unemployment and how this mediation has benefits that the ascendant liberal economic models do not afford. Using evidence from our case studies, from Europe more broadly, and from the United States, I end the book with a cautionary tale of my own.

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PART I

Macroeconomic Contexts and Models

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1

Unemployment, Job Creation, and Economic and Monetary Union

David Cameron

There once was a time, not long ago, when Europe was close to full employment.[1] In the 1960s and early 1970s, after the completion of the postwar recoveries and before the demise of the Bretton Woods exchange rate regime, unemployment rates throughout Europe were generally in the range of 2 to 3 percent or lower (European Commission 1998b: 224–53). It appeared, as Andrew Shonfield proclaimed in *Modern Capitalism*, that, with few exceptions, governments had – through indicative planning; increased cooperation between business, government, and labor; and the application of Keynesian principles to macroeconomic policy – overcome the job-destroying effects of business cycles and recessions (Shonfield 1969).

Now, some three decades later and in the wake of the major recessions of 1974–75, 1980–84, and 1991–94, Europe is afflicted with enduring high levels of unemployment. Throughout the 1990s, the fifteen member states of the European Union (EU) experienced an average rate of unemployment of about 10 percent, an almost fivefold increase from the average for the fifteen states in the 1960s. Even some half-dozen years after the end of the last major recession, and despite the sustained recovery in much of Europe in the last half of the 1990s, the rate of unemployment remained close to double digits in the EU as a whole and in double digits in the eleven member states that formed the euro-zone,

[1] Earlier versions of this chapter were presented at conferences or seminars at Princeton University, Harvard University, and the European University Institute. For their helpful comments and suggestions, I wish to thank Jens Alber, Sheri Berman, Nancy Bermeo, Matthew Canzoneri, Peter Hall, Torben Iversen, Peter Kenen, Sofía Pérez, Martin Rhodes, and Thomas Risse.

Table 1.1. *Growth, Unemployment, and Employment in the European Union, the United States, and Japan, 1961–1999*

	1961-70	1971-80	1981-90	1991-99
Average Annual Percentage Change, GDP in Constant Prices				
European Union	4.8	3.0	2.4	1.9
United States	4.2	3.2	2.9	2.5
Japan	10.5	4.5	4.0	1.1
Average Annual Percentage of Civilian Labor Force Unemployed				
European Union	2.2	4.0	9.0	10.1
United States	4.7	6.4	7.1	5.8
Japan	1.2	1.8	2.5	3.1
Average Annual Percentage Change in Total Employed				
European Union	0.3	0.4	0.5	0.0
United States	1.9	2.0	1.8	1.5
Japan	1.4	0.7	0.9	0.4

Source: European Commission (1998b: 83, 69, 67).
Note: The measures of unemployment follow Eurostat definitions.

and it was expected to remain at or close to those levels in the foreseeable future.[2]

What makes the long-term deterioration in employment in Europe especially notable, of course, is the fact that it has been far more severe than in other advanced economies (see Table 1.1). Thus, while the decrease

[2] The four member states that did not move to the third and final stage of Economic and Monetary Union on January 1, 1999, are Denmark, Greece, Sweden, and the United Kingdom. Greece subsequently satisfied the conditions for entry to the third and final stage and did so on January 1, 2001.

in recent decades in the decade-long average rate of growth was only slightly greater in the EU than that experienced in the United States, and far less than the precipitous decrease that occurred in Japan, the average level of unemployment in the fifteen states that now constitute the EU rose far more dramatically than in either the United States or Japan, from slightly more than 2 percent in the 1960s to 4 percent in the 1970s, 9 percent in the 1980s, and more than 10 percent in the 1990s.[3]

The sustained recovery in much of Europe in the mid- to late 1990s, and the steady, albeit gradual, decline over several years in the rate of unemployment, led many observers to believe that, with sufficient time, the number of unemployed in Europe would return to more tolerable levels. That optimistic scenario was called into question by the looming shadow of the global financial crisis that began in 1997. But by the second quarter of 1999, after having experienced a slowdown in the rate of growth, most of the European economies had resumed their recovery and could look forward to a continuing decline in the rate of unemployment in the near future. Despite that recovery, however, the rate of unemployment in the eleven member states constituting the euro-zone remained above 10 percent, and the European Central Bank (ECB), as well as the International Monetary Fund and the OECD, predicted that it would remain above that level in 2000.[4]

This chapter examines the enduring problem of high unemployment in Europe, beginning with a detailed description of its magnitude and distribution. While Europe, as a whole, has become a region of enduring high unemployment, the levels of unemployment vary widely across the member states and, within the member states, across both time and space. I note some of the more important bases of variation.

