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Tackling youth unemployment in the European Union: In quest of Keynesian imprints since 2000

Políticas de combate ao desemprego dos jovens da União Europeia: em busca de traços Keynesianos

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Profª. Drª. Adriana Nunes Ferreira – Orientadora

Dissertação de Mestrado apresentada ao Programa de Pós-Graduação em Desenvolvimento Econômico, área de concentração: Economia Social e do Trabalho do Instituto de Economia da Universidade Estadual de Campinas para obtenção do título de Mestre em Desenvolvimento Econômico, área de concentração: Economia Social e do Trabalho.

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COMISSÃO JULGADORA

Profª. Drª. ADRIANA NUNES FERREIRA
Instituto de Economia / UNICAMP

Profª. Drª. ANA ROSA RIBEIRO DE MENDONÇA SARTI
Instituto de Economia / UNICAMP

Profª. Drª. ELIANE NAVARRO ROSANDISKI
PUC-Campinas

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Foreword

As a German I am very sensitive to a high unemployment rate, because a shameful part of our recent history in parts had to do with a desperate youth looking for work and hope. Broken hopes were willing to follow high promises.

Before attending University I got to know such broken hopes. I worked with radicalized young men frustrated from their life perspective. They used to project their frustration on society, foreigners and politicians –and except for the foreigners they were not too wrong. Most of those guys ended up in racism, often combined with anti-social and extremely violent behaviour.

The results of the elections in crisis-rocked Euro area member states show a similar pattern. The economic outlook frustrates young people and they step back from participation in society or even attack it. Extreme political positions and the use of violence are increasing. Parts of the protesting youth and the established powers justify the use of violence and neglect basic human rights. The European crisis management even circumvents democratic institutions to impose austerity measures. Does the European Union undertake steps to increase the employment perspective or does it prepare the unemployed to meet the demand of a self-adjusting labour market who will bring employment perspectives for 26 million unemployed citizens? Within which theoretical perspective can we understand European policy makers?

History should teach us a lesson and youth unemployment has a key role in this.

Abstract

The dissertation traced Keynesian imprints in the European employment policies from 2000 to 2014. Attention was given to the inclusion of the low-skilled youth. Of special interest was the distinction between Post Keynesian and New Keynesian Economic influences. The first chapter underlined the relevance of the youth unemployment problem. The second chapter traced the Keynesian theory and its development. The third chapter differentiated three periods from 2000 until 2014. The policies relevant for youth employment changed during the periods from Pre crisis to financial crisis, and later to the euro area crisis. The chapter predominantly used publications of the European Commission to mirror the change in the policy making of the Union. The fourth chapter discussed the influence of the Post Keynesian and New Keynesian Economics. The Conclusion points out that even though 27 million jobseekers are more and more trained to meet the labour market demands, this does not change the limited number of 2 million job vacancies. It concludes that the recent unemployment policies in the European Union carry more new Keynesian imprints than Post Keynesian ones, and that new jobs probably need no austerity measures in a slump, but could make use of state investment to encourage the creation of new workplaces.

Key words: youth unemployment policies, Post Keynesian, euro area crisis, European Union.

Resumo

A dissertação rastreou traços keynesianos nas políticas europeias de emprego 2000-2014. Foi dada atenção à inclusão dos jovens pouco qualificados. De especial interesse é a distinção entre as influências econômicas Pós-keynesiana e Novo keynesianas. O primeiro capítulo destacou a relevância do problema do desemprego dos jovens. O segundo capítulo traçou a teoria keynesiana e seu desenvolvimento. O terceiro capítulo distinguiu três períodos de 2000 a 2014. As políticas relevantes para o emprego dos jovens mudaram durante os períodos do pré-crise e da crise financeira e, posteriormente, com a crise da zona do euro. O capítulo predominantemente utilizou publicações da Comissão Europeia para espelhar a mudança na formulação de políticas da União Europeia. No quarto capítulo foi discutida a influência Pós-keynesiana e da Nova Economia keynesiana. A conclusão aponta que, apesar de 27 milhões de candidatos a emprego, os jovens são cada vez mais treinados para atender as demandas do mercado de trabalho, isso não muda o número limitado de 2 milhões de vagas de emprego. Conclui-se que as recentes políticas de desemprego na União Europeia carregam mais traços do Novo keynesianismo do que do Pós-keynesianismo, e que para novos empregos, provavelmente, não precisam de medidas de austeridade, mas de investimento do Estado para incentivar a criação de novos postos de trabalho.

Palavras-chave: políticas de desemprego de jovens, pós-keynesianismo, crise da zona do euro, União Europeia.

Content

Introduction

Youth unemployment in the European Union with its 27 member states (EU27) peaked 2013 with 23% and it is not a problem of miseducation or unwillingness to work for a given wage level. The youth broadly accepted unpaid internships, limited project work and short term contracts with ongoing uncertainty. These accommodations underline their willingness to work.

Parts of the European youth went to the streets and protested during the Euro area crisis. It seemed absurd that the political leaders announced to have no money for their citizens, but generously guaranteed more than a trillion Euros for the private financial institutions. The protesting youth voted for participation in normal work life and against cutting job prospects per harsh austerity measures. The broad wave of protest drew public attention to a persisting problem.

Youth unemployment always ranks higher than the average unemployment. The passage from the education system into the labour market has its acknowledged challenges. A broad range of measures try to ease it. From this point of view it is logical to optimize the transition with policies tackling the transition itself as well as the labour-market functioning. But the decreased demand for work in the Euro area-crisis and the accompanying austerity measures led to a historical height of unemployed and disappointed young people while the optimizing of the two named points was stressed but could not override the negative employment trend. For the first time the precarious unemployment perspective affected a larger group with high skills up to the doctoral degree. Excellent education promised to be the safest way to make a good living. But the Euro area crisis wiped out the already scattered dream of success and high earnings through excellent education. Now bare unemployment is left over for many of the high skilled. Even the willingness to accept humiliating working conditions is no more enough to find an employment. The disillusioned group of well educated youth used its skills to organize and communicate its protest with a strong public appeal by circumventing established ways. The heads of European

States were dumbfounded and answered appeasing with several summits and established a youth guarantee.

In the shadow of this powerful and intelligent articulated protest stood a silent group of young people who resigned from hope and protest. This group was underrepresented in the rise up´s, but it got hit worse by the increased unemployment. This group is already used to high unemployment, and it never expected what the university students anticipate from their educational efforts. It is the group of low skilled youth. Roundabout 67% of this group is employed. But with a 33% unemployment rate they face the highest ratio of unemployment from all educational levels and all age groups. Another popular label used in labour market policy is the acronym NEET´s –citizens under 25 years which are “Not in Education, Employment or Training”. This group has a low level of skills. Instead of earning a living wage they depend on social benefits or family support. They lack the minimum skill demands of most job vacancies and they are excluded from common youth work life development. What it comes down to is that within the European Union 13,3 million young people either search for an employment or already gave up searching.

The quest for more jobs addresses the demand-side. From all available economic theories Keynes´s reputation is unbeaten and the deductions of Post Keynesian and new Keynesian economics (NKE) will shed their light on the unemployment problem. The central questions in this thesis are as follows:

- What has been done in EU27 to include the low-skilled youth into the labour market from 2000 until today? The focus gives weight to the last five years
- Are the policies more influenced by Post Keynesians or NKE?

The first chapter introduces the problem of low skill youth unemployment and givers an introduction to the euro area crisis with its complex dynamics.

The second chapter highlights the macroeconomic conclusions of John Maynard Keynes and surveys its further developments both in Post Keynesian and New Classical visions.

The third chapter investigates the measures undertaken by the European Union. The amount of youth unemployment was labelled unacceptable by the European Commission. But did it take extra steps to change the deteriorated situation in the Euro area crisis? The three levels of monetary and fiscal policies, labour-market policies and skill-related policies will be treated in this chapter. The three different periods before the financial crisis, during the global financial crisis and with the beginning of the Euro-area crisis periodize the policies.

The fourth chapter will take into account the gained knowledge and adress the influence of post Keynesians and NKE on the European policies.

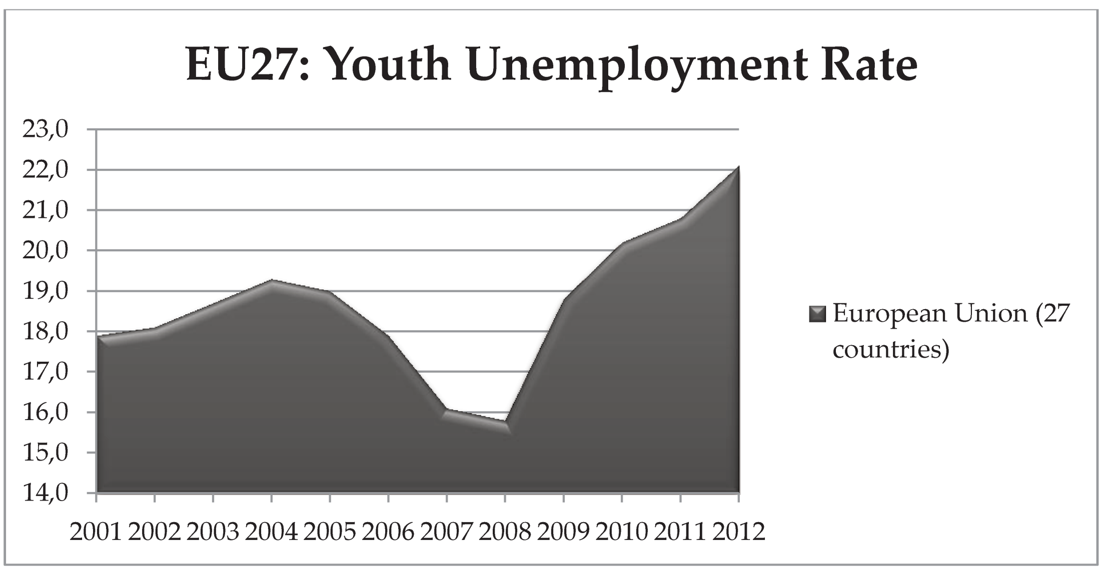
1 The European problem of youth unemployment

1.1 The employment situation of youth in the European Union

Youth employment is no more the standard beginning of a life career. Nearly one out of four young European jobseekers is unemployed. According to the guidelines of the International Labour Organization an unemployed person is defined by Eurostat as someone who fulfils the following criteria:

- aged 15 to 74 (in Italy, Spain, the United Kingdom, Iceland, Norway: 16 to 74 years)
- without work during the reference week (not month or year)
- available to start work within the next two weeks (or has already found a job to start within the next three months)
- actively having sought employment at some time during the last four weeks (ILO 1982)

Figure 1

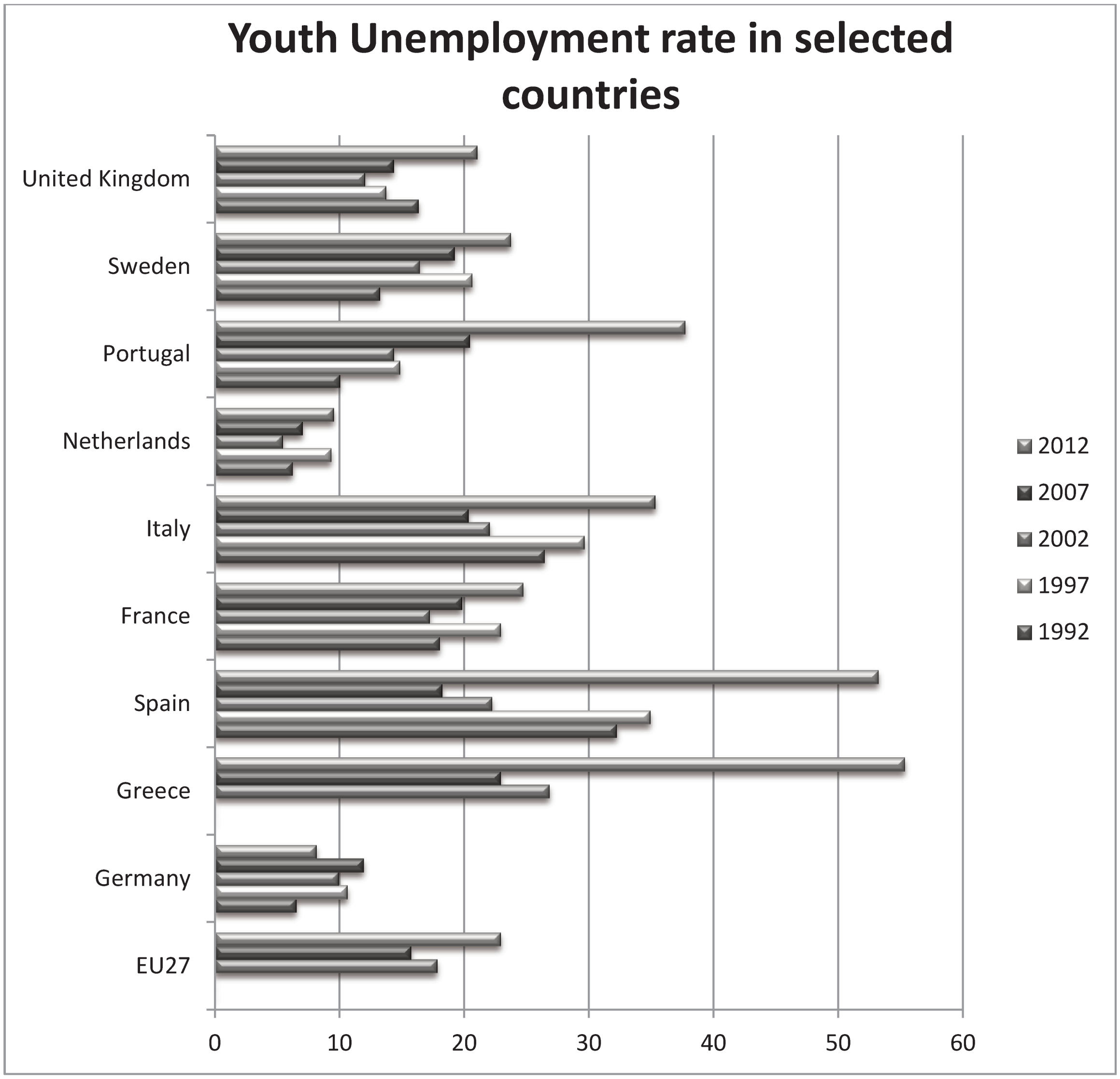


Source: Eurostat (ES) code Une_rt_a

2013 youth unemployment in EU27 peaked with 23,3% in July 2013, in February 2014 it decreased slightly to 22,7% (ES Une_rt_m).

Within the different countries the unemployment rate differs up to 50%. As figure 2 shows, Germany actually has 7,7% youth unemployment rate, while Greece officially names 58,3%.

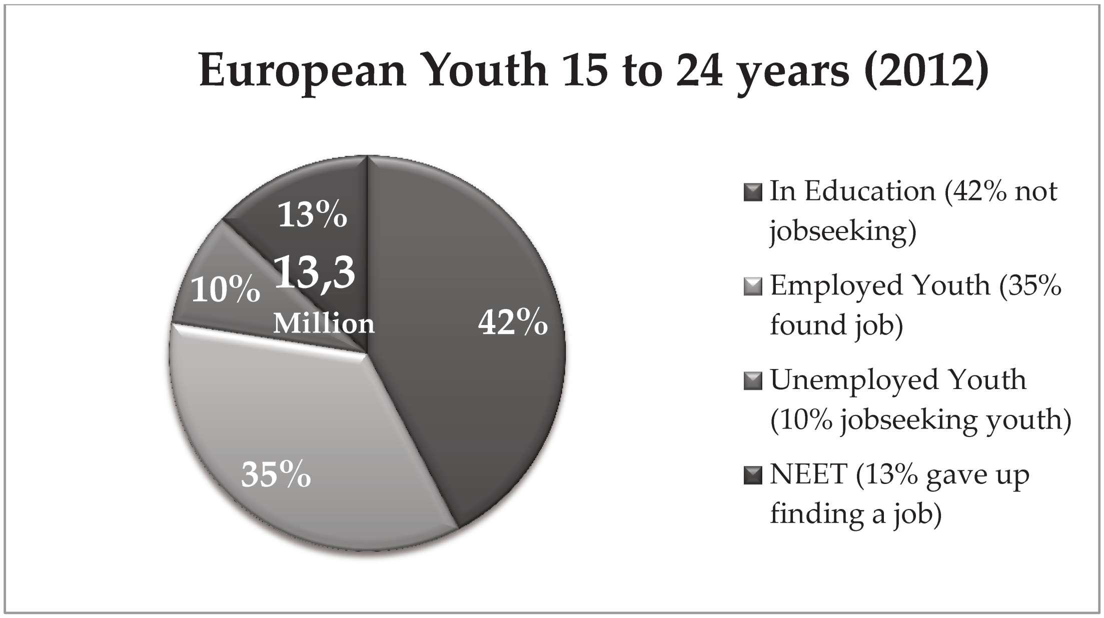
Figure 2



Source: Eurostat code tsdec460

The situation on the labour market is even more serious, when the total number of youth without a job or aspirations for a job is counted. Figure 3 demonstrates that the number of young people that are discouraged is bigger than the number of job seeking youth. The 5,3 million unemployed youth are already a huge number, but there are 8 million young people that stepped back and even don´t search or prepare for a job.

