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# The Rise of European Unemployment: A Synopsis

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## **The rise of European unemployment: A synopsis**

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This is a draft for the introduction of the book *The Rise of European Unemployment – A Keynesian Approach*, to be published by Edward Elgar, in fall 2004. The book is based on Stockhammer (1999, 2004a, 2004b and 2004c).

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Unemployment in the European Union has risen from a modest level of around 2% in 1970 to 8.3% in 2002, a level unseen since the Great Depression. The social costs of this mass unemployment range from income losses to severe social and psychological problems that result from not having a job, insecurity about the future, dropping out of social security systems. More than 11 million people are directly affected by this misery, not counting the families and communities of the unemployed. While most politicians do claim that the fight against unemployment is one of the top priorities, in fact policy concerns have shifted during the 1980s and 1990s. Preserving price stability and the integration of European countries along Neo-Liberal lines is what history books will record about these decades, not energetic attempts to create jobs for those who need them.

Obviously this rise in unemployment is but one aspect of the many far reaching transformations that societies and economies in advanced capitalist countries (ACC) have undergone over the past decades. The most prominent of these, that has also called forth a vigorous social opposition, is globalization (Pollin 2000). The internationalization of trade and capital flows is part of the changes that have taken place in the transition from 'Fordism' to the 'Neo-Liberal Era'.<sup>1</sup> In the 1970s a phase of capitalist development that has been labeled 'Fordism' has come to an end and with the institutional structures and social compromises that carried it (Aglietta 1979, Boyer 1990, Bowles, Gordon and Weisskopf 1986). The class compromise between labor and capital that used to guarantee wages roughly rising in line with inflation and labor productivity growth through collective bargaining has given way to a decentralization of wage setting and a rise of inequality in many countries. Organized labor is in decline in European countries. The role of the state has been redefined. Full employment is not a goal of macroeconomic policy any more. In the EU a treaty that is euphemistically called Pact for Stability and Growth, effectively rules out counter-cyclical fiscal policy and the newly founded European Central Bank is praying to the Holy Grail of price stability when

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<sup>1</sup> Various authors have proposed different labels for these periods, but most agree on the periodization. For example Marglin and Bhaduri (1990) refer to the Golden Age rather than Fordism thus making a reference to Joan Robinson. Setterfield and Cornwall (2002), presenting an analysis in the spirit of Kaldor, use the terms Golden Age and Age of Decline. The term Fordism goes back to the French Regulation School and in particular Aglietta (1979), who highlighted the use of Taylorist work organization and wages roughly growing in line with labor productivity. This term is preferred because it tells more about the social structures than 'Golden Age'. 'Neo-Liberal Age' is used because it highlights characteristics of the period: the political origins of the period and the focus on pro-market policies. However, nothing of importance hinges on the names for the periods.

economies are on the verge of recession. While states remain important and powerful actors in the economy commanding 30% to 50% of GDP, their aims are different from the ones in the past.

Equally important is the changing role of the financial sector. The end of the Bretton Woods system led to an era of flexible exchange rates. However, within Europe countries soon tried to establish more stable arrangements known as the 'snake', the European Exchange Rate Mechanism (ERM) and finally monetary integration and the Euro (Eichengreen 1998). But while exchange rates within members of the European Monetary Union have irrevocably been frozen, financial transactions have become liberalized. Externally, the ERM included the abolishment of capital controls. Internally regulations of banks and other financial institutions have been reduced, competition increased and stock markets fostered. Interest rates have been deregulated and increased substantially, and have, importantly been above growth rates for most of the 1980s and 90s (Levy and Panetta 1996). The changing role of finance in today's economies is illustrated by the fact that, unlike the 1970s, but similarly to the 1930s, the 1997 crisis in Asian countries emanated from foreign exchange markets and the crises of 2001 took its start in the bursting of the speculative bubbles in American and European stock markets.

The shift to the right that occurred in politics is also reflected in academia, in particular in Economics. While plenty of critical material exists, the mainstream explanation of unemployment in Europe is one of labor market institutions and 'too high' wages. Derived from what has become known as the NAIRU theory, inflexible labor markets and overgenerous welfare states are blamed for the rise in European unemployment. In order to reduce it, wage push factors have to be manipulated: cutting unemployment benefits, reducing minimum wages, weakening labor unions, doing away with employment protection measures. In short, deregulation of the labor market to bring it closer to a perfectly competitive market. While the policy conclusions derived from the NAIRU theory may suggest that this is step backwards to pre-Keynesian economics, such a diagnosis of the state of the economic science is unwarranted. It represents a sophisticated mixture of ideas that incorporates Keynesian, classical and, one is tempted to say, even Marxist ideas.

The dominance of the idea that the inflexibility of labor markets is the cause of European unemployment and that it can only be reduced by curbing the welfare state and weakening the

social institutions, like labor unions, in which the labor market is embedded, has been one of the key motives in writing this and the related papers. Building on Post Keynesian theory, a Keynesian explanation of the rise of unemployment in the large European countries developed. Facing the high unemployment of the 1920s in Britain and anticipating the Great Depression, John Maynard Keynes rejected the idea that capitalist economies gravitate smoothly to a general equilibrium where all markets clear, i.e. where full employment prevails. Rather, his vision of the functioning of the economy was one, where there is an asymmetry in the relation between markets. Equilibrium on the goods market, mostly set by investment decisions, which are in part determined by outcomes of financial markets, determines the level of employment. The labor market is dragged along by the development on goods markets. The feedback in case of unemployment is either slow or dysfunctional (a deflationary tendency rather than a decrease in real wages at constant prices.)

This paper takes Keynesian macroeconomics and growth theory as its starting point and uses it to analyse the rise of unemployment in the large European economies. In a nutshell the explanation proposed in a series of papers<sup>2</sup> is the following. Employment growth is determined by demand growth. The path of growth is set by investment decisions. Changes in labor market institutions are unable to explain the rise in unemployment. Econometric evidence on the relative explanatory power of labor market institutions and capital accumulation in explaining labor market variables are presented in Stockhammer (2004a). I conclude that capital accumulation determines the development on the labor market. Consequently the question of why capital accumulation has slowed down arises. It will be argued that changes in the relation between the financial sector and the real sector of the economy, a phenomenon to be labeled ‘financialization’ (Stockhammer 2004b) is at the root of this slowdown.

In the remainder of this paper we will first, establish some stylized facts on the development of the countries that will be investigated later. In particular, the development of unemployment, of growth and capital accumulation, and of income distribution are of interest rates. Section 2 summarizes the argument developed in more details elsewhere.

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<sup>2</sup> Stockhammer (1999), (2004a), (2004b) and (2004c) form the basis for a book forthcoming in fall 2004.