Next, I consider why, notwithstanding the general upward trend in unemployment throughout Europe in recent decades, some of the EU

[3] For discussions of the high levels of unemployment in Europe in the 1980s and 1990s, see, e.g., Alogoskoufis et al. (1995); Therborn (1986); Bean, Layard, and Nickell (1987); Blanchard and Summers (1987); Lindbeck and Snower (1988); Summers (1990); Layard, Nickell, and Jackman (1991; 1994); Lindbeck (1993); Bean (1994); Benoit-Guilbot and Gallie (1994); Bentolila and Blanchard (1990); OECD (1994; 1997; 1999); Blanchard, Jimeno, et al. (1995); Drèze and Malinvaud (1995); Saint-Paul (1995; 1996); Henry and Snower (1996); Dolado and Jimeno (1997); European Commission (1997a; 1998a); Nickell (1997; 1999); Snower and de la Dehesa (1997); Blanchard and Fitoussi (1998); Rubery et al. (1998); IMF (1999).

[4] The ECB's forecast appeared in its June 1999 monthly report. Those of the European Commission, the IMF, and the OECD are reported in *Financial Times*, September 10, 1999, 4.

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member states have been more successful than others in creating large numbers of new jobs and in resisting the upward trend – and, indeed, in a few instances, have even been able to *reduce* the rate of unemployment over the long term. I conclude with a brief consideration of how the historic advent of the third and final stage of Economic and Monetary Union (EMU) is likely to affect employment and unemployment in the Union.

Unemployment in Europe across Time and Space

Figure 1.1 presents the rates of unemployment in the European Union, the United States, and Japan over the period 1970–98. These data illustrate the extent to which and the point at which the EU became a region of high unemployment in relation to the other major developed economies. While Europe was, prior to the first of the two OPEC oil price shocks of the 1970s, a region of relatively low unemployment, especially when compared with the United States, the rate of unemployment rose sharply in the wake of those shocks and reached double digits by the mid-1980s. Then, after dropping in the late 1980s, the rate of unemployment rose to even higher levels in the early 1990s and for the rest of the decade remained at or close to the peaks registered in those years. In contrast, after having been more than twice as high as the European rate in the early 1970s and then moving upward in a series of sharp increases in the early 1970s, the mid-1970s, and the early 1980s, the rate of unemployment in the United States began a long downward movement, interrupted only briefly in 1991–92. As a result,

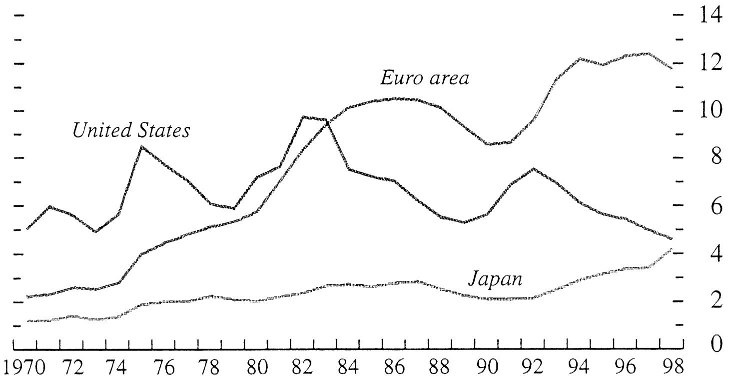

Figure 1.1 Unemployment Rates in the European Union, the United States, and Japan, 1970–1998. *Source:* IMF (1999: 88).