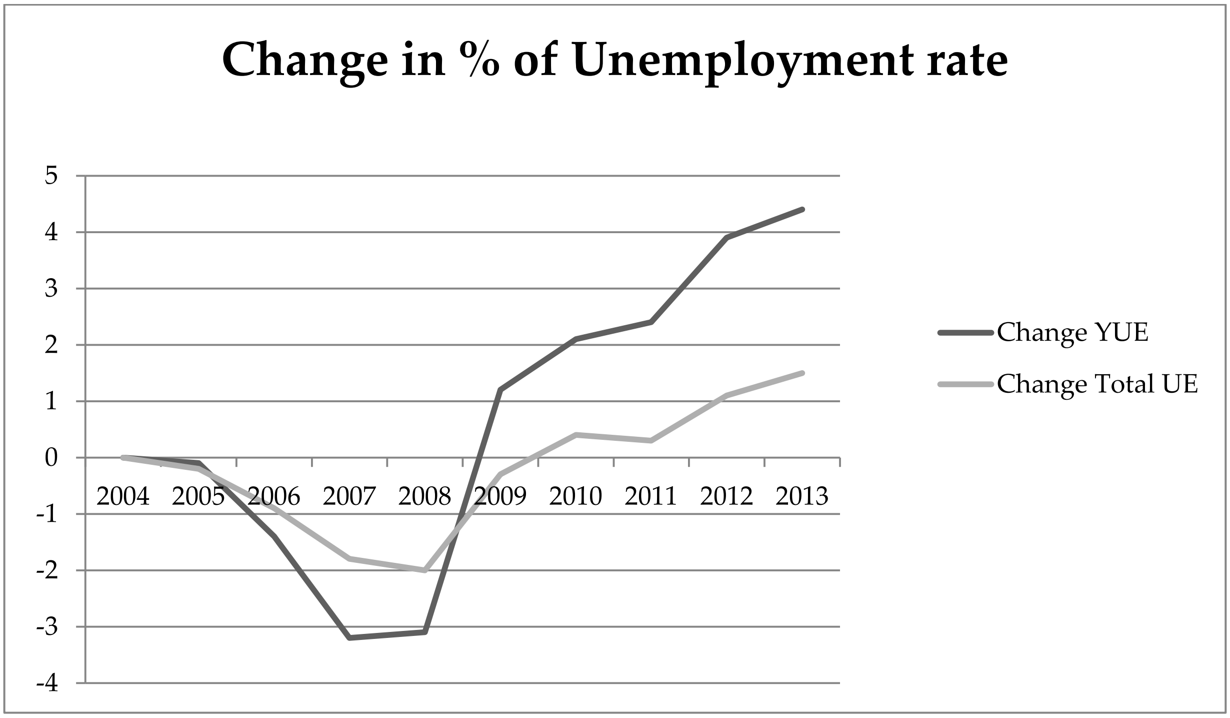
Figure 3



Source: Eurostat code lfsi_emp_a,une_nb_a, yth_empl_160

The European Union´s youth unemployment rates are made up of first time jobseekers (Martin 2012, p.4) and the high alternation rate of periods from employment and unemployment caused by short term contracts and other labour market issues (Dietrich 2012, p.27-29). The high youth unemployment in many European Unions member states can be traced back to the problem of contracts with a short duration or a frustrating and unfair working experience which sometimes leads to a withdrawal from the job opportunity as it has more disincentive aspects to grasp the working opportunity (Martin 2012, p.4). The short duration of contracts has a consequence for the strong increase of youth unemployment in a slump. For the employer the simplest way to reduce its expenses in a recession is to dismiss the people with short term contracts. Young people have four times more often temporary contracts compared to adults (European Commission 2014a). Table 4 verifies that the youth unemployment rate is changing stronger than the general unemployment rate during the crisis.

Figure 4



Source: Eurostat code une_rt_a

The European Commission (2014a) justifies specific youth employment policies with the following reasons:

- *"Youth unemployment rate is more than twice as high as the adult one – 23.3 % against 9.3 % in the fourth quarter of 2012.*
- *The chances for a young unemployed person of finding a job are low – only 29.7 % of those aged 15-24 and unemployed in 2010 found a job in 2011.*
- *When young people do work, their jobs tend to be less stable – in 2012, 42.0 % of young employees were working on a temporary contract (four times as much as adults) and 32.0 % part-time (nearly twice the adults' rate).*
- *Early leavers from education and training are a high-risk group – 55.5% of them are not employed and within this group about 70% want to work.*
- *Resignation is an increasing concern – 12.6 % of inactive youth wanted to work but were not searching for employment in the third quarter of 2012.*
- *In 2011, 12.9% of young people were ´Neither in Employment nor in Education or Training (NEET´s) `.*
- *There are significant skills mismatches on Europe's labour market.*
- *Despite the crisis, there are over 2 million unfilled vacancies in the EU."*

This list concentrates the arguments why youth has a special role in unemployment policies. As already mentioned the youth is hit experiencing a higher unemployment rate. This is true for the three periods examined later in this work. The early leavers deserve special attention as this group faces very strong unemployment rates.

The impact of resignation is displayed in the chapter1.2. As well figure 3 displays the huge number of this group which outnumbers the unemployed youth by more than 2 mn people. The skill mismatch is adressed in the chapter 3.3. Even though there are many people looking for work, there are actually more than 2 mn job vacancies. The European Union tries to improve the supply and demand coordination and initiated a European online labour market that offers employers and employees more international perspectives in the search for either a worker or workplace. It is named European Employment Service (Eures) and is supposed to further mobility of workers and an improved matching of supply and demand. As well it is expected to expand the information which is available in national networks and by this improve the functioning of the European labour market.[1]

The consequences of youth unemployment have a stronger impact on an individual work life as they happen early in the lifespan. Where an experienced employee can apply for a new The consequences on youth unemployment have a stronger impact on an individual worklife as they happen e3arly in the lifespan. Where an experienced employee can apply for a new workplace with the credentials of experience, maturity and full service by the unemployment insurance, a young unemployed person lacks these advantages:

> *"Consistent research findings indicate that a prolonged spell of unemployment early in a young person's working life can have long-term 'scarring' effects on lifetime prospects, under-utilisation of knowledge and skills, potential lower earnings through life, reduced health status and threat of social exclusion (Hughes 2012, p.4) "*

According to the ILO report on the share of discouraged workers in the total labour force increased by 50 per cent, but the increase in discouragement among youth was almost twofold (ILO 2013, p.47). As well the early unemployment experience leads to losses in productivity, achieved wage levels and stable employment opportunities. Further Eurofund states that the high

[1] Available here: https://ec.europa.eu/eures/page/homepage?lang=en

youth unemployment contributes a loss of at least 1% of the GDP in the countries with more than 20% youth unemployment rate (Mascherini 2010, p. 87).

What it comes down to is that the young generation deserves special protection and support on the path to a self-earned income, which represents a fundament for chances and participation in life.

1.2 The low skilled youth in the labour market

Within the group of young people is a subdivision characterized by the attained educational level. The educational level plays a distinctive role as it has a major influence on the employment prospects of the young.

The attained educational level is defined by the International Standard Classification of Education (ISCED) from UNESCO (1997). For practical reasons the 7 levels are usually grouped:

- Level 0-2 (Level 0 Pre-primary education, Level 1 - Primary education or first stage of basic education, Level 2 - Lower secondary or second stage of basic education)
- Level 3-4 (Level 3 - (Upper) secondary education, Level 4 - Post-secondary non-tertiary education)
- Level 5-6 (Level 5 - First stage of tertiary education, Level 6 - Second stage of tertiary education)

The label "low-skilled" refers to the ISCED levels 0-2.

Located at the lower end of the labour market this group experiences a double challenge. The increase of skill demands hinders some low-skilled to pass the threshold of minimum requirements into the labour market. And the process of bumping down of higher skilled active population crowds out some of the low-skilled from the available workplaces (Borghans 2000). In the end the achievable labour market shrinks and leaves lesser opportunities. Scarpettas report for the OECD remarks that coping with a job loss in a weak labour market is difficult for anyone, but:

> *"For disadvantaged youth lacking basic education, failure to find a first job or keep it for long can have negative long-term consequences on their career prospects that some experts refer to as `scarring` (2010, p.4, originating from Bell and Blanchflower, 2009)."*

The low skilled youth is the weakest group within the young workforce and unemployment policies contain special attention to this severe situation. While the macroeconomic policies focus the aggregate demand for work, the labour market policies for low-skilled show a different picture. At the microeconomic level counts that *"A good apprenticeship (or literacy) is still the best prevention from unemployment (Weber 2013, p.1)."*

Indeed being low-skilled limits the job opportunities to low skilled work and usually a low payment. The only socially accepted way out of this limitation is the improvement of skills.

According to Weber from the national research institute on labour and apprenticeship IAB in Germany in 2011 19,6% of the active population without a formal education were unemployed in a time of high demand for work. In contrast 2,4% of active population with an academic degree were seeking a job and can roughly be counted to short-term unemployment. In Germany 45% of the unemployed are without formal education, but only 14% of the employed are without formal education. The low-skilled employment in Germany did shrink in absolute numbers from 5,7mn in 2006 to 5,1mn in 2010 (Weber 2013, p.1-3). According to Zika 2012 the labour market for low-skilled workers will continue to shrink moderately until 2030. This opinion matches with the expectation of Leigh-Doyle (analytical paper for the European Commission, 2013, p.4). The situation for the low-skilled is difficult. And it will probably worsen and therefore demands smart answers. The macroeconomic policies, the labour –market policies and the skill-related policies determine actions to solve this problem within the European Union. Are they carrying a Post-Keynesian or a New-Keynesian thumbprint?

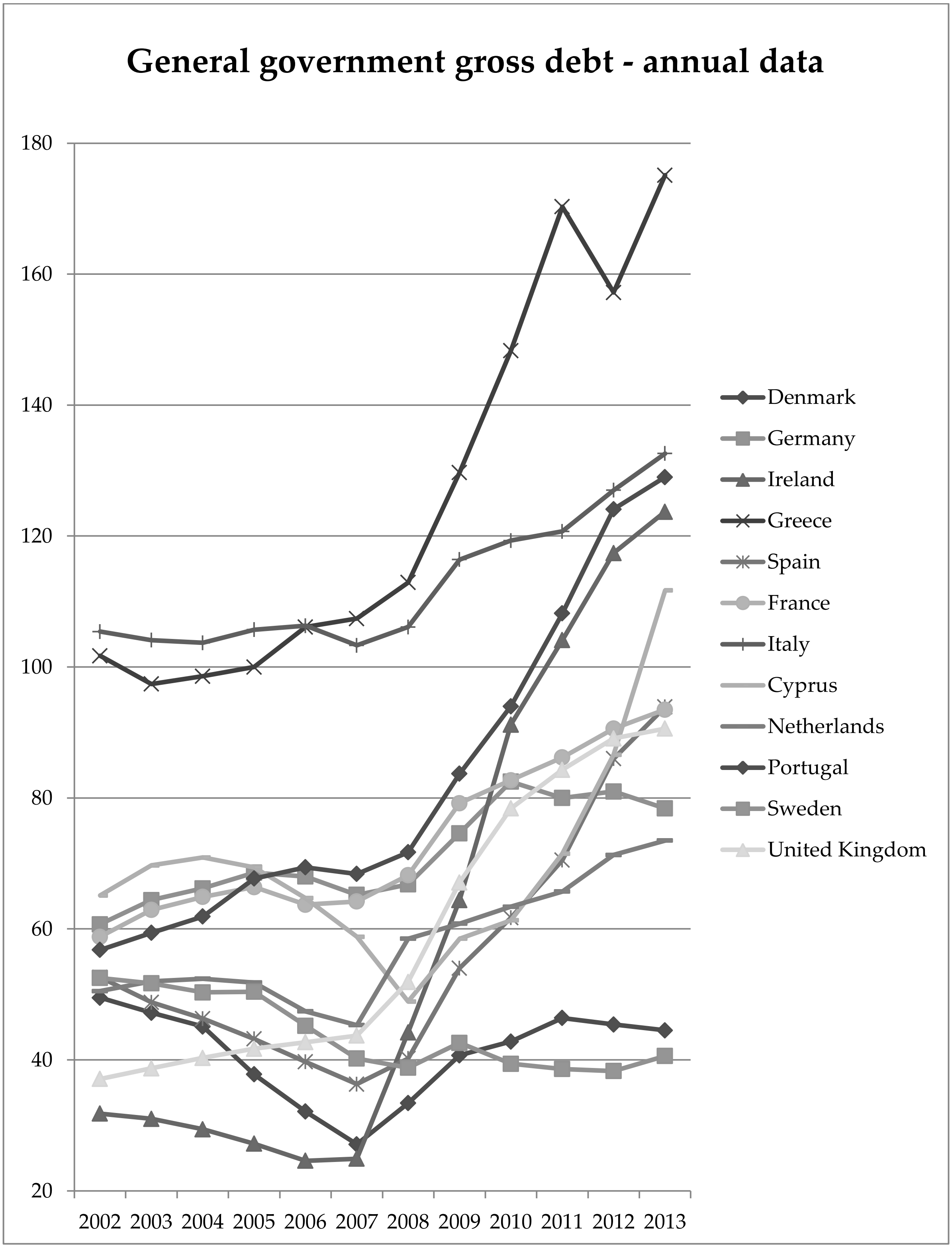
1.3 Recent history affecting the employment in Europe

The question on the different Keynesian thumbprints gets even more interesting, as the European Union experienced two dramatic crises since 2008. The chance of finding a job for a low skilled young person deteriorated when the financial crisis and the euro-area crisis hit the continent. The measures concerning the economy, the youth labour-market and the group of low-skilled youth need to be understood in the light of the recent history. The global financial crisis and the Euro area crisis rocked the neoliberal paradise and brought back Mr. Keynes and lots of questions against the established system.

The Euro-area crisis is a complex and difficult matter. This introduction will exceed a usual introduction´s content to ensure an adequate understanding of the recent happenings.

Which is the euro area? Referring to the European Commission the Euro area refers to the member states of the European Union which use the Euro as a single currency (GSC 2014a): *“The euro is the single currency shared by (currently) 18 of the European Union's Member States, which together make up the euro area.”* The Euro area as a monetary union brings a certain restriction for its member statesas the fiscal policies need to be coordinated between the meemberstates. National central banks no more can de- or appreciate the shared currency to rebalance the national economy. The framework for this coordination and safeguarding was agreed in the Stability and Growth Pact who aimed to ensure fiscal discipline. The limits on government deficit are 3% of GDP and sovereign debt 60% of GDP. These rules got established in 1997 and were reinforced in 2005 and again in 2011 through the economic governance legislative package known as the 'six-pack' (GSC 2014b). The beginning of the euro area crisis is strongly marked by the massive breaking of the agreed rules.

Figure 5



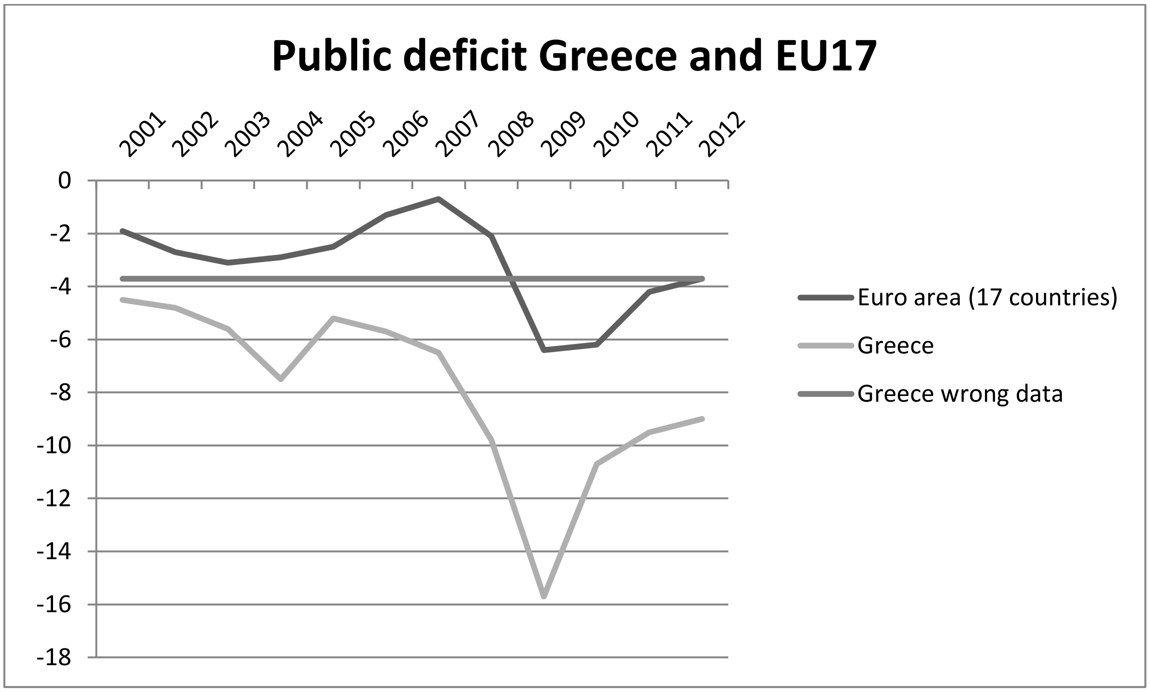
Source: Eurostat code gov_dd_edpt1

As well the 3% deficit limit was breached by practically all member states.[2] The indebtedness is costly and redistributes money from public spending to the redemption of the credits. The refinancing of the debts gets costly if the risk premium for the loan increases. This makes the refinancing per bonds very expensive. If a state cannot refinance its debts, it will be bankrupt. If the costs for refinancing are very high, the economic problems are increasing because the costly refinancing forces to shorten other public expenditures. At the end of the day the level of indebtedness is not decisive but the expectations of the money lenders. If they mistrust a state´s ability to repay its debt, then the banks which were willing to borrow money so easily, won´t risk loosing their money. As well the indebtedness in parts is result of keeping high the aggregate demand to avoid a freeze of economy. When States use indebtedness to encounter an economic slump, like buying new roads, this stabilises the effective demand and avoids a steep breakdown of spending. In an upswing the spending can be again reduced, and the indebtedness reduced through carefully increased taxation. This topic is explained further in chapters 3.1 and 4.

For a long time the Euro area was in favour of the financial markets and received low interest rates, no matter if the member states had a strong or weak economy. The cheap money was gratefully received and whitewashed the deficits of competitiveness in several nations. Greece improved its productivity more than all other member states, but it increased the wages even more. In 2009 Greece was no more able to acquire new loans. A strong increase in Greek government debt was reported and raised fears amongst creditors on the ability to meet debt obligations. In December Greece admitted that the sovereign debts had reached 300 bn €. This was an all-time high caused by an increased government spending to encounter the weak demand after the world financial crisis which hit the shipping and tourist sector in Greece very hard. In January 2010 the Greek excessive deficit of 2009 was corrected from 3, 7% to 12,7%.

[2] When Germany crossed the deficit limit in 2003 the so called Excessive Deficit Procedure got initiated. This is a disciplining tool to enforce pressure on the states which breach the 3% border or 60% border. Germany and France exerted immense pressure on the other members to avoid a fine and achieved that Germany got away without a fine. This gives a special taste to the actual imposements on the crises states by the German government. Actually all major reforms since 2010 were initiated by the German government.