## ***Growth, unemployment and income distribution:***

### ***some stylized facts***

Table 1.1 summarizes the growth rates of the business sector GDP for France, Germany, Italy, the UK and the USA, which are the countries that the analysis is based on. As in the following tables, 5-year averages are given, to smooth out business cycle fluctuations. The figures can thus be interpreted as trend growth rates. The period after the Second World War is sometimes called the Golden Age of capitalism since in these years the advanced capitalist countries experienced growth rates at an historically unprecedented level. Growth rates were above or close to 4% in all economies except the UK until the early 1980s. In the 1970s most economies entered a period of crisis. The precise date of the crisis is subject to debate. Commonly the first oil price shock in October 1973 is used, some authors date the start of the crises in the late 1960s. This crisis did not at once articulate itself as a crisis of average growth rates, however the mid 1970s witnessed the worst recession since the 2<sup>nd</sup> World War for most countries. As a consequence, to be discussed below, unemployment rates shoot up in the second half of the 1970s. The immediate expression of the crisis, however was the acceleration of inflation, in many countries to double digit numbers. While initially economic policy reacted in a Keynesian fashion, by the late 1970s or early 1980s most governments and, importantly, most Central Banks changed their policy stance. In what proved to be a watershed in 20<sup>th</sup> century history, neo-conservatives, most famously Ronald Reagan and Margaret Thatcher came to power and over the next decade promoted Neo-Liberal, market oriented reforms with an often explicitly anti-labour flavour. More immediately, monetary policy turned restrictive and interest rates were increased dramatically. As a consequence ACCs (advanced capitalist countries) experienced a recession in the early 1980s that is sometimes called the Volcker crisis, named after Paul Volcker, who became head of the Federal Reserve in 1979 and engineered the increase in interest rates. The sharp drop in growth can be seen clearly in table 1.1, with growth rates falling as low as 0.89% in Germany for the 1980-84 period. Only the USA, which experienced a pronounced upswing in the mid 1980s, was the growth rate above 3%. The second half of the 1980s witnessed a long boom, in Europe also spurred by German unification (1990), reflected in a recovery of growth rates, which, however, stayed well below the pre-1970s levels. By that time, the Neo-Liberal restructuring of economy and society, was well under way. In the 1990s ACCs experienced a

recession in the first half and a prolonged boom in the second half. The latter was not the least fueled by a speculative bubble on stock markets that finally burst in 2000.

INSERT table 1.1 about here

The following tables also offer summary statistics for the periods 1960-74, 1975-84 and 1985-99. This roughly corresponds to the period of Fordism, the period of crises and the Neo-Liberal Era respectively. The periodization obviously is somewhat arbitrary. In particular there is no reason to presume that the periodization would be the same for all the countries. This is most transparent in the political sphere: Ronald Reagan came to power in 1980, Margaret Thatcher in 1979, Helmut Kohl in 1982, the French Socialists abandoned their Keynesian experiment in 1984. Other than by numerical convenience, the 1975 and 1985 dates are attractive in that they allow for an equal number of years in the Fordist and in the Neo-Liberal Era. By this periodization the recession of the early 1980s is not counted part of the Neo-Liberal era. While this may overestimate the growth performance that the Neo-Liberal revolution delivered, it conversely ensures that this period is not downward biased by the initial recession that inaugurated it.<sup>3</sup>

In all countries except the UK, did growth rates drop significantly after the Fordist Era and failed to recover in the Neo-Liberal Era. In the continental European economies, growth rates in 1985-99 are less than half what they were in 1960-74. In the UK growth recovered to a level slightly above the 1960-74 level. Judging from the indicator of business GDP growth one may get the impression that the crisis never ended. Looking at unemployment rates, one gets a similar picture.

INSERT table 1.2 about here

In the Keynesian explanation of the rise in unemployment capital accumulation will play a prominent role. This is because in Keynesian growth theory capital accumulation sets the pace for growth. Capital accumulation rates, i.e. the growth rates of non-residential business sector capital stock, are a measure of productive capacity and are summarized in table 1.2. The

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<sup>3</sup> This periodization excludes the last few years, which include the recent recession. The periodization therefore is unlikely to understate the performance of the Neo-Liberal Era.

pattern is similar to that of GDP growth. In all countries except the UK were accumulation rates high, roughly 4-5%, in the 1960-74 period, Accumulation declined in the 1975-84 period, with drops of 1-2% in the continental European countries and 0.5% in the USA. This decline continued in the 1985-99 period. In the continental European countries and the USA accumulation rates dropped, roughly by another 1%. The UK differs in that it had exceptionally low accumulation rates in the Fordist Era of 1.94%. This is half than the value for the USA, and even less compared to the European countries. In the 1975-84 period accumulation fell to 1.35% and subsequently improved to 2.34% in the 1985-99 period. While this is higher than in the 1960-74 period, it is still, together with Germany, the lowest value.

The 5-year averages tell a similar story of an almost continuous decline, with the UK being an exception. The USA, UK and Italy experienced an increase of accumulation in the second half of the 1990s, whereas France and Germany did not. Thus while it is possible that the trend of declining capital accumulation has been reversed, it is far from certain and we will eventually know only after the current recession.<sup>4</sup>

Table 1.3 summarizes the unemployment rates for the same countries and the same periods. Substantial differences between countries can be observed in all periods. While Germany's unemployment rate was below 1% until mid 1970s, Italy's and the USA's unemployment rates were close to or above 4%. However all countries experienced a dramatic increase in the crises period. Unemployment rates tripled in Germany, France and the UK. In Italy and the USA they more or less doubled. In the 1985-99 period unemployment rates decreased only in the USA. A look at the 5-year intervals modifies the picture only slightly. Most of the increase in unemployment happened in the 1980s. Unemployment in the UK decreased slightly in the 1990s, but failed the initial low levels. Rates in France and Italy increased by a small margin. The increase in Germany is to a large extent due to high unemployment in the eastern provinces that joined in 1989. Only the USA had reached unemployment levels in the same order of magnitude as in the Golden Age.

INSERT table 1.3 about here

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<sup>4</sup> Figures for the National Accounts are revised as statistical agencies process data. Thus data for the past three years should be interpreted cautiously. This is all the more true for the OECD Economic Outlook dataset that is used as data source here, because it uses forecasts where actual values are not available.



According to standard microeconomic analysis of the labor market, one would expect unemployment if wages are 'too high'. Table 1.4 summarizes the profit share in the business sector<sup>5</sup> and is thus an inverse measure of real wages relative to productivity. A rise in the profit share will occur when wage growth lags behind productivity growth. For the European countries the development of the profit share over time is U-shaped, starting out with high levels of profitability followed by a decline in the late 1970s and early 1980s and an increase thereafter. Only the USA experienced a relatively stable increase in the profit share with only a minor reduction in the 1980-84 period.