Figure 6



Source: Eurostat code teina200

The horizontal line shows the wrong published data as they were published before December 2009. It had to be corrected again to 13, 6% in April 2010, after the EU checked the Greek accounts. Now the Euro area crisis had its trigger. The wrong data rocked the trust in bonds and the market crashed. This was not only affecting the country but the whole currency area. Greece is not an independent state with its own currency, but a member of the Euro area. On the one hand Greece could expect support as a member of the currency area. A payment default would have hit banks within the Euro area which made the market even more nervous. On the other hand a bankrupt member of the Euro area would for sure raise a generalised mistrust against the credibility of the Euro area member states. This would have meant that the interest rates would have been raised for member states in a similar economic situation. The first lesson learned was the contagiousness of the crisis. One national crisis could trigger off a crisis in neighbouring states.

The agreed and allowed annual deficit in the EMU is 3%. Portugal, Spain, Ireland were as well expected to have serious debt problems. The reasons were different, but all of them were brought up during the crisis. Ireland banks struggled, Spain's real estate business crashed, and in

Cyprus the banks were damaged as they were hit hard by the Greek recession. The proposed value of the bailout-package to ensure liquidity of the Greek state developed within two months from 22 over 30 up to 110bn Euros. In November 2010 a bailout package of 85bn Euros was approved for Irish Republic. In December 2010 Portugal already was expected to be the next candidate for a bailout, but the EU denied this speculations. To reduce risk, to help the country in crisis and to initiate political reforms which would reduce indebtedness, the European Union decided on a guarantee for Greece which was bound to improving competitiveness and austerity measures. The partners within the Euro area collected loans and transferred it with a mark up to Greece. Greece was able to repay its debts, and the supporting member states made some money. But with this bailout the crisis was not solved.[3]

In 2011 the European Stability Mechanism (ESM) was set up. It can give out up to 500bn Euros in case one of the big economies will need a bailout. 200bn additional Euros were added for calming down financial markets. In May 2011 the rumours of December came true and Portugal received a 78bn Euro bailout. In this context the European Council decided to give out a second package of 109bn Euros to Greece. The opposing perspectives on the crisis management became obvious, when the Greek Finance Minister said, his country had been blackmailed and humiliated and a scapegoat for the EU´s incompetence. The bailout was foremost done to avoid a contagion among the other member States. Most of the Greek debts were owed by European banks or funds that were seen vital for the functioning of the European economy. In August the European Central Bank announced to buy Spanish and Italian government bonds. The political statements turned dramatic in September 2010:[4]

- *"dangerous new phase"*
- *"act now and act together"*
- *"create a firewall"*
- *"urgent action"*
- *"greatest challenge"*
- *"burning building with no exits"*

In October states, institutions and markets were extremely nervous. Greece received another 8bn Euro bailout, the G20 and the Euro area finance ministers' worked on a new

[3] A brief overview is offered by Dimopoulos (2013): Constitutional Review of Austerity Measures in the Eurozone Crisis Dimopoulos, Andreas, Constitutional Review of Austerity Measures in the Eurozone Crisis (September 3, 2013). Available at SSRN: http://ssrn.com/abstract=2320234 or http://dx.doi.org/10.2139/ssrn.2320234
[4] Summed up in a 2012 BBC report available here: http://www.bbc.com/news/business-13856580

financial agreement. The private banks accepted a 50% loss, the ESM was boosted to 1 trillion Euros and the banks were forced to raise a higher capitalisation to be protected against default losses. Under French-German leadership all member states of the EU agreed on a harsher treatise for breaking deficit rules. In fact only two states of 27 did fulfil the former deficit rules of 1997s Stability and Growth Pact. Ironically it was Germany which softened the rules to its own advantage in 2005 when it crossed the agreed deficit in the years before. Now, five years later it was Germany which imposed the harsher rules. The deficit was traced back to different causes. The Commission holds that since anno 2000 the States expanded the deficit even in upswings until 2007 (EC 2005, 2009). Taxes were cut while the expenses got increased. The Member States could have increased the tax revenue as the upswing gave a good opportunity. But with the downswing since 2008 the automatic stabilizer of social benefits had to cover the massively grown unemployment benefits, consumption dropped sharply and the production decreased which resulted in less taxes paid.

The budgetary cuts have far reaching implications. Pensions are reduced, pension age is increased, public spending is reduced, laws guaranteeing social benefits are breached, and many people loose their occupation. Increasing competitiveness and empowering the economy on the one side, and reducing sovereign spending on the other side are located between difficult and impossible. The population of the states with an ongoing Excessive Deficit Procedure (EDP) protests against the ongoing austerity measures. These are imposed by their own government in a trade off with the Troika[5]. But the only way to keep liquidity in these states is the money of the ESM. If the Troika demands further cuts, the governments need to act or they receive no money. This situation generates a feeling of being completely and utterly at the Troika´s goodwill. Germany is actually the most influential and most powerful member of the Euro area. A lot of the civil anger caused by the cuts is directed towards the German chancellor because of her central role in the austerity attempt to solve the crisis.

2012 began with a punitive downgrading of France and eight other member states by the rating agency Standard and Poor´s; as well the EFSF was downgraded. This downgrading was

[5] The Troika is the common label for the three part commission deciding on financial support for states in insolvency: ECB, IMF and European Commission

perceived as reaction of an unsatisfied finance industry.[6] Except the United Kingdom and Hungary all member states signed the new fiscal pact to limit the breaking of deficit rules. Two months before the Greek election a 325 million Euro austerity bill passed the parliament. The Euro area service sector shrank unexpected, the jobless rate hit an all-time high, but retail increased slightly with 0, 3%. Another bailout for Greek of 130 bn Euros got approved (2012). The borrowing cost for Italy increased from 2, 7 to 3, 9%; Spain paid an interest rate of 6%. Spain and Cyprus requested for a 100bn Euros bailout package to finance the bank bailouts. The program of unlimited buying of government funds by the ECB- called "Outright Monetary Transactions" (OMT) was announced. European leaders agreed on a new banking supervisory agent run by the ECB. This Single Supervisory Mechanism (SSM) is supposed to supervise 6000 banks (EC 2012). It stepped into action from 2013. In May 2013 the ECB lowered the interest rate on main refinancing operations by 25 basis points and that on marginal lending facility by 50 basis points. In September the European Parliament welcomed the plans for the SSM. This means that now one supranational institution supervises the private banks in the euro area. The ECB Governing Council decided, that:

> *"[…] the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.25%, 0.75% and 0.00% respectively(ECB 2014)."*

The Governing Council also decided to continue conducting the main refinancing operations (MRO`s) as fixed rate tender procedures with full allotment for as long as necessary and until at least 7 July 2015. It seems that the monetary policy hits ground and looses leverage as it can´t go much lower now. Keynes saw money supply as the primary tool of the monetary policy exerted by the Central Banks (Kromphardt 2013, p.150), but nowadays this opinion got replaced by opinion that the interest rate is the primary tool of monetary policy. But as the interest rate tends close to zero, the flooding of markets with liquidity is not getting more attractive, as the interest rate would be reduced e.g., from 3 to 2,75%. The ECB now tends to

[6] E.g. this excerpt from Standard and Poor´s statement from January 2012: "[…] in line with our published sovereign criteria, we have adjusted downward the political score we assign to France (see "Sovereign Government Rating Methodology and Assumptions," published on June 30, 2011). This is a reflection of our view that the effectiveness, stability, and predictability of European policymaking and political institutions (with which France is closely integrated) have not been as strong as we believe are called for by the severity of what we see as a broadening and deepening financial crisis in the eurozone. […]". Available here: http://www.standardandpoors.com/ratings/articles/en/us/?assetID=1245327295020

invent negative depositary interest rates which would be a strong disincentive to store liquidity outside business hours in the ECB[7].

Half of the Greek debt was dissolved in a hair cut. 200 billion € funds were exchanged against such with a value of only 93 billion €. The doubts that Greece will ever be able to payback his debts were still increasing. Another suggestion came from the German round table of the German industry by introducing Eurobonds for all states with an indebtedness reaching more than 60% of the GDP. This issue is not decided yet.

After all, the euro area crisis now was introduced to understand the broader setting for the leading research question. The combination of a

- Insecurity and mistrust in the banking system and the consequent credit crunch
- Surprisingly high indebted States expected to not payback their debts
- Financial help only against harsh budgetary cuts
- Reduced government spending
- Less investment in the real estate sector in some countries like Spain or Ireland

All these factors led to an overarching insecurity on the outcome of the crisis. Investment was risky because the European Union did not have a clear guidance, but was characterized by decisions that were dominated by the strong states. The automatic stabilisers probably dampened the decrease of consumption but as well increased indebtedness, as social benefits increased and tax revenue decreased. Private consumption as well suffered from increased saving rates.[8] Employment is strongly affected by the macroeconomic setting, so the next chapter addresses different macroeconomic views on this matter.

[7] Blackstone (2014): ECB Faces Uncharted Waters With Negative Deposit Rate

2 Keynesian Economics

The following chapter introduces Keynes General Theory, and the repositioning of other economists as post Keynesians economics (PKE) to hold up the essentials of the Keynesian revolution against a watering down of Sir Keynes heritage in the neoclassical synthesis, the new classical and the new Keynesian Economics (NKE). The overview of the different Keynesian interpretations will help to understand the actual macroeconomic policies in the European Union regarding youth unemployment. What it comes down to, is a clear picture of how the two rivalling theories of NKE and PKE agree and disagree. This will serve as a basis for understanding the European employment policies that lead the European Union through the recent crisis. Joan Robinson labelled some economists Keynesian bastards, to express that they misused the name and ideas of John Maynard Keynes. They had included some Keynesian pieces into the neoclassical ideology in an attempt of building a "more general" model. This chapter will give as well room for these approaches to enable a broad understanding of the crisis management and its economic foundations.

Before Keynes published his famous General theory, he developed some revolutionary thoughts. Money was in his time seen as a neutral instrument and still is for many economists. Keynes did question this. He began his argument by stating that entrepreneurs live up on the goal to have not a certain amount of a product, but look for the share in money they can achieve with it (Keynes, Collected Writings vol.29:82). He honoured Marx for having displayed this with his famous observation, that the fundamental circuit in capitalist economies in is not C-M-C. A commodity is being exchanged for money to obtain another commodity, but M-C-M in which Business is parting with money in a commodity to obtain more money: "*The firm [...] has no object in the world except to end up with more money than it started with." (Keynes, CW vol 29,81)* The point is that the level of production compatible with full employment can be unprofitable in terms of money. The fluctuations of income as well as employment are explained by the changing effective demand. The use of money is seen as a condition for fluctuations in effective demand. The characteristicss that define money are

- it cannot be part of the current production
- it maybe used in other way than purchasing output from the current production (Keynes, CW vol.29:81).

Now, if money was just a medium of exchange it would be neutral. Keynes concludes that money is affecting motives and decisions, that it can be kept to be spent later, and the behaviour of the owner is uncertain. He calls this a monetary economy (CW, vol.13:408). The existence of upswings and downswings is seen as a proof that money is not neutral, but affects behaviour and leads to unbalanced results. He therefore refuses the idea that the economic system is self-adjusting (CW, vol.13:487): "*The system is not self-adjusting, and, without purposive direction, it is incapable of translating our actual poverty into our potential plenty (CW, vol.13: 491).*"

2.1 Keynes General Theory

The 1936 published "General Theory of Employment, Interest and Money" is John Maynard Keynes most discussed and most read publication. Conservative American policy makers rated it in 2005 as one of the ten most dangerous books published in 19th and 20th century (Human Events 2005). Thinking out of the box is what characterizes Sir Keynes revolutionary works. The General Theory was written during the long lasting and devastating economic crisis which began seven years before the publication of the General Theory, when the stock exchange in New York crashed in the autumn of 1929. Industrial production collapsed, unemployment rose in Germany to 30%, in Great Britain to 22% and in the United States to 25% (Kromphardt 2013, p.66). The dominating economic school of thought was, according to Keynes, dominated by Ricardian thinking on supply as the key factor (Keynes 1936, p.18+24): *"From the time of Say and Ricardo the classical economists have taught that supply creates its own demand."*

Any change in employment would automatically lead to a new balance, as wages and prices were supposed to be flexible. In the harsh reality of the crisis, different than in the economic theory wages decreased, prices decreased - but the situation worsened. Economic theory proposed that in the long run full employment would return, if the workers would accept lower wages so it would be a new equilibrium between supply and demand. To wait and let the invisible hand do its job was the theoretically correct answer. Sarcastically Keynes pointed at the painful consequences of doing nothing: *"In the long run we are all dead (Keynes 1923)."* Doing nothing would not lead to Smith's postulate, that in the end everybody would be better of, if market forces were left free to act... However, the large majority of the population suffered from the persistent high unemployment and poverty spread.

In showing serious concern about the gravity of the situation Keynes and his opponent Pigou wrote a public letter with four other popular economists and demanded active state intervention. Like Reinert holds: "*[...] the Ricardian frame of mind creates counter-intuitive policy conclusions (2007, p.15).*" No surprise that a lot of Economists demanded state intervention but nobody was able to fill the theoretical gap. The economists of this time lacked an accepted theoretical framework supporting state intervention.

Instead of adapting the Ricardian solution via prices and wages, Keynes hooked up to Malthus (who sadly did not succeed in framing state intervention in a theoretically congruent conclusion) and began working on a theoretical foundation that focussed aggregate demand on goods and services. Kalecki worked successfully on the same problem, but his polish publications were not heard in the empire. As well England was a class of it´s own, and whoever wanted to be widely acknowledged went to work, research and publish in "Great" Britain. Keynes came from the point that there is no natural full employment (or just voluntary unemployment) in the case of equilibrium. But he pointed at a possibility to reach full employment. Keynes not only worked as an economist doing theoretical work, but engaged in economic policy. He knew the crucial point, where theory is confronted with real life. He criticised that economic theory, as beautiful it may appear, did not suggest solutions for real life struggles. As Keynes was already a popular economist, he was able to publish an open letter addressing the United States new elected President in 1933. He suggested Mr Roosevelt to increase aggregate demand within the "New Deal". The position of the former President Hoover was to balance the state budget and wait for an adaptation of wages and prices. This correlates to the actual austerity-centric position of the European council. The call for reducing wages, the reduction of social benefits and of taxes seemed to ignore how the Great depression was dissolved. To recall this, it is useful to highlight the main concepts in Keynes General Theory that changed economic and real world history.

Kromphardt (2013, p.68) emphasises four central statements in Keynes General Theory which are now introduced.

2.1.1 Effective demand determines employment

Keynes came from a neoclassical background and was educated under the strong influence of Marshall. In the neoclassical world supply determines demand because it is assumed that the aggregate demand price equals the aggregate supply price. So far things get along, but Keynes holds that this is independent from the level of employment and output. He denied the assumption that it is independent from the level of employment and output and turned it over. In the middle of the crisis he realized that the markets did not bring back employment with flexible wages. The people indeed preferred lower wages to unemployment, but entrepreneurs did not invest because spending less money on wages. The confidence for investing money was absent because investing is based on an expectation to make a profit with the investment. If the wealth owners do not expect to sell a product, they will not invest in its production. Keynes developed a new view on the problem. He left the classical wisdom and looked at the entrepreneurs spending decisions as key factors in the economy. According to Keynes the level of employment in an economy is determined from the aggregate demand for goods and services, which the producers expect to sell in the near future: *"The volume of employment is determined by the estimates of effective demand made by the entrepreneurs (Keynes, 1936[2008], p.45)."* Depending on this expectation they produce and employ workers. Decisive is the effective demand. It comprises the domestic demand for consumer and capital goods and the national exports. Keynes labels as effective demand what the entrepreneurs expect as aggregate income. Watching the curve of the aggregate demand function the effective demand is the point which correspondents the level of employment to the entrepreneurs expected maximum profit[9]. Keynes closes the third chapter of his General Theory with the sober statement that the neoclassical theory probably represents our economy as we wish it would be- all problems will be solved by good supernatural market forces, the invisible hand of a natural law. But the functioning of economy in the real world doesn´t follow this idea.

[9] Keynes (1936[2008]), p.33: "*Furthermore, the effective demand is simply the aggregate income (or proceeds) which the entrepreneurs expect to receive, inclusive of the incomes which they will hand on to the other factors of production, from the amount of current employment which they decide to give. The aggregate demand function relates various hypothetical quantities of employment to the proceeds which their outputs are expected to yield; and the effective demand is the point on the aggregate demand function which becomes effective because, taken in conjunction with the conditions of supply, it corresponds to the level of employment which maximises the entrepreneur's expectation of profit.*"

2.1.2 Investment determines savings

Secondly investment determines aggregate income and savings. If the difference from the interest rate to the expected profit is positive, the wealth owner may spend in production capacity. But the dependency on expectations makes it an unstable and unreliable factor:

> *"In the case of durable assets it is [...] natural and reasonable that expectations of the future should play a dominant part in determining the scale on which new investment is deemed advisable. But ... the basis for such expectations is very precarious. Being based on shifting and unreliable evidence, they are subject to sudden and violent changes (1936, S.315)."*

The fluctuations of demand for capital goods impact deeply the determination of the level of employment. As the decreased demand for capital goods influences income and private spending, the aggregate gain/loss in income and production is larger than the original increase/drop in demand for capital goods. This process of multiplication was first analysed by Kahn (1931), and Keynes made it a substantial part of his theory. Says assumption that the interest rate is determined by savings and investment was refused by Keynes. According to him the interest rate is determined by the demand and supply of money on the money market. Supply depends on the behaviour of the central banks, while demand tracks on the liquidity preference of the enterprises and households, and from the private households foremost the gentry class wealth owners. As well the strong and fast fluctuations of yield expectations exceed the possibilities of being compensated by the variation of the interest rate (Kromphardt 2013, p.68 pp).

2.1.3 Flexible prices and wages do not change this context

The third central statement holds that flexible wages cannot equal or balance the floating investments in capital goods and in consequence the floating of employment:

> *"There is no ground for the belief that a flexible wage policy is capable of maintaining a state of continuous full employment ... The economic system cannot be made self adjusting along these lines (Keynes 1936 [2008], p.136)."*

Flexible wages and prices cannot stabilize expectations, investment and in consequence employment. The opposite is true –wage and price rigidity give at least some stability in prospecting an uncertain future. The mainstream authors attributed the rigidity of wages and in consequence unemployment to the resistance from trade unions and workers against lower wages. But the neoclassical explanation of unemployment is questioned by Keynes: even if total flexibility was achievable, there would still be unemployment. This is an important point, because he disentangles the question of employment from wage rigidity: *"The reduction in money-wages will have no lasting tendency to increase employment (Keynes 1936, p.129)."* The point is, it doesn´t matter if the quantity of money would be increased or the wages would be reduced. In each case, with the other factor given as constant, the only change is that the distance between the two units increases. And investment won´t be increased because of a higher quantity of money or a lowering of wages. And the intensity of the effect will depend on the expectations of the relevant agents. As Keynes argues, only the faith in an increase of the marginal efficiency of capital would lead to more investment. The concept of marginal efficiency is defined by Keynes in chapter 11 of his General Theory:

> *"The rate of discount which would make the present value of the series of annuities given by the returns expected from the capital asset during its life just equal its supply price (Keynes 1936 [2008], p.68)"*

From Keynes point of view the investment decision depends on the difference between interest rate and expected yield of the investment.

According to Keynes the fluctuations in wages, in his chapter 19, influence the effective demand in several ways, so the result is largely indetermined, while some effects may further employment others may have a negative impact, but the effect of flexible wages on the level of employment is not predictable. Lowering or increasing wages in such a perspective doesn´t lead to stable investments or increased investments.

2.1.4 State intervention is needed

Keynes demanded a different economic policy. As there is no endogenous mechanism to stabilize investment fluctuations, Keynes takes it down to the point. As the market is not tending to balance itself it needs to be balanced. Monetary policy alone is not able to fulfil this as flooding markets with cheap money is not changing the expectations in demand for goods. His famous open letter to the newly elected American president pictured this humorous: *"Some people seem to infer from this that output and income can be raised by increasing the quantity of money. But this is like trying to get fat by buying a larger belt (Keynes 1933)."*

Supplying a large belt can be helpful, but it´s not the key feature! Keynes doesn´t support to lean back and watch the market balance again while employment diminishes. He holds that the state needs to influence the fluctuations of investment. As the monetary policy has its limits, he demanded state intervention to increase demand. Risen demand leads to positive sale expectations and more employment. Many other economists demanded this, but Keynes was the one who invented a theory that a) was broadly received and b) produced policy conclusions on basis of a consistent theoretical framework.

He prefers the capitalistic system *sine per non* because of its advantages in efficient allocation of resources driven by the egoistic forces and decentralised decision-making. As a complement to monetary policy Keynes added fiscal policy to offer incentives for investors as well as consumers:

> *"If capitalist society rejects a more equal distribution of incomes and the forces of banking and finance succeed in maintaining the rate of interest somewhere near the figure which ruled on the average during the nineteenth century [...], then a chronic tendency towards the underemployment of resources must in the end sap and destroy that form of society (Keynes 1937)"*

Keynes also claimed that the interest rate should be lowered to a level that would promote the "euthanasia" of the rentiers – a class of wealth owner that he absolutely despised.

2.2 The political function of unemployment

In 1943 an author with an Marxian background lead his readers to a different observation about the possibility of full employment. Kalecki questions that the influential established social powers like the industry or banks, will accept that their importance could be reduced if the state will secure full employment through government spending. Kalecki holds that most of the economists of his time believed that full employment was achievable. He wonders why entrepreneurs longed for the end of a slump but rather disliked state intervention to leave a slump. He thought of three reasons:

- The dislike of state intervention in the problem of employment as such
- The dislike of the allocation of government spending
- The dislike of the resulting changes in society and power relations

For sure Kalecki hits a spot when claiming that the "captains of industry" enjoy and protect their influence and position. As Keynes pointed out, the investment largely depends on the entrepreneur's expectations and thus the creation of employment does. As such the entrepreneurs are in a key position. The indebtedness of the states may jeopardise sound budgets and rock the state of confidence. As well a subsidising of mass consumption would oppose the protestant ethics of hard work. And at least a permanent status of full employment would give employees the option to demand better working conditions and higher incomes. Discipline in the factories would depend on negotiations and respect, not on pure power. Kalecki thinks that lower profits are easier to bear than political stability and discipline in the work places.

What it comes down to is that a situation of full employment would lead to a massive loss of control for the entrepreneurs and strengthen the employees. A possible inflation would affect rentiers who would revive lower interest. And with full employment the price level is more likely to increase than if there is a certain level of unemployment. Just like the actual austerity measures impact the European policies, Kalecki prophesied a return to orthodox policies of cutting down the budget deficit (p.330) which clearly disliked because he argues for full employment. Kalecki emphasises that Government spending only should cover needed investments like the education system. But the rest of Government spending should be devoted to maintain full employment through family allowances or old age pensions or less taxation. The Government would fulfil its mainrole: Increasing the standard of living of the population.

2.3 Neoclassical synthesis[10]

Soon after the publication of the General Theory Hicks took up the ideas and searched a way to embed Keynes ideas into the classics. The most influential and well-known contributors among the Synthesis Keynesians are Hicks (who first designed the ISLM model), and after him Modogliano (and his "Keynes effect") and Patinkin (and his "Pigou effect"). There ideas were popularized by Samuelson, who 30 years later labelled as neoclassical synthesis the combination of *"[...] modern principles of income determination and the classical truth (Samuelson 1967, p.581)."*

Samuelson proposed that Keynesian monetary and fiscal policy could be useful in times of underemployment to bring back the economy to a status of full employment, in which then the neoclassical principles would be applicable. He argued that in a status of full employment the available resources (=supply) limit the production and not aggregate demand. In this sense

[10] As well known as Neo-Keynesian Economics, not to be confused with New-Keynesian Economics

Samuelson proposed a synthesis of the two theories. Use state intervention with the tools of monetary and fiscal policy to rebalance market failure in the short run, but let the market rule again when the economy reached full employment again. It is an attempt to combine the advantages in both theories. But it is very contradictory. Demand-led policies are only suitable in recessions. In this situation demand turns out to be effective and investment per indebting the state budget is useful to get economy started again. But as soon as economy is balanced, the supply side rules again. Saving now is the anchor for investment. Samuelson was really puzzled with Keynes idea that saving is useless in a recession and blessed the neoclassical synthesis to have opened a way out of such a dilemma: *"[...] does finally validate the important classical truths and vanquish the paradox of abortive thrift (Samuelson 1967, p. 581).*

As Keynes came from a neoclassical education, and found a path out of this thinking "in a box", the Synthesis Keynesians tried to lead his insights back into the box and integrate his ideas without harming the theoretical concept of the markets auto adjustment. So, what was the crucial point in this? Keynes opened the discussion on flexible wages and prices with the statement, that: *"[...] the classical theory has been accustomed to rest the supposedly self-adjusting character of the economic system on an assumed fluidity of money-wages (Keynes 1936 [2008], p.127)"*

This statement was tried to be neutralized in a second wave of the neoclassical synthesis e.g. Modigliani in 1944. The Keynesian model of IS/LM curve was knit into a strictly neoclassical labour market. Flexibility is at the heart of the neoclassical model. To reintegrate Keynes heretical proposals the liquidity trap was accepted as a special "Keynesian Case" in which he submitted a solution to get economy back on track:

> *"There is one case in which the Keynesian theory of liquidity preference is sufficient by itself to explain the existence of underemployment equilibrium without starting out with the assumption of rigid wages (Modigliani 1944)"*

But in this much reduced perception the author deliberately ignored Keynes enlightenment moment. According to Kromphard (2013) the diminishing of wages in consequence of unemployment is accompanied by the Pigou-effect and the interest rate effect (Kromphardt 2013, p. 118). But even though these two are taken from Keynes 19^{th} chapter of the General theory, it is based on the assumption of flexible wages and prices. So, Keynes argument is used under preconditions that are refused by him in his general statement. The neoclassical synthesis spread among the mainstream economists with the assumption that Keynes founded his call for state led fiscal and monetary policies on the assumption of rigid wages and prices.

2.4 From Heterodox To Post Keynesian Economics

When the neoclassical synthesis entered the stage in the economic discourse, many heterodox economists disliked the attempted (and broadly successful) usurpation of Keynes into the neoclassical canon. Within a few years some heterodox economists developed what now is recognized as the Post-Keynesian economics. Harcourt gives an intense overview and explains that the Post-Keynesians are like a church with a broad variety of views. But he outlines there share: *"Hostility against the mainstream neoclassical economics and methodology, IS/LM-Keynesianism and the "fix-price" Keynesianism of the New Keynesians […] (Harcourt 2006, p.2)"*

Lavoie introduces the Post-Keynesian approach which offers a strong theoretical foundation and gives an overview with a personal note in his well known text (Lavoie 2006, p. Xiii). The Post-Keynesians are presented as part of the heterodox economics. Robinson, Kaldor, Kalecki and Sraffa are considered as prominent representatives. Lavoie contrasts heterodox economics from neoclassical theory. In particular this is distinguished along the following quinquepartite enumeration:

I. Realism versus instrumentalism. The first category is the contradiction from neoclassical instrumentalism to heterodox realism. The neoclassical hero Friedman and his companions establish their argument on a theory that is not justified by depicting reality but endogenous logic. How is this Instrumentalism justified even though it hardly matches with the observation of reality? What makes it so appealing to economists? Is it the precision in determining future developments within the endogenous system? What are the scientific arguments that make it a useful tool? Lavoie highlights two points. First it is allowing accurate predictions and second it is enabling to calculate a new equilibrium. Theories are seen as tools or instruments of analysis. The paradigms which are taken for granted match with the neoclassical theory and override reality. It seems that mainstream economics predicts precisely what will happen, whereas heterodox economics stay less accurate but depicts reality.

II. Organicism versus individualism. Neoclassical theory puts the economic individual at its starting point. The heterodox approach emphasizes the social being which is connected and influenced in its networks (Organicism). Especially institutions are recognized as important and influential.

III. Procedural rationality versus substantive rationality. The neoclassical agent possesses substantive rationality. He obtains *quasi* unlimited knowledge and ability to calculate economic outcomes. In contrast, heterodox economists hold that rationality is procedural. The available information is often assessed insufficient, and decisions are based on expectations about the future. To stabilize and secure decisions, norms are set; emulation is applied and social control guides decision-making. This is seen as an adapted answer to the uncertain and complex environment (Lavoie 2006, p.7-9).

IV. Production and growth versus scarcity and exchange. The exchange is the anchor point of neoclassical theory. Heterodox economists instead enhance production. Efficient allocation is not the core of heterodox economics as they do not believe in a natural situation of full employment by market mechanisms: *"What is emphasized among post-Keynesian economists is the degree to which these resources are utilized(Lavoie 2006, p.10)"*

V. State intervention versus free markets (Lavoie table 1.1). Neoclassical's defend their theories as being free from ideology. The markets are seen as naturally balanced by the inherent market mechanisms. The mechanisms always give a tendency to optimal results, if real world imperfections would be removed. Regulation of the market thereby is seen as such an imperfection, explaining suboptimal results. Intervention is a necessary evil, as states need to guarantee the protection of private wealth. But the state intervention should give the market mechanism as much space as possible. What follows from the foregoing is a well known and often used argumentation: In the short run state intervention can correct market failure caused by imperfect conditions or other externalities, but in the long run state intervention will hinder the market mechanism to achieve optimal results. Hence they favour laissez-fair regime, less regulation and free markets. The heterodox economists *"Question the efficiency and fairness of market mechanisms, as well their assumed existence (Lavoie, 2006, p.12)."*

Free markets are seen as impossibility as they cannot regulate themselves. A situation of pure competition will be transitory and lead sooner or later to oligopolies or monopolies. To encounter unhealthy developments the state is the one to intervene. With regard to the recent crisis this counts especially for the financial markets that shook the world. In addition to regulated markets the regulation of aggregate demand is crucial.

From these general heterodox views Lavoie highlights two outstanding characteristics of the Post-Keynesian economics, which set it apart from the other heterodox theories. Overarching stands the principle of effective demand which is applied in short and long run. Second is the consideration of historical time in the construction of his theory. Five other characteristics are auxiliary to these two core characteristics. The following table stems from Lavoie:

Figure 7

	Essential features
Effective demand	The economy is demand-determined both in the short run and the long run; supply adapts to demand. At all times, it is investment that determines saving, rather than the converse.
Historical and dynamic time	We must always consider the transition from one position to another, and recognize that the conditions under which this transition occurs may affect the final position of equilibrium.
	Auxiliary features
The possible negative impact of flexible prices	Because of income effects, price flexibility may worsen the situation that it was meant to correct.
The monetary production economy	Models must recognize that contracts are denominated in money; that firms have debts and households have assets that may impose considerable financial constraints.
Fundamental uncertainty	The future is necessarily different from the past. The future is unknown and unknowable since decisions taken today will alter the way the future looks.
Relevant and contemporary microeconomics	Post-Keynesian microeconomics rests on decisions of a lexicographic nature and on inversed L-shaped cost curves (see Chapter 2).
Pluralism of theories and methods	Reality can take several forms. As such, there are a number of different methods as well as economic theories that may appear to rival one another.

Source: "Main features of post Keynesian economics beyond the presuppositions of heterodox economics" (Lavoie 2006 p.15)

Post Keynesians refuse that in the long run demand is constrained by supply. Effective demand is in this way always applicable. What it comes down to is that the supply side adjusts to the demand side. The heterodox economics request thereby asks for an economic policy which is increasing demand. As well it is believed that investment determines saving and not the other way around. Investment depends on the future expectations of rentiers and entrepreneurs, not on the savings.

The second important key feature is the acknowledging of historical time. Any long run position is the result of a cascade of short-period positions. Harcourt emphasises this second characteristic with Kalecki´s statement (Harcourt (2006), p.62): *"In fact, the long-run trend is only a slowly changing component of a chain of short-period situations; it has no independent entity (Kalecki 1991, p. 435)."*

It is not like in the neoclassical assumption of logical time assuming an instant shift from equilibrium to equilibrium that is even reversible. By changing a parameter a curve may shift. But in reality this takes time. And, in a world with historical time, there is a privileged room for expectations, which are crucial for the determination of the key variables of this analytical system. Since Post-Keynesians emphasise historical time, the economic policies are very relevant for the final equilibrium position. Because of this long period is entangled to the path leading there. Nowadays this logic is used in non-linear mathematics. In the end this leads to the option of multiple equilibria positions.

As minor aspects of Post-Keynesian economics are presented the following issues.

Price flexibility incorporates instability and may enforce decreasing investment. Flexible prices are not seen as way to further economy, rather income effects are highlighted. Investment decisions will suffer from to much price flexibility which makes investors insecure if their expectations will be met.

In face of a fundamental uncertain future Keynes speaks of liquidity preference. Companies or investors follow their so called animal spirits[11]. When they sense some sort of

[11] According to Ingo Barens presentation at the 2014s annual meeting of the Keynes society, this has nothing to do with animals but refers to the frame of mind. He refers to Descartes, who used the word spiritus animalis to describe the living spirits, sensory perception or a puff of wind. It means unconscious mental happenings. Newton and Hobbes as well used this term. It was expected that inside of the human being some sort of sensory circle is working. This was referred to the senses. When Helmholtz in 1850 measured the transmission speed of nerves, the concept of spiritus animalis was falsified. From this time on it was only used in a metaphorical sense. In a study note of Keynes from his first semester in 1902 Ingo Barens cited the following sentence: "The body is moved by animal spirits, does this increase the amount of motion?" For further information please contact Prof. Ingo Barens via the German Keynes Society.

danger, they prefer to have a higher liquidity to react on changes more flexible. This stands in contrast to the neoclassical concept of probabilistic risk. The Post-Keynesians build their concept on the observation of non-ergodicity of the reality and refuse statistical analyses and econometric studies as a means of achieving absolute knowledge about the future

Davidson has to be quoted here: *"It is better to be roughly right than precisely wrong (Davidson (1984), p. 574)."*

The fundamental uncertainty may lead to nihilism. But Heiner holds that agents and institutions prefer to continue their behaviour when confronted with changes until they received proper information (Heiner 1983).

The last two points won't be further highlighted, as they don´t relate to this Thesis.

In his fourth chapter Lavoie focuses on the short period. In relation to this Thesis, which investigates the European Labour Market Policies, this chapter offers some valuable information. The chapter asks from a Post-Keynesian perspective how effective demand impacts the labour market. Positive expectations on demand fuel investment and in consequence the demand for labour increases as well, if not eaten up by productivity gains. As Kalecki is quoted demand depends on autonomous expenditures (capitalist consumption and investment) and workers wages, which equal their consumption. Lavoie finds that Kalecki has had an approach which is more Keynesian than Keynes writings, because Keynes came from a Marshallian school of thought and tried to pickup his colleagues in their state of mind and led them carefully to his new vision of Economics. Maybe it seems contradictory, but Keynes was not the only one thinking Keynesian. In fact, Kalecki was publishing the same core thought before Keynes, but his polish writings were not perceived in Great Britain. As well Keynes was part of a network of friends and competitors, which were part of the development what nowadays is reduced to the name of a single person. Acknowledging that there were many people working on Effective Demand, Keynes may be the winner who takes it all, but as well Harrod, Robinson Kaldor and Sraffa contributed to this new macroeconomic theory. Kalecki came from Marx and was basically unencumbered from the neoclassical British Economics. To conclude on Kalecki in one sentence: The Kaleckian model highlights the importance of the income distribution for the determination of the aggregate income and employment.

I want to conclude on Post Keynesian Economics with Joan Robinson: *"To me, the expression post-Keynesian has a definite meaning; it applies to an economic theory or method of analysis which takes account of the difference between the future and the past (Robinson 1978, p.210)."*

2.5 From New Classic Macroeconomics To New Keynesian Economics

The New Keynesian Economics are a response to critiques on Keynes by the New Classic Macroeconomics (NCM) which are based on strictly neoclassical foundations. Walras is coming from the all-time classic of auto-correcting market mechanisms to optimize resource allocation. His famous Walrasian law underpins the idea of general equilibrium[12]. Price stickiness and imperfect competition are questioned. Well known contributors to the NCM are Robert Lucas and Edward Prescott. Coming from the neoclassical foundations, the individuals are seen as rational optimizers. This counts for firms as well as for workers. Lower wages are accepted by workers because someone else will take their place if they don´t and because the wages offered correspond to their marginal productivity. And firms would give away higher profits if they did not lower the wages. This assumption refuses involuntary unemployment as it would require non-rational behaviour. Demand side policies are seen as an obstruction of market mechanisms, leading to unemployment because flexibility of prices is hindered. Fundamental tenets of the NCM are the optimizing individual and the flexibility of prices and wages (Hoover 2008).