INSERT table 1.4

The development of income distribution is hard to square with any explanation of European unemployment that rests on wages being 'too high'. Real wages have declined substantially relative to productivity since the mid 1980s. In fact, in the continental European countries, which experienced high unemployment, a significant redistribution from labor to capital has taken place amounting to some 10% of GDP in Italy and France (from 1980-84 to 1995-99). This decrease in wages (relative to productivity) has not translated into a reduction in unemployment over that period.

Dramatic changes have taken place in the *financial sector* since the 1970s: the end of the Bretton Woods system of fixed exchange rates, European Monetary Unification, financial deregulation and liberalization, as of late a stock market boom. Liberalization of capital accounts has allowed volatile capital flows in and out of countries that have led to a series of

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<sup>5</sup> Remarkably the OECD has discontinued reporting the profit share in the Economic Outlook dataset. Presumably this is done because of methodological difficulties, in particular the treatment of unpaid family workers and the self-employed. While there are undoubtedly problems, these problems are certainly less serious those associated with other series that the OECD publishes in the same data set, in particular the output gap and the NAWRU (Non-Accelerating Wage Rate of Unemployment). These latter, in addition, rest on econometric analysis based on certain theoretical models, whereas the profit share requires none of these. Thus it is hard to believe that the inclusion of variables in the data set reflects solely the reliability of data. Rather it seems to be a question of which variables are considered interesting and the analysis of functional income distribution is not high on the OECD's analytical agenda. The data in table 1.3 have been calculated based on the earlier definition of the Profit Share in the Business Sector (OECD 2002).

exchange rate crises: the 1992-3 crises affecting several European countries, 1994 in Mexico, 1997 in South East Asia a year later in Russia, 2001 in Argentina and Turkey. A list of the major financial crises of the recent past is compiled in table 1.5

INSERT table 1.5 about here

One of the changes in economic policy was the shift in policy priorities of Central Banks, which switched to anti-inflationary policies in the early 1980s, most famously the U.S. Fed under Paul Volcker. However, the development in Europe was similar, with the Bundesbank, having the dominant position in the European Monetary System forcing other countries, notably France and Italy to pursue high interest policies. Real interest rates, defined as the interest rates on long term government securities deflated by the GDP deflator, are summarized in table 1.6. Real interest rates were below 2% in all countries except Germany in 1960-74. In all countries interest rates were substantially below real growth rates. In the 1970s real interest rates fell, significantly due to unexpectedly high inflation rates, in many countries they turned negative at some point. In the early 1980s interest rates increased dramatically to above 4%, with Italy following a few years later. Thereafter interest rates remained at these extraordinarily high levels, with only the UK falling below 4% (3.79 in 1995-99).

INSERT table 1.6 about here

Only very recently has the Fed lowered interest rates to counter the recession and the burst of the stock market bubble. However the ECB has so far not followed to anything like the same extent, despite ailing economies and rising unemployment rates. Thus the overall picture of real interest rates is as follows: real interest rates were 1-3% in the Fordist Era, fell in the 1970s and increased dramatically in the early 1980s to above 4%. Since then they have decreased nowhere substantially until 2001. This means that while interest rates were below growth rates in the Fordist era, interest rates were consistently higher than growth rates in the Neo-Liberal Era.

High interest rates are thought to depress investment and are thus an obvious candidate for explaining the slow growth and accumulation performance in the Neo-Liberal Era. Ball (1994, 1997) has forcefully argued that differences in labor market performances can to a

large extent be explained by differences in monetary policies. In the argument to be developed, the change in interest rates is but one symptom, though an important one, for the structural changes that have taken place between the real sectors of the economy and the financial sector. Here only one more indicator that will be central to the econometric work, will be discussed.

One of the important changes that can be observed is that non-financial businesses themselves are becoming increasingly active on financial markets. Table 1.7 summarizes the ratio of financial income (interest income, dividend income and rents) to the operating surplus of non-financial businesses. This reveals substantial differences between countries and a dramatic rise in the financial income share of non-financial business in all countries. The USA and UK start out around or below 20% in the 1960s and increase to levels above or close to 50%. France and Germany start at much lower levels, below 10%. Whereas France increases almost to Anglo-Saxon levels, Germany financial share of NFB doubles, but remains comparably low at around 14%. Financial activity of non-financial businesses has thus increased substantially.

Insert table 1.7 about here

It will be argued that the increase in financial investments and income thereof went hand in hand with changes in the attitudes towards running a firm. Firms are increasingly regarded as just one investment opportunity, in competition to others. Thus one would expect systematic changes in investment behavior.

### ***The rise of European unemployment: A Keynesian approach***

The rise of unemployment in Europe, in particular northern countries, from levels close to or below 2% to values close to 10% marks a fundamental social change of the past decades. It constitutes one of the characteristics of the Neo-Liberal age in Europe. While politicians pay lip service to the reduction of unemployment, actual policy priorities have shifted over the same time towards price stability and balanced budgets.

This is most clearly expressed in the various treaties that have marked the path of European Monetary Unification that has dominated much of European politics in the 1980s and 1990s. While the Amsterdam Treaty reiterates the policy goal of ‘high employment’ and asks member states to report on the labor market performance and policies, these provisions remain toothless and complementary to those policy goals that constitute the core of the political agenda: price stability and fiscal austerity. Unambiguous numerical goals were set for inflation and budget deficits in the Maastricht Treaty, a document that was mostly written by central bankers (Eichengreen 1993), but they were to dominate fiscal policy of the 1990s. Not meeting these convergence criteria would have meant exclusion from Monetary Unification. The Amsterdam Treaty wrote these criteria in stone and established punitive payments for countries whose budget deficits exceed 3% of GDP in the absence of a strong recession (defined as GDP growth below -2%). While these provisions have not yet been applied, they certainly had a strong impact on economic policies.

Labor market policies not only lack similar clear goals and sanctions, but also are not considered a vital prerequisite for European integration. Moreover, reducing unemployment is conceived to be beyond the scope of fiscal or monetary policy. The European Commission, the European Central Bank and most member countries seem to think that labour market rigidities are to blame for European unemployment. However, “we should realize that, apart from what one may believe on this issue, the evidence produced by economists concerning the blame that can be put on these rigidities is weak.” (Bentolina 1997, p. 73)

In Stockhammer (2004a) a Keynesian approach to explaining the rise of European unemployment is revisited, both theoretically and empirically, and contrasted with the NAIRU approach. The Keynesian approach that is proposed is one that views unemployment as a result of various demand shocks, mostly crystallizing in business investment. In fact, capital accumulation, i.e. business investment in relation to capital stock, has decreased substantially in Europe, and more so than in the USA. Finally our story ventures into the explanation of this slowdown of accumulation. It is argued that financial deregulation has strengthened the position of shareholders and owners within corporations leading to shift in management priorities from growth to profits.