In the 1970s stagflation led to critical questions on demand-side policies. According to the popular Phillips-curve it should not come to high unemployment and high inflation, but always to a trade off between these two. The New Classical Macroeconomics now attempted to develop macro models based on Microeconomics. Lucas (as well Thomas Saregent and Robert Barro) hold up that equilibrium appears when quantity supplied equals quantity demanded, and this implicated no existing involuntary unemployment. Market failure or irrationality would be a condition for involuntary unemployment, but these preconditions are seen as a problem of Keynesian policies (Hoover 2008). The state intervention by Keynesian demand led policies was seen as a problem that disabled the markets auto balancing ability: *"Employed workers should*

[12] Walras claims that if n-1 markets are balanced, markets will be balanced. Instantly balanced! In such a perfect market supply and demand are always equal. For example, when there is an excess supply in the financial market, then there must be an excess demand in another market like the oil market. According to Walras the markets have flexible prices and perfect foresight. Because of it every participant knows what´s the best economic solution for the distribution of wealth. Adaption is not needed as exchange follows the price setting (Caspari 1989).

not be able to resist such wage cuts effectively since the unemployed stand ready to take their places at the lower wage (Hoover 2008).”

Friedman questioned before the stagflation the existence of Philips curve and instead suggested a natural rate of unemployment which described the structural and frictional unemployment, when resource and labour market are in equilibrium. The stagflation weakened the Keynesian´s reputation. On the contrary the stagflation fuelled Friedman´s proposal and made it very popular (Krugman 2009).

John Muth argued that the outcome partly depends on what people expect to happen. And it is estimated that rational expectations anticipate the results on the market. This forms an argument that Keynesian policy is useless (Sargent 2008). Because if unemployment is tried to be reduced by the central bank through a low interest rate, then nominal wages will be increased because a higher inflation rate is expected. The nominal wages will be increased to avoid income losses in the real wages. In turn unemployment is expected to stay unchanged. By this the NCM turns a deaf ear on Keynes vigour for monetary and fiscal policy as a mean to increase employment. With this argument the New Classical Macroeconomics found its thought-terminating cliché to take down counterarguments. Lucas´s critique was accommodated and modern models try to take into account rational expectations and the reaction of the public.

Mankiw and Romer brought up the label “New Keynesian Economics” -NKE and encountered this development (Mankiw, Romer 1991). First I will quote from Mankiw´s own point of view, then I will contrast it to Lavoie´s perception of the NKE.

The adjustment of prices ands wages is perceived different in the NKE than in the NCM. NKE doubt the market clearing models of rapid adjustment per flexible prices and wages in the short term and in return claim the stickiness of wages and prices. This is seen as the explanation for existing involuntary unemployment (Mankiw 2008). Overarching stands the principle of effective demand which is applied in short and long run. Prices are seen as responding sluggishly to changing money supply. Mankiw no further explains the connection to Keynes, but leaves this explanation on slow adjustment of prices without further linkage to the students of his book. He highlights six points (Mankiw 2008):

I. Menu costs and aggregate demand externalities

Prices do not adjust immediately to clear markets because adjusting prices absorbs resources like working time. These costs for changing prices are called “menu costs”. Firms therefore adjust prices intermittently rather than continuously. But menu costs are very small. Still Mankiw holds they can have strong effects on the economy as a whole. A change of prices has external implications and effects - called externalities. When a price is lowered, this lowers the average price level slightly and simultaneously real income increases. As workers spend all what they have, the aggregate demand increases. This expected minimal macroeconomic effect from a single firm on the whole economy is described as “aggregate-demand externality”. Given such an aggregate-demand externality, price adjustment is costly and because of this not continuously. Small menu costs can make prices sticky. Mankiw expects as a result higher cost for the whole economy.

II. The staggering of prices

Firms are concerned about the prices of the competitors, because accelerating prices can cause a loss of customers. As the companies’ don´t adjust their prices synchronized it can be dangerous to raise the prices even if the unit cost got increased. The price adjustment always has to take into account the pricing of the competitors and this makes the adjustment of prices slower and diffident.

III. Coordination failure

If a single company adjusts its prices, it faces uncertainty how the competitors will set their prices. First because this happens in the future, second every company has a differing calculation. The actions of other wage and price setters need to be anticipated. Depending on the firms decisions the outcomes influence other companies, their possible sales and profits. An aggregate–demand externality can lead to more effects on the outcomes. There are multiple equilibria possible. The inferior outcome is an example for a coordination failure. But the coordination is difficult as the number of firms setting prices is huge. Mankiw closes: *“The moral of the story is that even though sticky prices are in no one’s interest, prices can be sticky simply because price setters expect them to be.”(Mankiw 2008)*

IV. Efficiency wages

Theories on efficiency wages hold that high wages make workers more productive.

A higher wage can help the company to have a lower labour turnover, higher average quality of workforce and a higher effort of the workers. This is used as an argument why companies hesitate to reduce wages.

V. A new synthesis

The 1990s brought up a debate between new Classical and new Keynesian economists. How could they explain short-run economic fluctuations and the role of monetary & fiscal policies? The new classical model contributes modelling tools for understanding how households and firms make decisions over time. The new Keynesian models bring in price rigidities and explain why monetary policy affects employment and production in the short run. It is assumed, that monopolistically competitive firms change prices only intermittently:

> *"Economy is a dynamic general equilibrium system that deviates from an efficient allocation of resources in the short run because of sticky prices and perhaps a variety of other market imperfections."(Mankiw 2008)*

VI. Policy implications

Overarching the new Keynesian economists agree —in contrast to new classical theories—

> *"[...] that recessions are departures from the normal efficient functioning of markets. The elements of new Keynesian economics—such as menu costs, staggered prices, coordination failures, and efficiency wages—represent substantial deviations from the assumptions of classical economics, which provides the intellectual basis for economist´s usual justification of laissez-faire. In new Keynesian theories recessions are caused by some economy-wide market failure. Thus, new Keynesian economics provides a rationale for government intervention in the economy, such as countercyclical monetary or fiscal policy. This part of new Keynesian economics has been incorporated into the new synthesis that has emerged among macroeconomists. Whether policymakers should intervene in practice, however, is a more difficult question that entails various political as well as economic judgements." (Mankiw 2008)*

In Lavoie´s "Introduction to Post-Keynesian Economics"(2007) three main strands among the Economists claiming to be New Keynesians are identified. As a first strand he names the people believing that the stickiness of nominal variables is some sort of imperfection which amplifies economic fluctuations. A second strand is identified explaining stickiness of real variables by pointing at the problem of asymmetric and imperfect information. The third strand is labelled post-Walrasian by Colander, and the problem of coordination is in the focus, as well it questions the existence of a natural rate of unemployment. What it comes down to, Lavoie highlights in a short sentence:

> *"For post-Keynesians, effective demand is both dominant and crucial, whereas for new-Keynesians aggregate demand is usually exogenous; constraints mainly appear from the supply side."(Lavoie 2007)*

When it comes to the explanations given to unemployment, there is unemployment because the real wage is to high (above the marginal productivity of labour at the level correspondent to full employment), and non-flexible. The explanations to the stickiness of real wages are basically (1) the already mentioned efficiency wage theory; (2) The inside-outside model: workers who are inside the labour market and unionized negotiate wages that leave others workers unemployment and (3) Implicit contracts, in which workers prefer to earn a stable wage that will bring unemployment in a "bad state" of the economy.

Therefore, macroeconomic policies may have some effect on the demand for labour in the short term, but the issue of unemployment cannot be solved without measures of flexibilisation of the labour market so the wages adjust themselves.

2.6 Contrasting NKE and Post-Keynesian view

Keynes established macroeconomics with monetary and fiscal policies. Even though he stems from Marshallian roots, he disentangled himself from the automatic mechanism to achieve full employment. He highlighted the concept of money being not neutral but influencing decisions because of its special character as a store of wealth and its perfect liquidity. He discovered the impact of effective demand on employment, he argued convincingly that investment determines saving, and that even a perfect flexibility of wages and prices couldn´t guarantee full employment:

> *"There is no ground for the belief that a flexible wage policy is capable of maintaining a state of continuous full employment [...] The economic system cannot be made selfadjusting along these lines"(Keynes, 1936, S. 267).*

He kept up that there is the need for state intervention.

The Neoclassical Synthesis tried to merge fire and water. Demand-led policies were expected to be suitable in recessions. It is found in most of the online dictionaries and economic standard books. In the short run, and given an economic slump, the state must step in to pull economy back on track, but in the long run the markets will balance themselves and state intervention is a cause for imbalances. In this situation demand turns out to be effective and investment per indebting the state budget is useful to get economy started again. But as soon as the economy is balanced, the supply side rules again. Saving now is the anchor for investment. This attempted synthesis shows very clearly the difference between the classical foundation and Keynesians. May it be the key factor of supply or demand, may it be the saving or investment determining the other one.

Post Keynesian Economics emphasise effective demand and realism within Keynes heritage. In contradiction to the neoclassical synthesis they argue that investment always determines saving. Effective demand determines supply in the short and the long run. The Post Keynesians hold that demand matters whether it is kept high by private or state led investment. The other main factor is the fact that time is to be treated historically. What happens during the transition to the latter equilibrium matters because the conditions of the transition influence the outcome.

The new Classical macroeconomics refuse involuntary unemployment as it would require nonrational behaviour. Demand side policies are seen as an obstruction of market mechanisms, leading to unemployment because flexibility of prices is hindered. Fundamental tenets of the NCM are the optimizing individual and the flexibility of prices and wages.

The New Keynesian Economics with Mankiw in front labelled themselves Keynesian because they respected the reality of sticky prices and wages. The market imperfection and the resulting problems are seen as caused by the stickiness of prices and wages. The stickiness is explained with microeconomic reasons. Imperfect information and the coordination of price changes are emphasized. The NKE rest on the neoclassical foundations and refuse Keynes assumption that the markets do not naturally and fast tend to swing back into equilibrium.

What it comes down to, with the view on European Youth Employment policy, is the simple question, if state intervention is favourable only in the short run or even in the long run? As well it is a question if supply or demand side policies are seen as helpful for the functioning of markets like the labour market, goods market or financial market. Are the markets expected to work when they are back on track, and should the state intervention focus after the recession on a maximization of labour market flexibility? Keynes drew a redline which works really well and the New Keynesians clearly stand on the other side. Keynes emplaced demand to supply, investment to saving, macroeconomics to microeconomics, the role of the state to the individual, the production to the trade, the uncertainty to the predictability, the tendency to imbalanced market (Keynes, PK) to the perfectly balancing market (NKE). Basically a post Keynesian view will aim at increasing the aggregate demand to stimulate investment and job creation; a new Keynesian view will aim to flexibilize the prices and wages to make workers accept lower wages.

3 Three policy levels impacting low skill youth unemployment

The employment prospects for low skilled youth are decisively influenced at three levels:

- The macroeconomic policies (monetary and fiscal) are demand-side oriented
- The labour market policies are supply-side oriented
- The skill related policies are supply-side oriented

This research is tracing on these three levels the influence of post Keynesian and new Keynesian thinking. From a European perspective we find three main periods with overlapping dates:

- 1997- 2007 further named “Pre crisis”
- 2007 -2009 further named “Financial crisis”
- 2009- today further named “Euro area crisis”

The chapters will follow this periodization to keep the analysis simple. The first period is characterized by an economic recovery and upswing. The second period is marked by a high credit risk from July 2007 until July 2009 and high interbanking insecurity as the US decided to let Lehman go bankrupt and financial instability peaked. The third period is labelled with the increased sovereign debt and the austerity measures in the euro area.

3.1 Monetary and fiscal policies

Pre-crisis period

At the end of the pre crisis period the European Commission gave an overview on the monetary and fiscal policies in its 2006 economic report to the main institutions of the European Union. It refers to the last years and as well gives an outlook of what was expected to happen in the near future. It is showing the situation before the crisis and mirrors the first period.

At the monetary side some signs of risk in the real estate market were recognized. The ECB´s main policy rate (minimum bid rate) stood at 2,75, which was at that time a slight increase as it was at 2,0 since 2003. Money was cheap and long-term interest rates reached levels as in the heyday of the gold- standard. The spreads between low-risk and high-risk investments dwarfed, and the search for yield was recognized as possible source of misallocation (EC 2006). The ample liquidity was marked as an inflationary risk as M3 accelerated in 2005. Private-sector credit growth, loans to households for house purchase and loans to non-bank financial institutions were at their highest levels since 2001. The average inflation rate was around 2%, and spread within the Euro area members between one and three percent. In the 1980s it was still 7%, and above 4% in the early 1990s.

A very low real wage growth and the following lower real unit labour cost were welcomed without critical statement. A continued moderation of wage increases was labelled essential to reduce inflationary pressures. The economic recovery could be jeopardized in the eyes of the Commission if wages increased in pace with the increased profits. As well the persistent high unemployment of 8% was used as an argument to wage moderation for allowing employment growth (EC 2006, p.17). It led to imbalances and weakening demand for consumption goods.

The excess liquidity was expected to feed asset price bubbles and subsequent busts. This point is interesting as exactly this problem occurred in the Californian real estate market in 2007 and triggered off the global financial crisis. This potential risk was claimed to be closely monitored. The price level was expected to increase for the equity and housing prices, even though globalisation was expected to hold down the price level in general. As well the three interest hikes of the ECB were expected to be continued with two or three more up to 2007 (EC 2006, p.18).

The fiscal policy in 2006 was prevailed by the call for fiscal consolidation. But in fact it was only a call as the European Commission was mourning about the lacking household discipline during the upswing because fiscal policy is not decided by the Commission but the individual member states. The only lever available was the Growth and Stability pact, which was signed by all Euro area member states. But as history proved -even if this agreement got violated it didn´t mean punitive consequences for the breaking of agreed rules. Judge and defendant was the same subject.[13]

[13] Germany was able to escape such punishment, even though it violated the agreement for years. The agreement stated that no member of the Euro area was allowed to pass the limits on government deficit (3% of GDP) and debt (60% of GDP); and in case of having a debt level above 60% it should each year decline with a satisfactory pace towards a level below.

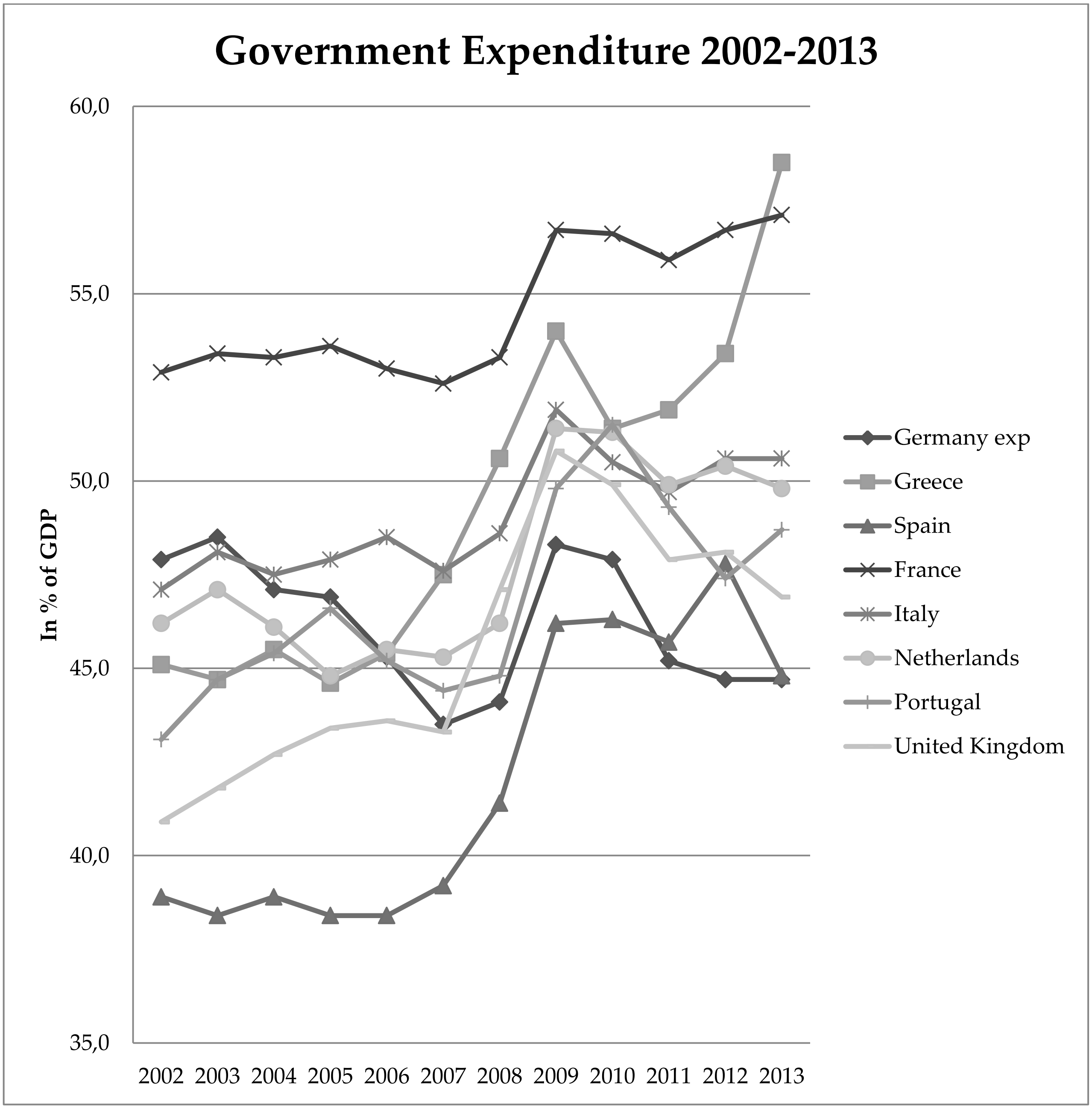
The Commission held that public finances represent half of the economy in the Union and the spending should be directed to growth-enhancing items. As the reality was far from the agreed contents in the stability and growth pact, a reformed pact introduced medium-term budgetary objectives (MTO´s) to offer smaller steps towards fiscal consolidation. The member states were required to set these objectives to achieve progress by implementing yearly budgets. As the future was expected to surge in public expenditures, the fiscal consolidation was emphasised to prepare for the future challenges. The fiscal policy was valued for its supportive effect of economic growth. The automatic budgetary stabilisers[14] were seen as useful in the downswing from 2001 until 2004. The fiscal consolidation was supposed to be paced up to make use of the good economic window of opportunity in 2006 and beyond. For the different members the amount of fiscal consolidation needed varied. Greece and Portugal were marked for very urgent corrections. It was emphasized that:

> *"In so-called good times, a greater effort is required, while the adjustment effort may be more limited in bad times (EC 2006, p.22)"*

For the member states that already attained their MTO the main objective was to keep the level of taxation and not reduce it in good times to make the automatic stabilisers work efficiently. As well in a downswing the social benefits should not be cut to support the aggregate demand. For the member states that could not reach their MTO and had a deficit below 3%, it was suggested to improve the structural imbalance at least 0,5% per anno during the economic recovery from 2004 to 2006 as it is easier to save when tax revenue increases. The states with a deficit above 3% were expected to go the same path and show consolidation efforts. These recommendations were footed in the experience during the 1999 to 2001 upturn. All members acted procyclical and loosened their fiscal discipline. In the time before the financial crisis most member States did not consolidate the expenditures except Germany and Portugal:

[14] In general the automatic stabilisers are taxation and social benefits. They are balancing the demand. In an upswing the tax revenue dampens exaggerations, in a downswing social benefits dampen the reduction of consumption.

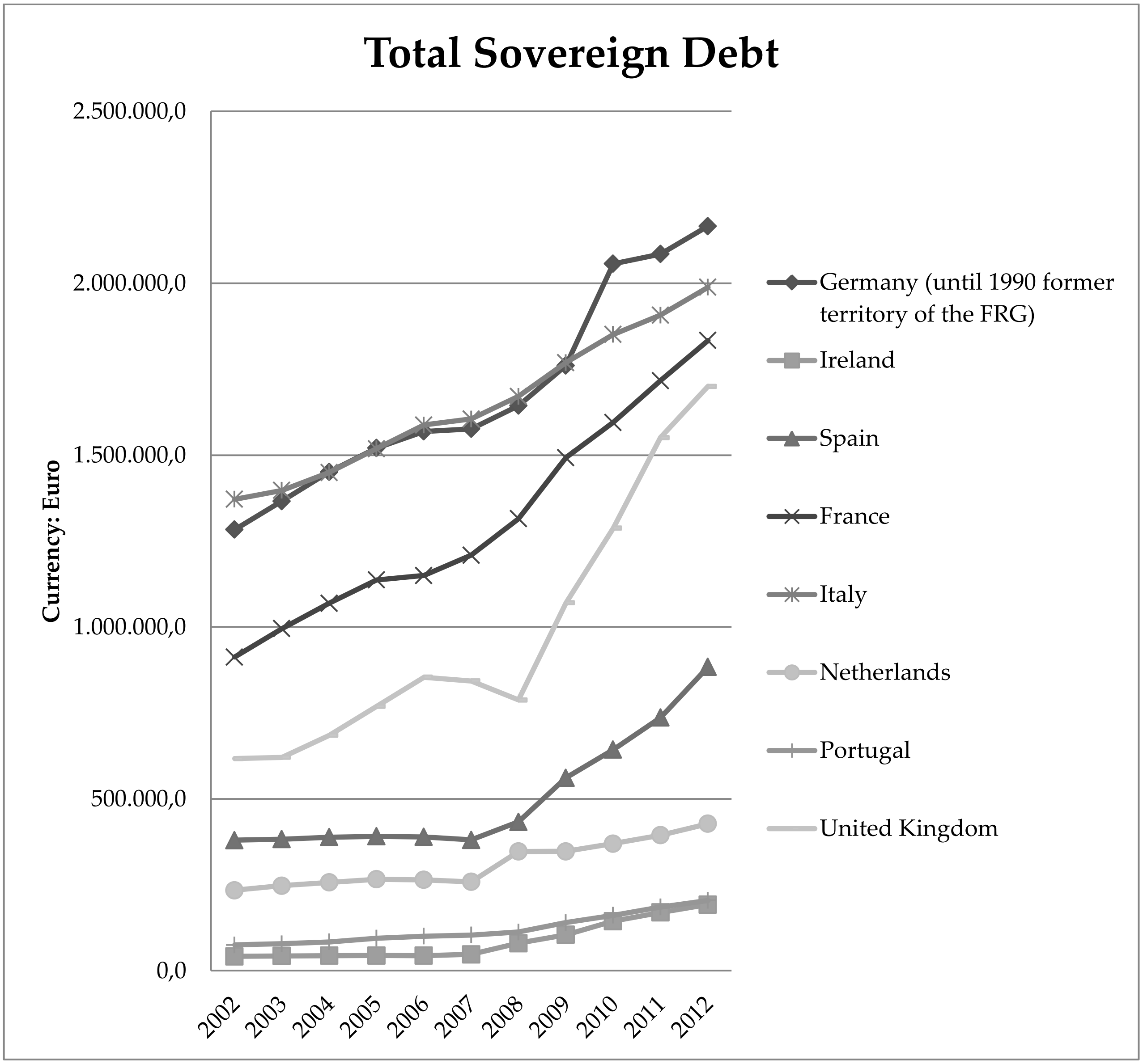
Figure 8



Source: Eurostat gov_a_main, subsection indic_na

In the same time the sovereign indebtedness increased. Even during the upswing the call for consolidation was not heard, and the Member States did not succeed in fiscal consolidation.

Figure 9



Source: Eurostat gov_dd_ggd, Indic NA Total Gov Debt

Fiscal consolidation was further admitted to have a weigh on domestic demand, but could be overridden by greater budgetary stability in the outlook. The hope was that the reduced state spending would stimulate more private spending. As well the confidence of households in sound state finances was expected to reduce saving and increase consumption when consolidation would have made progress.

This call for consolidation was published in 2006, just before the financial crisis kicked off (EC 2006). Other documents with critical information that are linked in this paper are no more available online. On page 18 is a link for detailed information on the fiscal policies and the risks that were recognized, but the link is a dead-end.[15] . Even with several searching attempts in databases the document was unavailable.

Financial crisis period

During the second period the monetary and fiscal policy changed its character in facing the huge crisis.

With respect to the monetary policy from October 2008 to summer 2009 the ECB lowered its borrowing costs from 3,75 to 1 percent for the ECB benchmark policy rate. It secondly assured to satisfy liquidity bids in its main weekly operations at a fixed interest rate and widened the interest rate corridor given a deposit rate of 0,25% and overnight rates close to zero. The list for collateral eligible for refinancing was expanded to facilitate the accessibility to central bank money for private banks. The ECB also raised the volume allotted in its three-month refinancing operations and introduced six-month and twelve month refinancing operations. In May 2009 the ECB started purchasing Euro-denominated covered bonds for an amount of 60bn Euros.

The ECB balance expanded from 1,2tn in August 2007 to 1,85tn in July 2008. This matches in percent of the euro area GDP an increase from 13 to 21 percent (EC 2009). Critical statements, holding that the monetary policy might be useless, were encountered, that the avoidance of a meltdown already could be seen as a success and the basis for a return to normal functioning of the financial markets.

The framing for the fiscal policies during the global financial crisis were subsumed in the framework of the European Economic Recovery Programme (EERP). It combines several active fiscal stimuli with structural reforms. It was endorsed in December 2008 and made up 2% of the GDP in 2008 and 2009. The packages were differentiated according to the available fiscal leeway and relied on measures that were targeted, timely and temporary. The growth impact differed in

[15] The Commission wrote in the link: *A detailed examination of Member States' fiscal policies and the revised Stability and Growth Pact are presented in the Commission's report 'Public finances in EMU — 2006'.* [*http://ec.europa.eu/economy_finance/publications/european_economy/public_finances2006_en.htm*](http://ec.europa.eu/economy_finance/publications/european_economy/public_finances2006_en.htm)

dependency from the mix of measures. The expected boosts of the GDP ranged between 0,5 and 1% in 2009.

The fiscal stimulus largely depends on its temporary character which sets an incentive to spend instead of non-Keynesian saving of money. The aspect of effectiveness is assured by giving credibility to the temporary character of the recovery programme. A second important factor on the effectiveness is the appropriate matching of the package size with the countries needs and fiscal space. The stronger the crisis affected a country, the bigger the stimulus packages needed to be to have a proper effect. But if a country has more fiscal space it can use this leeway to give even stronger incentives for demand. But what is meant by fiscal space? The Commission refers to the capability a country has from its economic potential. This contains several elements:

- the initial public debt
- the contingent liabilities vis-à-vis the financial sector
- expected further revenue shortfalls
- the current account position
- the share of discretionary (as opposed to entitlement) expenditure

The Commission emphasised the partnership within the Euro area by suggesting the Member States with a large fiscal space to bear a larger share of the burden of fiscal stimulus within the EERP, and on the other hand for more limited countries to provide less stimulus. This indicates clearly a commitment and loyalty between the member states to help each other. It requires cooperation and trust between the member states. The Commission emphasised as well the risk in such a fiscal stimulus package if the governments hesitate two fully reverse the stimulus. Such a situation was probable as maybe elections or other disincentives make politicians decide against a reversal. This could lead to deficit households and lead to higher long term interest rates. The recovery of the financial system would get more complicated. Tax increases then would be unavoidable and weigh on potential growth (EC 2009, p.69).

The EU´s "Balance-of-payments assistance" offers financial loans for states that have problems with their balance of payments. Loans are given against improvements in fiscal consolidation. The volume of support got raised from 12 to 50bn Euros until May 2009.[16]

The European Comission (EC) holds that the macroeconomic impact of fiscal stimulus depends on the credibility of its endurance. If the shock is expected to be temporarily it is expected to have significantly other outcomes than when it is perceived to stay permanent. In the latter economic agents are expected to raise savings as they expect higher taxes. What it comes down to is that the impact of the fiscal multipliers on GDP depends on the composition and on the credibility of the temporary nature and the EC intends to limit the time of the fiscal stimulus.[17]

Euro area crisis period

2010 the euro area crisis emerged as some member states had difficulties to refinance their liabilities. The monetary policy actions of the ECB probably prevented a destructive downward spiral of abrupt deleveraging, fire sales and deflation like in the 1929s great depression. The ECB and other major central banks reduced its policy rates. As this did not seem to be enough, the ECB implemented various non-standard measures that will be introduced here to give a brief overview (ECB 2014a[18]). The goal until now is to restore monetary policy transmission, and to support credit flows to the real economy. This is needed to protect price stability which is the ECB´s central justification:

- As the credit market dried out in face of the insecurity, the ECB emphasised liquidity support and gave banks quasi unlimited access to central bank money at a given price against adequate collateral. To ease the access the conditions were broadened.
- Since May 2010 it used open market operations to stabilize the prices. Until February 2012 it bought government and private debt securities of €219,5 billion.

[16] More information can be found at the Commissions homepage on balance of payments: http://ec.europa.eu/economy_finance/eu_borrower/balance_of_payments/index_en.htm

[17] According to EC 2009 (p.70) spending shocks and investment subsidies display the largest multipliers. Government investments yield a larger GDP than purchases of goods and services. This pushes foremost the long run GDP multiplier. An increase in government transfers has a smaller multiplier because it goes on with negative labour supply incentives. Temporary reductions in value added and labour taxes as well show smaller multipliers. Within temporary reduction consumption taxes are more effective than a reduction in labour taxes as households respond to this in the intertemporal terms of trade (They decide to spend during the reduction instead of a later date as the occasion is favourable).

[18] A brief summary can be found here: http://en.wikipedia.org/wiki/Eurozone_crisis#European_Central_Bank

- Simultaneously the ECB absorbed the same amount of liquidity to prevent a rise in inflation.[19]
- The ECB changed its policy regarding the necessary credit rating for loan deposits, and accepted as collateral all outstanding and new debt instruments issued or guaranteed by the Greek government. The credit rating was in this case ignored because the ECB intended to give a clear signal to maintain stability within the euro area.
- As well the ECB tried to avoid a credit crunch by expanding its long term credit operations because the banks itself needed to pay of their maturing obligations. And credit was difficult to get in the insecure atmosphere. If this liquidity would have been not available, the banks maybe had refused to give credit to real economy and choked off the economy.
- December 2011 the ECB loaned 489bn €, in February 2012 again a tranche of 529,5bn €. This volume before was available in the inter-bank lending which dried up during the crisis.
- A very important point was the announcement of "Outright Monetary Transactions" in December 2012 by Mario Draghi. The idea is that the ECB can do unlimited purchases of the sovereign debt of governments. The announcement did what it was supposed to do. The financial markets gained confidence in government bonds and the interest rates dropped. Even if the announcement was not giving a time for taking up action. But the clear vote to support every member state ensured that lenders would get back their loans.[20]
- The main interest rate was lowered in November 2013 to 0,25% which as well devalued the Euro and eased the exports

[19] According to a statement from Elwin de Groot/Rabobank there is a "natural limit" of €300 billion the ECB can sterilise (reabsorbing the money which was pumped into the monetary circle) (Thesing 2011).

[20] The OMT´s are controversial discussed because some central banks assess it as to close to fiscal policies as the condionality requires fiscal and structural changes of the takers. The critics argue that the OMT´s violate EU treaty law and exceeds the bank's policy mandate. The OMT´s were called the ECB´s "Bazooka" which could shoot down illiquidity, but Germanys highest court questions the participation of the German Bundesbank in the OMT´s. OMT is suspected to be a backdoor to "monetary financing" of governments. Without the powerful Bundesbank the confidence in the ECB would suffer massively. A process will be enrolled at the European court of justice, and after its decision Germanys highest court will decide if this legal decision matches with the German constitution or not.

The fiscal policies during the euro areas crisis were already broached with the OMT[21] related reform demands, but there were some major reforms on fiscal policies since the outbreak of the euro area crisis in 2010:

- Six pack (December 2011)
- ESM (October 2012)
- Fiscal compact (January 2013)
- Two pack (October 2013[22])

In a nutshell - the Sixpack and Twopack were legal reforms to prohibit inter-state budgetary imbalances through tighter fiscal coordination. The European Stability Mechanism is a shared reserve fund of the euro area members. The fiscal compact is a sharpened refurbishment of the Growth and Stability pact which accommodated the treaty with the legal reforms.

The sixpack consists of six legal reforms which give a legal frame covering tighter budgetary and macroeconomic surveillance. Among the broad macroeconomic surveillance and governance program the fiscal aspects are emphasised as a key factor. The reform strengthened the Stability and Growth Pact (SGP) who coordinates the fiscal field in the EU:

- The preventive side helps to achieve budgetary balance of the Member States by using country-specific medium-term objectives (MTO)
- As a limit to the government deficit is set up which must not exceed 3% of GDP and public debt must not exceed 60% of GDP
- The corrective arm of the Pact steps into action when this limit is breached. The name of the corrective measure is Excessive Deficit Procedure (EDP)
- The application of the fiscal rules follows more precise indications how and when the EDP has to step in action. Before the crisis it was not clearly defined[23]
- The financial sanctions for euro-area Member States are imposed gradually from the preventive arm to the latest stages of the EDP. It can reach up to 0.5% of GDP

[21] See previous footnote!
[22] For some basic information look here: http://www.europarl.europa.eu/news/en/news-room/content/20130304BKG62046/html/Economic-governance-two-pack-background-note
[23] Exempli gratia the debt criterion got operationalized. This means an EDP can be launched on the basis of a debt ratio above 60% of GDP which would not diminish towards the Treaty reference value at a satisfactory pace. Until becoming effective only the 3% deficit above the GDP was a criterion to initiate the EDP

- The reverse qualified majority voting (RQMV) got introduced for most sanctions. Some Member States like Germany escaped the EDP by imposing pressure on their partners. The RQMV is supposed to prohibit such bending of the agreed rules.[24]

How the ESM was developed? When the first member States were in danger to become insolvent, the European Union created a shared catastrophe reserve to channel the needed money to the member state. All member states paid in a certain amount of money, plus agreed on paying in more up to a sum of 700bn€ in case the money would be needed to bail out a member state. They act as financial intermediaries providing liquidity to Euro area member states in impending bankruptcy.[25] In addition the Balance of Payments program (BoP), IMF loans and bilateral loans were added to offer help for the EU members which don´t participate in the currency, but as well could need aid.

The quickly established rescue-funding program was named “European Financial Stability Facility (EFSF)”, the later established funding program was named “European Stability Mechanism (ESM)”. It is designed as a permanent institution with a support volume up to 700 bn €. The ESM is knit closely to the new fiscal regulations of the sixpack and two pack. To receive support from the ESM, the fiscal consolidation of the applying member state has to make significant progress. This is how the painful austerity measures are imposed. Emissions of bonds are backed by guarantees given by the euro area member states in proportion to their share in the paid-up capital of the ECB. The ESM provides advantages for all participants through its robust capital and enhanced governance structure. It is able to react quickly and decisively, and it is better insulated from the rating migration of the Member States as it receives its own ratings and rests on many members shoulders. The ESM is a major tool and lever to develop fiscal discipline when Member States breach the agreed debt levels. The leverage power is the trade off between offered help against efforts in the supported states fiscal discipline and consolidation. With its volume of 700bn Euro the ESM is supposed to cover any future bailout. In case a state needs financial assistance it will address a request towards the Chairperson of the ESM's Board of Governors. The instruments available to the ESM are an evolution of those available to the EFSF:

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[24] RQMV implies that a Commissionary recommendation is considered adopted in the Council unless a qualified majority of Member States votes against it.

[25] The EFSF is an emergency measure with temporary character. It will be dissolved when it has fulfilled its last obligations from the euro-are a crisis. In October 2010 the ESM was created as a permanent rescue mechanism and entered into force on 8 October 2012. Since this date the EFSF doesn´t accept new requests as the ESM is in function.

- Provide loans to an Euro area Member State in financial difficulties
- Intervene in the debt primary and secondary markets
- Act on the basis of a precautionary program
- Provide loans to governments for the purpose of recapitalisation of private financial institutions

Before receiving the support the applying state has to sign a *memorandum* on the agreed austerity measures and structural optimizations, its monitoring and surveillance procedures. Financial stability is supposed to be reached by the help. The path up there has its directives in these compulsory *memorandums*.