## Keynesian theories

Motivated by the experience of prolonged mass unemployment in Britain throughout the 1920s and the Great Depression, Keynes developed a theory of effective demand, according to which output and consequently employment are determined by investment expenditures and other autonomous types of expenditures like exports and government investment. Unlike what he labeled ‘classical’ theory, he rejected the self-adjusting ability of the market economy for several reasons. First, he argued that there is no feedback from unemployment that guarantees that *real* wages will fall. On the labor market money wages, i.e. nominal wages, are set by employers or in negotiations with labor unions. An increase in unemployment will weaken the bargaining position of labor and thus reduce money wages, but whether this also decreases real wages, depends on prices. If, as is likely in a recession, firms will cut prices, real wages need not fall. Second, an important part of effective demand depends on investment decisions. These involve decisions regarding the distant future, about which rational expectations can often not be made. In a fundamental sense the future is open and thus uncertain. Thus investment decisions not only depend on rational factors but also on investor sentiment, or what Keynes famously labeled *animal spirits* of investors. Third, financial markets, namely stock markets, are prone to mood swings because investors are trying to anticipate the public’s evaluation of the decisions. Thus financial markets will be, at least at times, a source of destabilization.

While Keynes sought to develop a general theory that would include the classical (what would today be called ‘neo-classical’) theory as a special case in the situation of full employment, Keynesian ideas were absorbed into the soon to be newly constructed mainstream economics, as a special case itself. Pioneered by Hicks (1937) Keynesian arguments were valid in the case of wage or price rigidities or in some extraordinarily circumstances like the liquidity trap. In particular in the long run, the economy would obey to the classical principles and the market system guarantees full employment and an efficient allocation of resources. The ISLM version of Keynesian economics became part of the standard macroeconomic textbooks, most notably that of Samuelson and provided the basis for what has often been called the ‘Neo-classical Synthesis’. This approach elaborated theoretically among others by Paul Samuelson, Franco Modigliani and James Tobin was mainstream economics and dominated economic policy until the 1970. Then it came under

attack by a succession of new versions of classical economics: Monetarism, Rational Expectations, New Classical Economics, all of which emphasized the self-regulatory properties and the efficiency of the market system. They criticized the Synthesis generation of Keynesians for the ad hoc way of introducing rigidities in wages or prices. From the 1980s onwards they also dominated economic policy making.

Since then a new generation of Keynesian economics has emerged, often called New Keynesians that share the individualistic approach of neo-classical economics, but use it to provide support for Keynesian propositions like rigid prices and wages (Gordon 1990). They also use information asymmetries to demonstrate how market economies fail to deliver efficient outcomes in the face of informational asymmetries (Stiglitz 1987). The NAIRU theory, that will be discussed below, is an example of such a New Keynesian theory. Politically the New Keynesians are hard to classify. While the NAIRU theory is mostly used to give policy recommendations hardly distinguishable from neoclassical ones, other New Keynesian theories, like the Noise Trader theory of financial speculation are much more damaging for conventional economics. While Gregory Mankiw is economic adviser to George W. Bush, Stiglitz was adviser to Bill Clinton and famously attacked the IMF after his resignation from the World Bank Economics Department.

Many of the close collaborators of Keynes were dissatisfied with the Neoclassical Synthesis early on and sought to extend Keynes theory of the determination of output and employment from the short to the long run. The most famous of these include Joan Robinson, Michal Kalecki and Nicholas Kaldor. They developed theories of growth and distribution that emphasized the central role that investment decisions play, even in the long run, and that saving propensity of a society depends on income distribution. Since investment equals savings in the equilibrium condition for the goods markets, growth and income distribution are thus intrinsically linked.

Stockhammer (1999) discusses the role of unemployment in Post-Keynesian growth theories. The crucial difference between the Robinsonian growth theories and the Kaleckian theories is that the Robinsonian models assume full capacity utilization. Thus they are true long-run models, where adjustments have taken place, in particular, excess capacity has been eliminated. In these models, autonomous investment expenditures and the savings propensity

of capital income determines growth as well as distribution. Thus there is no role for unemployment to determine either income distribution or output. Employment thus follows passively the economic trend. Therefore there is no equilibrium rate of unemployment to which the economy reverts.

Kaleckian models, which have received renewed interest since the early 1980s, allow for changes in capacity utilization, which reflects that, firstly, these models have a shorter time horizon and, secondly the greater emphasis that Kalecki put on imperfect competition. In imperfect competitive environments firms will set prices and thus the price mechanism will cease to clear the goods market. Thus changes in capacity utilization exist as a result. Moreover, firms will want to keep excess capacity such as to deter entrance. As Marglin and Bhaduri (1990) have shown in a seminal paper, in such a model, profit-led as well as demand-led regimes can exist. An increase in profits and decrease in wages will have a positive effect on investment, but a negative one on consumption (since workers have a higher consumption propensity than capitalists). Depending on the relative size of the effect of a change in the profit share has on investment and on consumption, growth will either be profit-led or wage-led.

The Kaleckian growth models allow for an effect of unemployment on income distribution, since they assume flexible capacity utilization. While Kalecki emphasized an effect of unemployment on income distribution, what we will call reserve army effect, he did not discuss its consequences for his growth models, nor have his followers analyzed it. Stockhammer (2004c) demonstrates that in both the profit-led as well as the wage-led regimes, a well defined short-run equilibrium exists, however only in the profit-led regime is there a long-run equilibrium rate of unemployment. In the wage-led growth regimes the equilibrium on the labor market is unstable and thus does not serve as an attractor for actual unemployment. Unemployment does not revert to a long-run equilibrium positions but rather follows wherever short-run demand shocks push it.

In the profit-led regime, a stable equilibrium rate of unemployment exists in the long run and employment thus cannot be thought of as passively responding to demand: it exerts a genuine feedback onto the goods market. This equilibrium rate of unemployment is similar to the NAIRU in that it depends on exogenous wage and profit claims. However it differs

fundamentally from the NAIRU, in that it does depend on autonomous investment expenditures. Investment can affect unemployment directly through the demand effect as well as indirectly through increasing productive capacity.

Keynesians thus stress the role of demand factors in the determination of unemployment not only in the short run. Keynesian growth theories are centered around capital accumulation and the labor market follows where accumulation leads (to paraphrase a quotation by J. Robinson). However, differences exist. In the Robinsonian full capacity models no feedback from unemployment to accumulation exists, whereas Kaleckian models allow for a such, e.g. in the form of a reserve army effect. If demand is profit-led there exists a stable equilibrium rate of unemployment, which depends on capital accumulation. In the wage-led regime, there is no stable equilibrium rate of unemployment and actual unemployment is determined by accumulation. All these models assume unemployment persistence since growth or accumulation only affect the change in unemployment.

## **The NAIRU story of European unemployment**

The NAIRU theory is nowadays the mainstream explanation of the rise in European unemployment. It emphasizes the inflexibilities of labour markets as the culprits for the rise in unemployment and has been embraced by organizations like the OECD and the IMF. Much of the policy recommendations of the EU are also based on this theory. Stockhammer (2004a) discusses the NAIRU theory. At the core of this theory is a trade-off between inflation and unemployment. At any time there will be only one rate of unemployment that allows for a stable rate of inflation, thus the name Non-Accelerating Inflation Rate of Unemployment. The NAIRU is thus an equilibrium rate of unemployment, to which the system is assumed to revert. How then is the NAIRU determined and what are the mechanisms that ensure that actual unemployment will gravitate towards the NAIRU? The NAIRU *model* has to be distinguished from the NAIRU *story*. By NAIRU model we designate a broad class of models that accept the inflation unemployment trade off, whereas the NAIRU story of European unemployment is one particular, albeit a popular one, interpretation of European unemployment. In particular the NAIRU story claims that the NAIRU is exogenous and that it serves as a strong attractor for the system, whereas there are NAIRU models that have an endogenous NAIRU and ones, where it is a only weak attractor.



The NAIRU theory is a macroeconomic theory of the labor market that takes wage bargaining as its starting point. Unlike standard neo-classical labor market analysis, the real wage is not a mechanism that adjusts to clear the labor market and ensure full employment. Rather nominal wages are the outcome of a bargaining process between firms and labor unions. Thus the nominal wage depends, given certain expectations about future inflation, on the respective bargaining strength of the two sides and unemployment negatively affects the power of labor. Prices are thought to be set by firms with market power and depend on aggregate demand. If the real wage implied by wage bargaining and by price setting are inconsistent *unexpected* inflation has to occur. With inflation expectations fulfilled there will only be one level of unemployment at which the income claims of labor and capital are consistent. Consequently, the government can affect actual unemployment in the short run by expansionary fiscal or monetary policies that lead to unexpected inflation.

One important issue is whether such a decrease in actual unemployment has a lasting effect on the NAIRU itself. This phenomenon is called hysteresis or unemployment persistence. While there is little disagreement about the existence of hysteresis in European economies, its magnitude and economic significance are subject to debate. While Ball (1994, 1997) and Blanchard and Summers (1988) argue that hysteresis is strong enough that actual unemployment determines equilibrium unemployment and governments thus can effectively influence the NAIRU by changing actual unemployment, others like Layard, Nickell and Jackman (1991) argue that demand policies have no long run effect on equilibrium unemployment. Thus what is at stake here is how exogenous the NAIRU is to economic performance and to the history of unemployment. A related question is whether the NAIRU depends on economic variables like the capital stock or the rate of interest. While some authors (e.g. Rowthorn 1995, 1999; Sawyer 2001) provide models and empirical evidence that the NAIRU does depend on capital accumulation, others (e.g. Layard, Nickell and Jackman 1991) rule these cases out.

What we will label the NAIRU story of European unemployment is a version of the NAIRU theory that posits that the NAIRU is exogenous to economic variables. The NAIRU thus depends on neither past actual unemployment nor on capital accumulation, but is determined by labor market institutions that increase the bargaining power of labor unions, or more

generally insiders. These factors, since they increase the wage demands of workers, are also called wage push factors. They typically include minimum wages, duration and generosity of unemployment benefits, firing restrictions and unionisation of the labor force. The NAIRU story claims that the rise of unemployment in Europe is due to changes in these wage-push factors.<sup>6</sup>

In terms of policy conclusions the NAIRU story is thus remarkably close to standard neo-classical arguments. It is frictions and inflexibilities in the labor markets that are to blame for unemployment and that, consequently, have to be done away with. Thus, curbing unemployment benefits, reducing job protection measures, decreasing minimum wages are the standard recommendations, such as put forward by the OECD.<sup>7</sup> However, this similarity in terms of policy conclusion must not conceal the theoretical differences. The NAIRU model, as well as the NAIRU story, are New Keynesian theories. They reject the notion of a real wage being set on the labor market as an outcome of the interaction between labor supply and labor demand. Rather the nominal wage is the outcome of wage bargaining and prices are set by oligopolistic firms. Consequently unemployment is an equilibrium phenomenon. Labor market institutions like minimum wages increase equilibrium unemployment in the NAIRU theory, whereas in a neo-classical model it increases unemployment because the labor market will not be in equilibrium. The NAIRU theory is thus substantially more sophisticated and realistic than the neo-classical model and the NAIRU story, while deriving essentially identical policy conclusion does so from a different theoretical, namely New Keynesian, background.

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<sup>6</sup> Note that while the NAIRU story argues that the NAIRU is exogenous to demand in the long run, it exclusively focuses on wage-push factors in determining the NAIRU, but usually ignore ‘profit-push’ factors, i.e. factors that increase the mark-up exogenously.

<sup>7</sup> This, however, is not to say that all the recommendations by the OECD are backed by the empirical research in the NAIRU tradition. In particular the OECD encourages the decentralization of collective bargaining. However next to all the research in the NAIRU tradition finds that a higher degree of centralization of collective bargaining is associated with lower unemployment (Nickell 1998, IMF 2003).

## The NAIRU story versus the Keynesian approach: the empirical picture

The NAIRU story, stressing labor market institutions and wage push factors, and the Keynesian approach, stressing capital accumulation, demand factors and unemployment persistence are thus competing theories in explaining the rise in unemployment. Already a look at the stylized facts raises doubts about the NAIRU story. The fall in the wage share, documented in table 1.4 is hard to square with the NAIRU story that implies an outward shift of the wage setting function and thus an increase rather than a decrease of real wages. Stockhammer (2004a) also offers some econometric tests to evaluate the empirical explanatory power of the two approaches.