The Fiscal Compact[26] is an intergovernmental update of the Stability and Growth Pact which stepped into action in January 2013. The compact was signed by all EU27 member states except United Kingdom and Czech Republic.[27] It´s in force since 1 January 2013, and it introduced correction mechanisms to the national level which are:

> *"to be triggered automatically in the event of significant observed deviations from the medium-term objective or the adjustment path towards it. [...](EC 2014b)."*

The Fiscal compact requires contracting parties to respect and ensure convergence towards the country-specific medium-term objective (MTO) as defined in the Stability and Growth Pact (EC 2012a). To ensure compliance with the rule the national budget is monitored. The European Court of Justice (CoJ) is the corrective institution which will decide on imposing financial sanctions. The euro area Member State in such a case will be charged and the fine will be paid to the ESM. The fines of non euro area Member States who prepare to be a euro area member will be channelled to the EU budget. As well the compliance with the rule implementing the MTO in national law will be monitored at the national level.

The two pack added two more legislative reforms within the shared currency area. The budgetary and economic policies of member states showed negative spill over effects in the euro area. The interdependency can have positive effects in an upswing, but the euro area crisis

[26] Formally: The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG)
[27] The UK wanted to exclude the City of London from the planned financial transaction tax, the Czech republic joined the UK but may join the Compact later.

involved the neighbours as well. Sharing the risks and helping each other in a currency area is welcomed as part of the European Integration. But shared responsibility is demanded as well. The experience of doctoring the Greek accounts deficits was a key moment in this.[28] As the sixpack emphasised budgetary policy and especially fiscal rules, the two pack tackled the transnational coordination and corrective processes agreed in the Stability and Growth pact. This means practically, that all member states budgetary plans will be controlled by the European Commission and after probably have to be corrected to meet the agreed rules within the euro area.[29] The working practice which already makes use of the ESM and other supportive instruments, received a legal frame with the two pack. The two pack shows a learning effect from the further agreement. The economic governance was built on goodwill promises, but transparency on the fulfilment was hardly given. But the risk was recognized. Already in 2007 ECB president Trichet suggested a closer fiscal union to reduce the shared risk within the euro area. Nobody wanted to hear him. But in 2010 the idea was revitalised as the euro area crisis showed deficits in the fiscal harmonization.

3.2 Youth Employment Policies

Pre crisis period

In general the EU´s youth employment policies are embedded in the frame giving economic master plan named the Lisbon strategy. It´s development and stepping into action occurred in the pre crisis period (1997-2007). It was originally set up in March 2000 and articulated a new strategic goal for the EU:

> *'to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion'*.

It does not deal with monetary or fiscal policy. It included modernising the European social model, investing in people (skills!) and combating social exclusion. In March 2005 the European Council relaunched the Lisbon Strategy in a new document named "Growth and jobs:

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[28] See the development of the euro area crisis in the introduction, chapter 1.2. A simple and useful explanation can be found here: http://ec.europa.eu/enterprise/newsroom/cf/itemdetail.cfm?item_id=6662&lang=en

[29] This even follows a strict plan now to not have a mess again like in the years before. By 30 April, euro area Member States must publish their medium-term fiscal plans (Stability Programmes), together with their policy priorities for growth and employment for the forthcoming 12 months (National Reform Programmes) in the context of the European Semester on economic policy coordination. By 15 October, euro area Member States must publish their draft budgets for the following year. By 31 December, euro area Member States must adopt their budgets for the following year.

working together for Europe's future". This was done because there were gaps between rhetoric claims and registered results. The reinforced goal within the Lisbon strategy focused on more investment, more jobs and less (labour market) regulation, which was bound up in the motto of "Growth and Jobs". The strategy was to be implemented through National Reform Programmes (NRPs) at Member State level. All 25 Member States prepared their individual NRPs between 2005 and 2006. These goals require more investments on research, education, transport, renewable energies and "employability".

From this general overview the focus now shifts to the part of Lisbon strategy regarding the labour-market. It was prepared by the Luxembourg European Council in November 1997. It became known as the 'Jobs Summit 'and the problem of persisting high unemployment dominated the negotiations. The Luxembourg process coordinated the national employment policies through employment guidelines and National Action Plans (NAPs). In 2003 the results of the jobs summit were evaluated and there remained three main objectives:

- Full employment
- Improving quality and productivity at work
- Strengthening social cohesion and inclusion (Eurofund 2010).

Different than the monetary or fiscal policies the implementation of labour market policies in the Member States was left to the goodwill of the single members. How did the European Union try to reach the goals agreed in the Lisbon strategy? The instrument introduced with the Lisbon strategy for implementing the agreed goals on the national level was (and is) the open method of coordination (OMC):

> "*The Member States are evaluated by one another (peer pressure), with the Commission's role being limited to surveillance. The European Parliament and the Court of Justice play virtually no part in the OMC process (EU 2014).*"

It takes place in areas which fall within the competence of the Member States, such as employment policies, social protection, social inclusion, education, youth training. The OMC is the soft tool in contrast to hard legislative tools like the EDP. The legal levers like the EDP can have painful financial consequences if the States fail to stick to an agreed behaviour. The OMC is a non-authoritative, goodwill instrument. It sets incentives through financial support and competitive peer pressure between the Member States. Social policy was expected to take a role as a productive factor. Practically the process of OMC coordinates a process in which every member state begins the search for solutions to the given topics on a high political level. It moves heads and attention, and encourages change and innovation.

The part of the Lisbon strategy focusing Employment was labelled "The European Employment Strategy". Its major goals were:

- introducing or reinforcing active and preventive measures for the unemployed and the inactive
- making work pay by reviewing the tax/benefit systems
- fostering entrepreneurship to create more and better jobs
- transforming undeclared work into regular employment
- promoting active ageing to keep workers longer in employment
- developing and reinforcing immigration policy
- promoting adaptability in the labour market, via different contractual or working time arrangements
- promotion of investment in human capital and strategies for lifelong learning by redirecting public expenditure
- supporting integration and combating discrimination in the labour market for people at a disadvantage
- addressing regional employment disparities via a targeted policy focussing on the quality of human resources, investment in skills, education and lifelong learning and partnerships at local and regional level to promote job creation and address skill gaps (EC 2005)

The Commission communicated in 2005 to the other authorities in the EU that it addresses two major issues related to youth and employment. They name of this agreement is "European Youth Pact":

> *"This initiative highlights youth in core areas of the Lisbon partnership for growth and jobs, in particular via the European Employment and Social Inclusion Strategies and also the Education and Training 2010 Work programme, and calls for consistency across the initiatives within them (EC 2005a)."*

The Youth Pact contained three employment related strands. First it emphasised employment, integration and social advancement of young people, second it urged to improve education, training and mobility. A third part was reconciling family life and working life as the demographic development determines an ageing society. The major priorities from this three directives were policies aiming at:

- creation of inclusive labour markets for job-seekers and disadvantaged people
- improvement in the matching of labour market needs
- expansion of investment in human capital
- adjustment of education and training systems in response to new skills requirements (EU 2005b)

Financial crisis period

In 2007 the Commission stated that the European Youth Pact was not enough to solve the difficulties of young people in entering the labour market. The Commission now spoke of socio-professional integration of young people. The preventive character of good education as an early investment for including young people was emphasised. Secondly the focus shifted to the transition from education into the labour market. The fact that one out of six young people were early school leavers, drew attention. One out of three young people in the EU stayed jobless in this year. The aggregate demand for work was not discussed. Instead the Commission pointed at the flexibility of the young people. The policies of the member states should encourage mobility, to take risk and start their own business, or instead of working involve them in voluntary activities (EC2007).

In 2009 the Commission stated that the activities of the member states could not solve the problems of the young people with the proposed single measures. The new motto proclaimed was "Investing and empowering". Instead of proposing impressive plans and strategies it shifted to short term goals. Results were needed, not compassionate words. With this in mind three fields of action were proposed to the member states:

- Create more education and employment opportunities
- Improve young people's access and full participation in society

- Foster mutual solidarity between young people and society

Flexicurity got appraised as a way to facilitate the transition into employment. Second the provision of demanded skills was deemed essential (EC 2009a). The engagement in social actions was represented in the third point. The operative part of these suggestions was left to the states. The influence of the global financial crisis did not find recognition in the policy development. The focus stayed on the functioning of the labour market and especially the optimization of the supply side.

Euro area crisis period

With the beginning of the third period the Lisbon strategy got replaced by the "Europe 2020" strategy to give a directive and shared goals for the period from 2010 to 2020. The new strategy for the European Union was supposed to keep the strengths of the Lisbon strategy like focussing growth (18mn new jobs were created during the Lisbon strategy) and corrected the weaknesses recognized in the last decade like poor implementation and a broad variety of reform intensity. With reference to the youth employment topic the EU raised a flagship initiative called "Youth on the move" (EC 2010, p.11).

The initiative has a European and a National level. The Commission will focus support at the European level:

- The mobility of academic youth (E.g. Erasmus) and non academic youth (EURES)
- Introduce benchmarking to picture university performance in the global competition
- Search ways to promote entrepreneurship
- Promote the recognition of non-formal learning

At national level the Member States agreed on:

- Ensuring efficient investment into the education system
- Improve the educational outcomes and reduce early school leave
- Develop national qualification frameworks that will match labour market needs
- Improve labour market entry by guidance, counselling and introducing apprenticeship systems

In 2011 the “Youth opportunities Initiative” was created to bundle some policies that could help reducing youth unemployment. Basically it promoted to use the not allocated 30bn € of the ESF for the period 2007- 2013. Second the set up of apprenticeship themes is supported with (only!)1,3 million Euros. The development of such schemes shall ease the school- to work-transition and safeguard the acquisition of the demanded skills. Another 3mn € were invested in consulting of young business starters. The difference between the 30bn and the volume of 1,3 or 3 mn € is remarkable. As well the placement of 600 young entrepreneurs was given as an example of European level activities (EC2011)[30].

In 2012 the initiative “Your first EURES Job” was launched to help 5000 young people to find a job abroad. The national employment services were expected to help with information, job search, recruitment and funding for interested employers as well as job seekers.

In facing the increasing youth unemployment the Youth Employment Package was presented in the document called Moving Youth into Employment (EC 2012a). It contained three major measures to employ more young people.

1. First it proposed the introduction of a Youth Guarantee for young people up to age 25 to receive one of these offers:
    a. a quality job
    b. continued education
    c. apprenticeship
    d. traineeship

    -within four months of leaving formal education or becoming unemployed.
2. Second it suggested a “Quality Framework for Traineeships” to ensure the trainings are not abused for cheap labour
3. Third it announced a “European Alliance for Apprenticeships” to improve the quality and supply of apprenticeships. This initiative leans on the best practice on apprenticeship schemes observed in Austria and Germany.

[30] A quick overview can be found here: http://ec.europa.eu/social/main.jsp?catId=1006

In 2013 the European Youth Guarantee was established. Its estimated cost of 21 bn € per ano are justified with an annual 150bn € loss by the paid social benefits and the lost output. The Commission highlights the Public Employment Services (PES) as a key factor:

> *"The logic of the Youth Guarantee is very simple – to ensure that young people are actively helped by public employment services (EC 2013b)"*

The PES are seen as a tool to connect supply and demand. The improvements of the PES come at a cost, but the member states may use the 10bn € which are handed out by the ESF for social measures. Country specific recommendations to combat youth unemployment addressed to 20 of the 27 member states included:

- Active labour market policies
- reinforcement of public employment services
- support for training and apprenticeship schemes
- combat early school leaving (EC 2013c)

12 Member States did not take actions to implement a youth guarantee and were urged to step into action. The Evaluation of the PES states that in these 12 States privileges of older employees contrast with the very difficult working conditions for the young employees as the young entered into the labour market after the deregulation of the labour market took place.

The youth guarantee is complemented by some further initiatives:

- The Youth Employment Initiative (YEI) hands out 6bn € to regions with more than 25% youth unemployment (EC 2013c, p.6)
- The European Alliance for Apprenticeships stirs a safer transition from school to work per work-based learning components in education. The employers conduct the practical work, the educational part is done by public schools. Experience shows that most of the young people stay in the company where they enjoyed their work-based apprenticeship. The European Trade Union Confederation and the employers associations support this model
- The EURES program helps filling job vacancies, it offers more than 1.4 mn jobs at 31000 employers in Europe (EC2013d)
-

3.3 Skill Related Policies

Pre-crisis period

In the Pre-crisis period there were no special policies regarding the low-skilled youth. In general the weaker part of the youth was supposed to be included by a broad range of measures.

> *"The acquisition of key competences fits in with the principles of equality and access for all. This reference framework also applies in particular to disadvantaged groups whose educational potential requires support. Examples of such groups include people with low basic skills, [...](EC2006a)"*

The Commission spoke out that it lacked valuable information on the know-how and demanded more research and information about the situation of the low-skilled youth. A "structured dialogue" was initiated to broaden the understanding on the needs of the youth by talking with the youth instead just about them. "Structured" means that the EU initiated communication on certain topics to gain insights from these talks with youth and youth organisations all over Europe. The involvement of young people was emphasised and valued (EU 2005b). The Commission gave a few guidelines on inclusion of the low skilled youth. The measures on the second part of the European Youth Pact refer to the problems of the group of low skilled youth by proposing to:

- reduce the number of early school leavers
- widen access to vocational, secondary and higher education, including apprenticeships and entrepreneurship training
- define common frameworks to make qualification systems more transparent
- tackle the validation of non-formal and informal learning (EU 2005b)

The measure for achieving a minimum level of skills is described by the key competences which were defined as "*essential knowledge, skills and attitudes*" related to each of these points:

- *Communication in the mother tongue*
- *Communication in foreign languages*
- *Mathematical competence and basic competences in science and technology.*

- *Digital competence involves the confident and critical use of information society technology (IST) and thus basic skills in information and communication technology (ICT)*
- *Learning to learn is related to learning, the ability to pursue and organise one's own learning, either individually or in groups, in accordance with one's own needs, and awareness of methods and opportunities*
- *Social and civic competences. Social competence refers to personal, interpersonal and intercultural competence and all forms of behaviour. Civic competence, and particularly knowledge of social and political concepts and structures (democracy, justice, equality, citizenship and civil rights), equips individuals to engage in active and democratic participation*
- *Sense of initiative and entrepreneurship is the ability to turn ideas into action*
- *cultural awareness and expression (EC 2006a)*

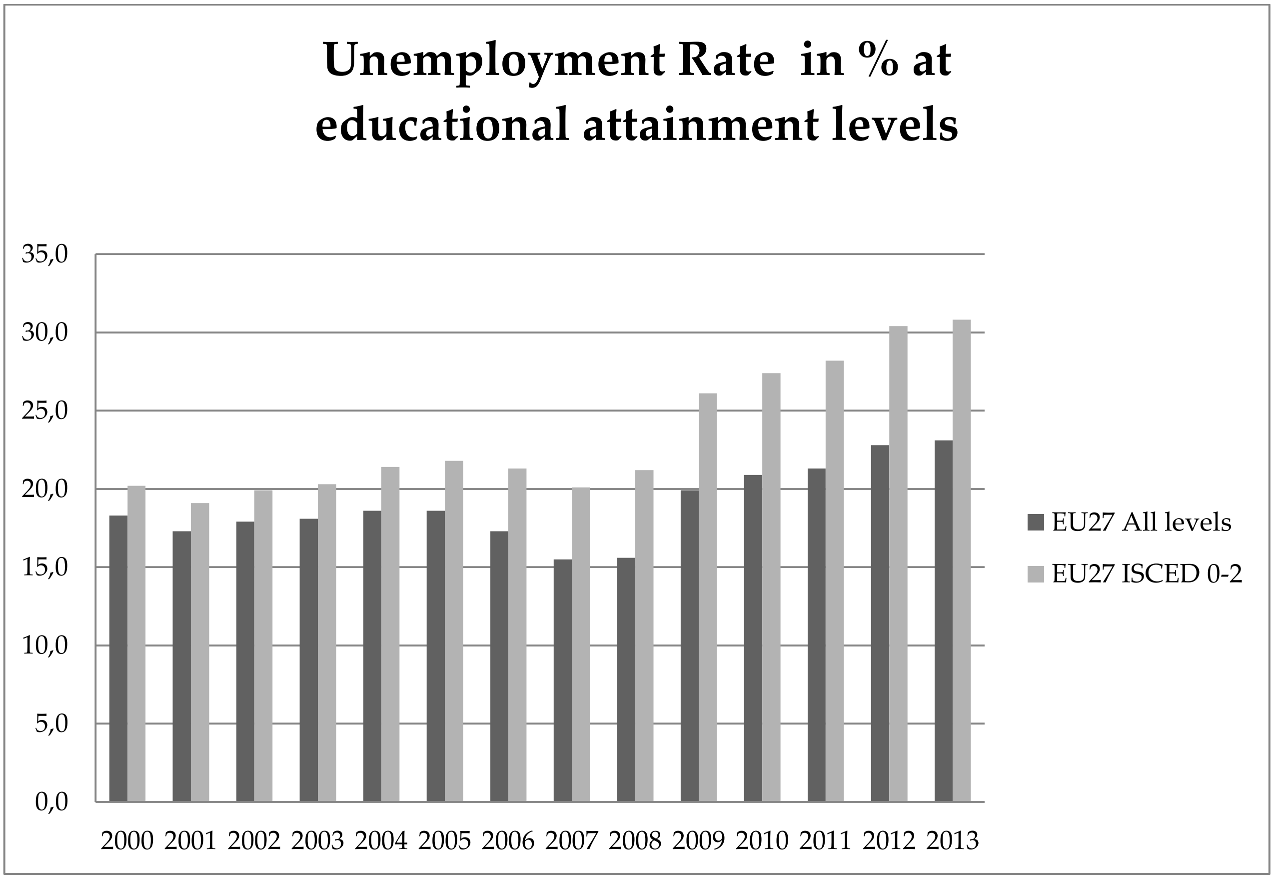
From this point of view it is clear: The policies have the goal to increase the skill level. The EU expects it needs higher skills as the jobs in the future are demanding higher skills. Hence, the policies designed address exclusively the supply side of the labour market.

Another aspect is that low-skilled work has a lower productivity than high skilled work (EC 2004). The European Union wants to stay competitive in the global race and sees its competitiveness endangered by a lack of skills in its workforce. The wage level is higher than in many competing countries which draw a lot of the low-skilled work. The only chance in the eyes of the Commission is to qualify its workforce to resist the loss of workplaces to other global competitors. Europe can keep the workplaces by offering employers a productivity that outweighs the higher wage cost (EC 2004a, p.33-34).

Financial crisis and euro area crisis period

During the second period, when the financial crisis rolled over the world, the EU did not publish low-skill related programs. But the situation for the low-skilled youth in the labour market deteriorated massively.