The empirical work in the NAIRU tradition can roughly be divided into two groups. First, there are estimations of wage setting and price setting curves within countries. These two approaches to a large extent coincide with an Atlantic divide on what the NAIRU theory seeks to explain. The first approach, using time series data, estimates wage and price setting functions, sometimes as a reduced form of an enriched price setting function. This allows for an *ex post* calculation of the NAIRU implicit in wage and price setting, but it is mostly an explanation of inflation.<sup>8</sup> As is obvious from the Symposium on the NAIRU in the Journal of Economic Perspectives, the NAIRU is considered unsatisfactory (mostly in the USA context), if it fails to explain *inflation* properly. Second, there are regressions explaining unemployment by data on labor market institutions. These attempt, mostly by using cross-country data, to explain actual unemployment via the NAIRU, which is understood to be determined by labor market institutions.

It is this second literature that constitutes the NAIRU story's substantial attempt to explain the rise in European economies. Nickell (1997) and (1998) are probably the most prominent examples of the cross-country approach. He regresses unemployment rates on wage push variables such as unemployment benefits, employment protection measures, union density, the level of collective bargaining and coverage of bargaining, the tax wedge and active labor market policies. Scarpetta (1996) and IMF (2003) take a similar approach, but estimate panel regressions and stress the importance of labour market variables and their interactions.

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<sup>8</sup> See Journal of Economic Perspectives 1997 Symposium on the NAIRU as an illustration.

Keynesians also have produced substantial empirical research, stressing the importance of capital accumulation<sup>9</sup> and unemployment persistence. Glyn (1998) analyses the relation between employment growth, structural change and accumulation from the late 19<sup>th</sup> century to the 1990s. He finds that capital accumulation plays an important role in job creation in the non-agricultural sector. Sarantis (1993) estimates a reduced form unemployment function derived from a neo-Kaleckian growth model by means of a panel approach. He explains unemployment by capital accumulation as well as other demand variables. Neither of them controls for wage push variables. Rowthorn (1995) shows that the change in the average growth rate in employment between 1960-73 and 1973-92 is correlated to the change in average capital stock growth rates over the period in a cross-country regression. Arestis and Biefang-Frisancho Mariscal (1998) propose a NAIRU model with variable work effort and hysteresis where capital stock matters and provided econometric evidence for the UK that capital stock does affect unemployment and in particular long-term unemployment. Ball (1994 and 1999) stresses the role of hysteresis and the effects of monetary policy. He examines the recessions of the early 1980s and 1990s, and the recovery of the mid 1980s and shows that the success countries that managed to decrease their initially high unemployment (Netherlands, UK, Ireland, and Portugal) pursued expansionary monetary policy.

In Stockhammer (2004a) the explanatory power of the NAIRU story and a Keynesian approach that stresses capital accumulation are evaluated. This is done in a time series context for the major European economies (France, Germany, Italy and the UK) and the USA. The results of this econometric exercise clearly support the Keynesian approach. Capital accumulation is (statistically significantly) related to unemployment, whereas there is no consistent (statistically significantly) relation between wage push factors and unemployment. This is true for a variety of specifications.

Thus the explanation of the rise in European unemployment that is suggested is that the rise in unemployment was driven by demand shocks, expressed in lower rates of private capital accumulation (Rowthorn 1995, Marterbauer und Walterskirchen 2001). Demand shocks have

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<sup>9</sup> It is worth noting that this view is not restricted to Post-Keynesians. E.g. Modigliani, et al. 1998 write “We believe that one reason for the drastic European decline in the demand for labor relative to its available supply, and the resulting rise in unemployment has been a decline in investment relative to full-capacity output.”

long-lasting effects since unemployment persistence is high (Ball 1997, Fritsch and Logeay 2002). Labor market institutions play a minor role, if any, in explaining the rise of unemployment. Nor does unemployment react much to changes in wages (Stockhammer and Onaran 2004). This conclusion regarding the role of labor market institutions is shared by Madsen (1998), Baker, Glyn, Howell and Schmitt (2002) and Ball (1999). Moreover, OECD (1998, 1999) present evidence suggesting that minimum wages and employment protection measures are unlikely to be main causes for explaining unemployment. Blanchard and Wolfers conclude "(...) labor market institutions do not appear able to explain the general evolution of unemployment over time." (Blanchard and Wolfers 2000, p. 2).

### **Financialization and the slowdown of accumulation**

Having established a link between accumulation and unemployment, the obvious question is how to explain the slowdown in accumulation. This is a difficult task however. Explaining investment expenditures has proven a long lasting challenge to the economics profession (Ford and Perot 1991). From a Keynesian point of view this is unsurprising, since Keynesians emphasize the role of animal spirits, i.e. the non-rational, creative aspect in investment decisions. Thus investment will exhibit a stable relation to other economic variables only to some extent. While some Keynesians have drawn the conclusion that investment expenditures are fundamentally unpredictable (Vickers 1992, Heye 1995), others have been in the forefront of empirical investment research (Kalecki 1969, 1971).<sup>10</sup> An emphasis of the role of animal spirits does not imply that investment is inexplicable. Rather that it is hard to explain in the short run. However, structural changes in the economy would certainly affect investment expenditures. One of the important developments in the Neo-Liberal era is the changing role of the financial sector.

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<sup>10</sup> The core of Keynesian macroeconomics is that investment expenditures are independent in the sense that they do not adjust passively to savings decisions. The notion that investment is the driving force in economic growth process has been emphasized by J. Robinson (1952, 1962) and Marglin (1984) regards an independent investment function as the key feature of Keynesian growth theory. What this 'independence' exactly means, however, is subject to debate. While Kalecki devoted much of his energy to developing different investment functions, estimating them and analyzing their macroeconomic implications, Vickers (1992) concludes that investment is fundamentally unpredictable.

The changes in the financial sector have their roots in government policies as well as private behaviour. Partly pressured by supranational organizations like the IMF or the OECD countries have liberalized their capital accounts and deregulated their financial systems domestically (Epstein and Schor 1992). Capital controls were abolished, interest ceilings (on deposits) were lifted, credit allocation schemes abandoned. In parallel new financial institutions were created (most famously the Money Market Mutual Funds in the USA in the 1970s) and financial institutions crossed their traditional boundaries. As a consequence new actors appeared on the financial scene, like institutional investors, pension funds and hedge funds.

While the various macroeconomic effects of these developments are felt throughout the economy, their overall effect is hard to assess and has created a rich literature. The following thus is a selective list of debates.

The effect on *income distribution* is rather unambiguous: Incomes from financial wealth, i.e. interest income, dividends and capital gains, also called rentiers income, has increased dramatically since the 1970s (Epstein and Power 2003, Power, Epstein and Abrena 2003).

Most countries have experienced shifts from bank-based *financial systems* to market based ones (Grable 1997, Schaberg 1999). This shift to market-based financial systems, however, is not reflected in financial market playing an increasing role in the (net) finance of investment. Rather, in aggregate non-financial business finance themselves out of retained earnings (Mayer 1988). At the same time markets play an increasingly important role in corporate finance as firms start to engage in financial transactions on the one hand to hedge against various risks, in particular exchange rate risks, and on the other hand because financial investment is more profitable than physical investment.

The area where the shift to market based financial systems is most clearly felt is *corporate governance*. Hostile takeovers fueled by new financial instruments have created a market for corporate control and led to a wave of mergers and acquisitions (OECD 1998, Froud et al. 2000). As a consequence firms try to follow the rules set by financial markets and aim at 'creating shareholder value', i.e. pursue policies that guarantee rising share prices and high dividends. Of course these development have not affected all countries equally. While UK has

had a market-based financial system for a long time, continental European countries are traditionally classified as bank-based economies (Demirguc-Kunt and Levine 2001). Among these France has probably experienced the most pronounced shift towards a market-based systems, and Germany has been most resilient and maintained strong bank-based structures. The USA, while also considered a market-based system it used to have a heavily regulated financial sector that was deregulated radically in the 1980s.

A succession of *financial crises* has illustrated the potential instability of liberalized financial markets and led to theories of asset price speculation. Behavioral finance (Shiller 2000), Noise Trader Theories (Shleifer and Summers 1990, Shleifer 2000) and a revival of Minskyan theories (Skott 1995) all suggest that financial markets are inherently unstable.

The stock market boom of the 1990s also sparked new interest in the *wealth effect in consumption*. Several empirical studies presented evidence for the existence of an economically significant effect of wealth on consumption expenditures (Boone, Giorno, and Richardson, 1998), though many questions regard precise mechanisms and the relative effects of financial and real estate property remain open (Poterba 2000, Case, Shiller and Quigley 2001.).

There have been some attempts to explore the *macroeconomic dynamics* of the effects of financial markets and shareholder value orientation on business decisions. Boyer (2000) has offered the most complete formal macroeconomic treatment of what he called a 'finance-led accumulation regime'. He posits changes in investment behavior, a redistribution from labor to shareholders that gives rise to a stock market boom, which in turn fuels consumption expenditures and analyses under which conditions such a finance-led growth regime can be stable. Aglietta (2000) offers a similar analysis, but without a formal model, and assigns a greater role to productivity gains through the 'new economy'. Neither of the authors offers a detailed analysis of changes in investment behavior. Smithin (2002) proposes a model that stresses the negative effect of the increase of rentiers income on firms' funds that are disposable for investment.

In Stockhammer (2004b) a theory of the effect of financialization on the investment behavior of non-financial businesses is proposed. Financialization will be defined as the engagement of

non-financial businesses on financial markets. These financial activities are interpreted as reflecting a shift in the firm's objectives and a rising influence of shareholder interests in the firm. Thus a narrow concept of financialization is used that has the advantage of allowing us to derive a testable hypothesis. The argument is based on the post-Keynesian theory of the firm, which for our purposes has to be developed further, stressing the conflict of interest between management and shareholders.

The corporate governance literature takes as its starting point that managers have goals other than profit maximization. They may wish to increase their income, prestige or power, which is expressed in their desire for many subordinates and "the pursuit of market share and growth at the expense of profitability" (OECD 1998, 17). It is typically argued that in the Fordist period management was relatively independent and able to pursue these goals. Notably this was also the time of growing power of labor unions. In a firm with strong stakeholders like organized labor and governments committed to full employment, firms can be expected to have bias towards growth.

During the 1980s and 90s shareholders reclaimed their position in the firm. Through the establishment of a market for corporate control and through incentives (performance related pay schemes, stock options) shareholders sought to realign management's interests with their own. Thus downsizing in the name of 'creating shareholder value' became the key business term of the 1980s and 90s (Lazonick and O'Sullivan 2000). Simultaneously firms shredded their identity as pure industrial enterprises and moved towards profit centers that readily engage in financial activity if the latter is more promising than the former.

As implied in the OECD quotation above, there is a trade off between profits and growth of a firm that is also stressed in the post-Keynesian theory of the firm. In fact, if there is a profit maximizing level of investment, there has to be trade off between profits and investment beyond this point. If such a trade off holds, a shift of management priorities from growth to profits will decrease investment expenditures.

Stockhammer (2004b) proposes a formal model of the formation of management objectives based on the relative power of management and shareholders. The conclusion of this model is that an increase of shareholder power leads to a decrease in desired investment. Econometric



tests of this model are also presented. For the estimations of the hypothesis an indirect measure of shareholder value orientation is used – the activity of non-financial businesses on financial markets. The interest and dividend income, for short: rentiers' income, of non-financial businesses serves as a proxy for financialization. It measures to what extent non-financial businesses have acquired rentier status and the hypothesis is that this corresponds to a change in management priorities.

This measure is included in a standard investment regressions for the USA, the UK, France and Germany. The results confirm the importance of financialization. In the USA and France the financialization variable has strong explanatory power, in the UK it has in some specifications, but not in all. In Germany, where shareholder power is less developed, we fail to find an effect. Overall the central finding is, that the more firms are engaged in financial activities, in fact the more they earn from financial activities, the less they invest in physical capital.

### ***Conclusion***

Fordism, the accumulation regime of the postwar era that was characterized by a compromise between capital and labor, by a growing and activist state, by a regulated financial sector and by low real interest rates, went into crisis in the 1970s. With the Neo-Conservative revolution of the early 1980s labor relations changed in favor of capital, expressed in a rising profit share, the welfare state was curbed and the financial sector was deregulated and real interest rates rose. At the same time growth rates and accumulation rates fell and unemployment increased to levels unprecedented in postwar history.

The Keynesian explanation we propose regards the fall in capital accumulation as the main culprit for the rise in unemployment. The reason for slowdown in accumulation is located in the changes in the financial sector. Not only have real interest rates exceeded growth rates, but shareholder value orientation has shifted management priorities away from growth. Non-financial businesses themselves have become investors on financial investment. It was demonstrated that this went hand in hand with a decrease in physical investment.

The policy implication of this analysis can only be outlined briefly. Above all, a policy that recognizes and does justice to the externalities to capital investment is called for. Thus investment decisions have effects well beyond the firm that is investing. Correspondingly, investment decisions have to be made, not only taking into account the firm or even their shareholders financial return, but their entire social effects. Consequently Keynes famously suggested the socialization of investment. The policy proposals are centred around three areas.

Within the firm, broader social groups, often summarized as stakeholders such as organized labor, NGOs and communities need to be represented in the decision making bodies. The German model of codetermination may serve as a starting point for this.