Figure 10



Source: Eurostat yth_empl_90

In the third period, since the beginning of the euro area crisis, the passive attitude of the commission changed. Within the EU 2020 strategy are flagship initiatives that emphasise the most important goals. One is named “An Agenda for new skills and jobs”. It defines the acquisition of new skills as a condition to enable career shifts, reduce unemployment and raise labour productivity. With reference to the group of low-skilled workers, it was emphasised that the tax and benefit systems need to make low skilled work pay. This was largely understood as an impetus that the social benefits need to be significantly lower than the earnings of low-skilled workers. On the other hand the segmentation of the labour market is urged to be reduced to facilitate transition (EC 2010, p.16-17). In general the EU aims to increase the skill level within the prevailing Europe 2020 strategy. The prognosis of the Europe 2020 strategy holds that by 2020 16 million additional jobs will require high qualifications, whilst the demand for low-skilled jobs will drop by 12 million jobs (EC2010, p.16). As well the prolonged working life and the ongoing change of skill demands require lifelong learning to match the evolving skill demands.

The Public Employment Services (PES) are seen as a key factor for the transition of low skilled youth into the labour market. The 2011 analytical paper on good European practice of the PES summed up the actual situation. Regarding the group of the low skilled the following points are found to be important (Duell 2011, p.2-36):

- The individual needs to be involved in a solution. Active Labour Market Policies only work well if the individual is convinced of having an advantage in it. Trust is deemed to be essential between the young person and the support systems workers
- The multiple problems make youth integration a complex problem and rule out rigid education and training or standard solutions
- The people working with the youth need to connect with the individual situation to tune the support and not create dead-weight losses
- The Youth Guarantee links the young with Active Labour Marekt Policies as the receiving of social benefits can be used as a push as well as pull factor
- Early intervention is highly probable to be effective. The identification of youth at risk of becoming a NEET is therefore crucial
- The support should be integrated in the regular vocational system to avoid stigmatisation (inclusion)
- Employers are difficult to motivate to include low skilled youth. It needs strong incentives as well as targeted control of the practice in the companies to avoid dead weight losses

To sum up, the education and training are largely seen as the key factor of the integration of the youth unskilled people: supply side policies are, here also, privileged. Also, the social benefits have to be cut down in order to avoid a “disincentive” to work.

4 Discussion of the analysis

The research examined three different periods and three different levels of policies influencing the employment prospects. This makes nine different policy areas that can be assessed to be influenced by post or new Keynesian thinking:

Table 1

	Pre crisis	Financial crisis	Euro area crisis
Macroeconomic Level	1.	2.	3.
Labour Market Level	4.	5.	6.
Skill Level	7.	8.	9.

The nine areas of policy analysis

The nine areas of policy analysis in review

1. During the Pre-crisis period the European Union urged its members for fiscal consolidation. The states were expected to reduce their spending and reduce their indebtedness. As economy was in a recovery, the policies aimed at more freedom. Regulation by the state was seen as an obstacle. But the ECB already pointed at the risks in the deregulated financial markets and the probability of a bursting real estate bubble and promised to monitor them. Overall, the state was expected to get out of the way which was clearly a New-Keynesian perspective. The policies were New Keynesian in a sense that market failure was expected to receive some help by the monetary and fiscal policies. E.g. the interest rate was expected to control the level of prices.
2. When the financial crisis rocked the world, the ECB flooded the markets with cheap money. Investment was tried to be attractive, but investors of course shared a liquidity preference until the storm would be over. The EU and its member states gave a strong fiscal stimulus to make investors spend their money and take credit. The duration of the European Economic Recovery Plan (EERP) was clearly temporary to make the investors not wait for higher demand but to catch the stimulus as advantage even in the slump. This

short term oriented policies were aiming at increasing demand through state intervention and can be fairly rated as brief post Keynesian moment.

3. During the euro area crisis the EU kept the monetary policy of cheap money, but Germany initiated massive fiscal consolidation processes, that were accompanied by legal changes. The willingness of private banks to keep on giving credit had utmost priority. The ECB sticks to Keynes role of money and tried to make the giving of loans as safe as possible and easy. If the wealth owners would step into liquidity preference the economy would easily be choked off.

   Fiscal consolidation practically meant cuts in public spending through strict and harsh austerity measures in exchange for liquidity. As well policy makers were encouraged through the meanwhile falsified paper from Reinhart-Rogoff "Growth in a Time of Debt". It suggested serious problems for a state as soon as sovereign debt crossed a threshold of 90% of the GDP. The paper suggested that passing this debt-threshold will stall growth. This is absolutely contradictory to Keynes old wisdom: *"The boom, not the slump, is the right time for austerity"* It got temporarily knocked down by the pro-austerity statement from Reinhart-Rogoff in the hands of policymakers. From this time on the wind changed. Especially the Germans enforced pressure on any state needing a bailout to deliver painful budget cuts. Slashing the deficit was the new paradigm, empowered from the shocking example of Greece and the mathematical justification of the Reinhart-Rogoff publication. Greece cut 15%, Ireland and Portugal about 6% of its budget. Instead of offering stimulus the cuts were imposed over and again as soon as the Troika was asked to give out financial support per EFSF or ESM. Interesting enough is that the results match Keynes and not Reinhart-Rogoff. The GDP development during this season was straight negative. Austerity was expected to work but it didn´t. While first critics on Reinhart-Rogoff were swept away from the strong austerity support, Thomas Herdon rocked the economic world again when he falsified the core assumptions found in Reinhart-Rogoff´s paper. Together with some other oddities the paper lost its reputation. Since this paper made its way through the economic world, the voice for less austerity is heard again like by the President of the European Parliament.

   This period is on the monetary side with the post Keynesians and did not give the self balancing powers of the market too much confidence but ensured the monetary circle keeps going. The decisions of the wealth owners were deemed to be decisive for employment and economy and the ECB eased the conditions of lending money to the maximum. But the fiscal policy under German leadership was far off from Keynes, even the NKE´s attempt of making markets work by stripping regulation did not find an audience, while the proclamation of saving money ruled the policymaking in EU.

4. The labour market policies in the pre crisis area aimed at “modern” labour market structures. The motto of the overarching Lisbon Strategy “Growth and Jobs” celebrated flexible wages and deregulated labour market conditions. But it was in the same moment clear that investment makes jobs. The functioning of the labour market was perceived to suffer from non-modern regulation. E.g. the old and safe labour contracts were blamed to put the young with their short term contracts under pressure. But the possibility that the young could have as well safe long term contracts was not even mentioned. The Pre-crisis period was inspired by the NKE as it believed in flexibility as a key to the functioning of the labour market.
5. During the financial crisis the supply side for the labour market was focussed. The education of the young was blamed to mismatch the labour market demands, which is not wrong at all. But de facto the high youth unemployment was a cyclical reaction on the economic downturn. The demand for labour was not mentioned with one word in the official papers. This attempt refers to flexibility. The youth was expected to follow the work demand across the continent. AS well the acceptance of unpaid work was expected. But it was labelled much more attractive as social voluntary activities. Third the youth was encouraged to be risk takers and start their own business in the middle of the peaking crisis. This area is as well dominated by the idea of needing flexibility to increase employment: NKE. As well the idea shines through, that supply creates its own demand. The EU put efforts to optimize the supply for the labour market. The absolute number of workplaces is not discussed, but the supply is dared to be optimized. Again New Keynesian thinking, inspired clearly by the faith in neoclassical “truth”.
6. During the euro area crisis the labour market policies shifted slightly. The measures still try to optimize the supply side, but they got embraced by the youth guarantee. The member states now promise their young people to optimize them for the labour market. A first attempt was done to support the demand side. First the transition into the labour

market will interconnect the two sides by introducing apprenticeship systems which already proved to make the transition easy and the matching more probable. Second the search for employees is supported by a modernisation of the communication between job givers and job takers. This still ignores the decisive aggregate demand for labour, but it at least helps the existing demand to find employees with the required skills. The political confidence in the market is not as strong as it is in the macroeconomic level. The state is seen as needed and optimizing what the market itself cannot do. Hence, this set of policies has strong NKE characteristics like flexibility, mobility, efforts to match the demand.

7. The skill related policies in the pre-crisis period completely focus the supply side and offer understanding for the demand side which asks for higher skills.
8. During the financial crisis the Commission did not publish relevant documents containing valuable information on the skill relates policies.
9. While the recent crisis hit the group of low skilled youth extraordinary hard with the highest increase of unemployment and long-term unemployment (see figure 10, chapter 3.3), the Commission announced that it expects significant less demand for low skilled work until 2020. The option of creating workplaces for low skilled work is not even considered as the global competition deteriorates the chances for low skill work with a low productivity in a high wage area like the European Union. The only solution is to improve the skill level by optimizing the supply-side. This focus now shifts to the education system, the training opportunities for young people and life long learning. The idea that supply creates its own demand is not showing up, the flexibility of wages is not a topic here as the wages are so low that they get close to the level of social benefits or a limited downwards by minimum wage legislation. The idea that the stat can create demand for low skilled work is ignored. It is hard to find any Keynesian idea in these policies. Maybe NKE can find sympathy for the attempt to support the youth's flexibility to move to another place, but this is hardly something which can be traced back to Keynes.

Table 2

	Pre crisis	Financial crisis	Euro area crisis
Monetary/Fiscal level	NKE	PK	PK/NKE
Labour Market Level	NKE	NKE	NKE
Skill Level	NKE	/	/

The nine categorised policy areas

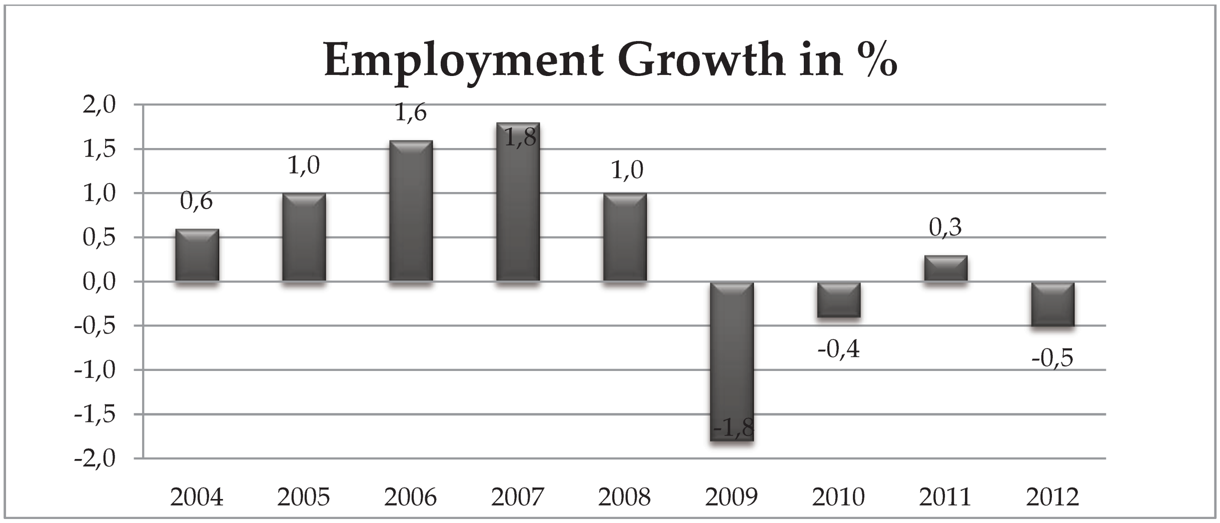
The pre-crisis period was a time when Keynes was nearly forgotten. Deregulation seemed to make the markets working better and better. State intervention was welcomed to cut back itself, support free trade and competition and ensure the price stability. Flexibility was the solution for the labour market problems, and the states were kindly asked to reduce their indebtedness as long as the recovery increased tax revenues.

During the financial crisis the EU answered not with state led investment to increase aggregate demand and by this employment. The ECB used its independent status and ensured liquidity, bought state bonds and lowered the interest rate very strong. By this the ECB did all it could do within its monetary policy frame. The labour market policies were dominated by supply –side activities. The skill related policies completely focussed the supply side and especially the individual as a key factor who was expected to cooperate to match the demanded skills.

During the euro area crisis the monetary policy took away any obstacles to not take central bank loans as the interest rate was close to zero bound. The promise to buy unlimited state bonds made the financial markets confident. The fiscal side was a German triumph - the austerity regime led to massive fiscal consolidation in all indebted member states. The fantasy of the 90% threshold as a magic level, from where a state will not be able to payback his debt, encouraged the austerity measures. Even though the paper from Rogoff got falsified, the voices of state led investment are hardly heard. The employment policies peaked in the youth guarantee. The states promised to guide every individual young person into a job or a measure making him or her match the demands of the labour market. The skill policies focussed on optimizing the supply. The minor quality of the skills has to be improved as the EU doesn´t want to compete for low skill workplaces which often offer low productivity.

After having this overview, the European Union does everything to make the supply work. May it be the macroeconomic, the labour-market or the skill level. Clearly this mirrors a strong confidence in neoclassical paradigms. But even if the supply side will be achieving good results, the key problem is not solved: There are more jobseekers than jobs[31]. Employment growth developed as follows:

Figure 11



Source: Eurostat code lfsi_grt_a

The number of unemployed people, and especially of unemployed youth, and not to forget the even larger share of people who gave up searching, is by far crowding out the number of job vacancies. The EU is putting a huge amount of creativity, capital and time into the optimization of supplying the economy with employees. And to a certain amount this is useful, as indeed the skill demands change rapidly.

The austerity measures forget the value of the impact by aggregate demand. They ignore the experience of the world economic crisis in 1929. The harsh austerity measures increase suffering and are described as cuts or more drastic as a slaying of public spending and wages, as well as an increase of taxation. The reduced spending hurts socio-economic rights and in parts ignores the votes of democratic legitimated institutions like the Greek parliament. The Greek Council of State has held that Greek austerity measures hurt Article 12 of the European Social

[31] The table „Job vacancies in number and % - NACE Rev. 2, B-S, quarterly data" displays 2,2mn vacancies for 2013, while the EU faces according to its data sheet "une_nb_a" 26mn jobseekers. This is far more than tenfold!

Charter. Even the IMF paper on debt reduction in a crisis follows Bagaria from the LSE who holds that: *"The standard policy prescription – to delay deficit reduction until after recovery is clearly under way and the output shortfall significantly reduced – remains valid."(Bagaria 2012)*

Polychroniou (2013) spoke out in an interview that *"[...] any fiscal consolidation during recessionary times does not result in a "success story"*

Bill Mitchell (2012) stated that:

> *"The ECB plan will fail because it fails to address the problem. Growth is needed desperately in Europe. Nations cannot reasonably maintain unemployment rates above 20 per cent indefinitely. Youth unemployment rates above 50 per cent are a time-bomb which will undermine future prosperity and risk major social unrest. Forcing nations into austerity packages which ensures they remain in Depression indefinitely will not solve the problem. The ECB would have been better accompanying their announcement of unlimited bond purchases with a plan to ensure growth is fostered where it is needed most."*

In the end the EU is not thinking out of the box. While 26 million people are actively searching for a job, the Union does everything to make those people match to the 2 million job vacancies. But what about the 24 million who will be left over when the labour market would be perfect and the EU still had the luxury problem of 24 million perfectly educated jobseekers? From a post-Keynesian point of view the solution is clear. The problem is located on the demand side. And on all three policy levels demand-side oriented activities are rare.

I want to return to Kalecki. His observations on the political function of unemployment are actual and amazing. Even though the optimization of 26 million jobseekers for the 2 million job vacancies is ridiculous, politics accept the neoclassical game which stabilises the existing power relations.

5 Conclusion

The first chapter has shown that the low skilled youth as a part of the labour force is hit hard by the persisting high unemployment, and that the recent crises struck them even worse. The situation of the low skilled youth deserves special attention as they face exclusion from the labour market, social life and as well represent a high cost for society if they cannot be integrated in work life. It is clear that the young workforce deserves special attention within the employment related policies.

The second chapter set the frame for understanding the policies in the European Union. It gave a comprehensive overview from the master itself up to the new Keynesians. Rooted in Keynes the post Keynesians stick to Keynes central paradigms on the expectation based decisive investment-decision by wealth owners, the opportunities along state intervention and the consideration of historical time. The new Keynesians are based on neoclassical foundations like the self-balancing markets, supply creating its demand and others. They try to integrate Keynes observation on the stickiness of prices and wages as well as imperfect information to make the neoclassical ideas more suitable with reality.

The third chapter explored how the monetary and fiscal policies, the labour market policies and the skill-related policies developed during the periodization chosen by the author: Pre-crisis, financial crisis and euro-area crisis.

The discussion on the policies stated that the new Keynesian ideas have a large share in the policy making of the European Union, while the post Keynesian ideas had less influence on the policy makers, even though the unemployment problem obviously cannot be solved with the new Keynesian focus on the supply side.

The low skilled youth can be supported with evidence based measures increasing the skills, but this won´t change the amount of workplaces. It is good to improve the skills, it is good to combine such supply-side measures with the demand-side oriented ones. Indeed improving the functioning of the labour-market is useful but won´t change the number of demanded work. When it comes to the question of increasing work demand, the focus shifts to the macroeconomic level with the two dimensions of monetary and fiscal policy. The decisive frame is set here. Job creation on a large scale must from industrial investments. This raises a big new question on the amount of jobs in a globalized competition. It is worth discussing and researching if the high unemployment in Europe is related to a migration of jobs into other parts of the world. And if the free trade ideology really makes everybody better off. The persistence of the high unemployment rates, especially for low skilled European youth, is related to the diminishing number of low skilled work in Europe and the global competition on workplaces which is basically fought with the wage level.

In relation to the massive increase of unemployment in the crises the European Union hopefully will learn and take into account what can be seen with open eyes: New jobs or dampening of demand for work need no austerity measures in a slump, but state investment to encourage the creation of new workplaces. As well the member States should consider Keynes advice on consolidating their budget during an upswing because this did not happen before the crisis. Instead tax revenue was cut, cut and cut again. The State indeed plays a keyrole like the Post-Keynesinas hold up. The idea of a self balancing market, the need for flexibility and some better information, which the New Keynesinans love so much and embrace so steady, doesn´t lead to satisfying outcomes. The State is needed and has to intervene. Automatic stabilisers are useful and protect employment. We need to accept the real world experience and acknowledge with Lavoie: *"Post Keynesians question the efficiency and fairness of market mechanisms, as well their assumed existence (2006, p.12)."*

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7 Figures

8 Tables