The structure and growth of the financial sector have to be regulated and directed such that it serves the need of the real sectors of the economy and financial development (and reaping profits thereof) does not become an end in itself. This will include measures increasing transparency of financial transactions and accounts, but also an adaption of tax systems to highly liquid and, indeed, often unstable financial markets. A security transaction tax such as proposed by Pollin, Baker and Schaberg (2002) may be a starting point for such a reform of the tax system.

The state sector for the economy has to be empowered financially as well as legally such that it is capable of fulfilling its economic functions. These functions include not only the pursuit of price stability, but also stabilization (which is all the more important in times of frequent financial crises), and policies aimed at full employment and an equitable income distribution. Financially a securities transaction tax would be an important step towards modernizing tax systems. A reduction of real interest rates would go a long way in increasing states' finances. Legally treaties like the euphemistically called Pact for Stability and Growth have to be revised such that governments effectively can pursue policies that aim at growth, stability and full employment.

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## **Tables**

Table 1.1  
Growth GDP (business  
sector)

	France	Germany	Italy	UK	USA
1960-64		4.63	6.22	3.14	4.78
1965-69	5.95	4.05	7.30	2.07	4.18
1970-74	4.78	2.91	4.28	3.03	3.90
1975-79	3.69	4.07	4.92	3.26	5.28
1980-84	1.43	0.89	1.30	2.31	3.26
1985-89	3.67	3.15	3.34	4.79	3.80
1990-94	0.60	1.62	0.97	1.99	2.59
1995-99	2.66	1.86	1.89	3.16	4.53
2000-02	3.29	2.11	2.12	2.76	3.49

	France	Germany	Italy	UK	USA
1960-74	5.63	3.79	5.77	3.04	4.16
1975-84	2.42	2.09	3.18	2.18	3.73
1985-99	2.34	1.54	2.17	3.14	3.45

Note: Germany adjusted for unification

UK starts 61, F 63

Source OECD Employment Outlook dataset.

Table 1.2

Capital accumulation in the business sector

	France	Germany	Italy	UK	USA
1960-64		7.00	6.48		3.01
1965-69	4.80	6.57	4.70	1.98	4.74
1970-74	6.09	5.81	5.01	1.81	4.06
1975-79	4.37	3.93	3.85	1.58	3.70
1980-84	3.03	2.94	2.98	1.06	3.17
1985-89	3.68	2.99	3.11	2.52	2.59
1990-94	3.23	3.01	2.77	2.44	1.82
1995-99	2.77	1.69	3.03	3.12	3.66
2000-02	3.02	1.50	3.29	3.34	3.54

	France	Germany	Italy	UK	USA
1960-74	4.93	5.74	5.16	1.94	3.99
1975-84	3.70	3.50	3.45	1.35	3.48
1985-99	2.54	2.34	2.50	2.34	2.55

Note: F, UK start 62

Source OECD Employment Outlook dataset.

Table 1.3

Unemployment

	France	Germany	Italy	UK	USA
1960-64	1.44	0.49	3.46	1.61	5.72
1965-69	2.04	0.67	4.13	1.86	3.84
1970-74	2.71	0.71	4.27	2.53	5.41
1975-79	4.88	2.15	5.09	4.60	7.02
1980-84	7.92	4.44	6.99	9.58	8.32
1985-89	10.08	5.90	9.88	9.47	6.23
1990-94	10.48	6.28	9.57	8.82	6.59
1995-99	11.54	8.41	11.75	7.03	4.93
2000-02	10.49	8.10	11.08	5.93	4.59

	France	Germany	Italy	UK	USA
1960-74	2.06	0.62	3.95	2.00	4.99
1975-84	6.40	3.30	6.04	7.09	7.67
1985-99	10.28	6.09	9.73	9.14	6.41

Note: France 1960-64 source BLS

Source OECD Employment Outlook dataset.



Table 1.4.

Profit share in the business sector

	France	Germany	Italy	UK	USA
1960-64		36.27		30.97	28.15
1965-69	33.11	36.02		30.66	30.74
1970-74	33.46	33.05		29.172	30.61
1975-79	29.17	32.45	28.68	28.898	32.59
1980-84	28.04	31.86	29.46	29.884	32.21
1985-89	33.41	35.32	33.16	32.030	33.06
1990-94	36.92	33.66	33.40	31.166	33.44
1995-99	38.96	35.85	38.65	33.050	35.12
2000-02	39.15	35.88	38.98		34.59

	France	Germany	Italy	UK	USA
1960-74	33.29	35.11		30.27	29.83
1975-84	28.60	32.15	29.17	29.39	32.40
1985-99	35.16	34.66	33.28	32.08	33.25

Note: Germany 85-90 and 91-94 because of break due to unification

UK profit share of total economy

Source OECD Employment Outlook dataset.

Table 1.5 Financial crises in the recent past

late 1980s	S&L crises in USA
1987	Stock market crash, USA
1990s	deflation of stock market, Japan
1992/93	EMS crises
1994	Peso crises, Mexico; Turkey
1997	East Asian financial crises (Thailand, Malaysia, South Korea ...)
1998	Crisis in Russia
2000	Stock market deflation, USA and Europe
2001	Crises Turkey and Argentina

Table 1.6

## Real interest rates

	France	Germany	Italy	UK	USA
1960-64	1.78	2.30	-0.57	2.52	2.70
1965-69	2.89	3.90	2.51	2.67	1.85
1970-74	1.08	1.97	-2.54	0.50	0.95
1975-79	-0.04	3.24	-3.24	-2.94	0.76
1980-84	4.20	4.83	0.87	3.17	5.59
1985-89	5.47	4.41	4.34	4.33	5.52
1990-94	5.75	4.29	6.47	4.71	4.26
1995-99	4.53	4.45	4.04	3.79	4.23
2000-02	4.08	4.24	3.04	2.95	3.84

	France	Germany	Italy	UK	USA
1960-74	1.93	2.75	-0.18	1.85	1.77
1975-84	2.08	4.04	-1.19	0.12	3.17
1985-99	5.61	4.35	5.40	4.52	4.89

Source: OECD Economic Outlook database.

Table 1.7

## Financial income as share of operating surplus for NFB

	France	Ger (W)	Italy	UK	USA
1960-64		3.76			17.14
1965-69		4.79		20.11	16.86
1970-74	9.21	6.79		46.74	29.17
1975-79	16.38	6.40		44.67	32.74
1980-84	30.01	9.94	26.85	35.56	49.40
1985-89	24.99	9.23	19.84	32.50	52.04
1990-94	41.46	13.47	19.73	47.19	56.66
1995-99	45.97	16.45	9.98	34.02	

Note: Break in series with 1995 due to change in OECD National Accounts

Germany is West Germany before 95 and Germany thereafter