

TACKLING THE YOUTH UNEMPLOYMENT IN EUROPE WITHIN THE CONTEXT OF THE ECONOMIC CRISIS

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*To M^aÁngeles, Javier and Esther, my three pillars.
To Sara, my love.
To Pepe and Angelita, my constant angels.
And to my best friend, M. Ángel, I hope he will get well soon.*

Without their support and love, this work could not have been possible.

BRICS: Brasil, Russia, India, China and South Africa
 CESCR: Committee on Economic, Social and Cultural Rights
 CoE: Council of Europe
 ECB: European Central Bank
 ECHR: European Convention on Human Rights
 ECJ: European Court of Justice
 ECSR: European Committee of Social Rights
 ECtHR: European Court of Human Rights
e.g: exempli gratia, for example
 ERM: European Exchange Rate Mechanism
 EMS: European Monetary System
 EMU: European Monetary Union
 ESCR: Economic, Social and Cultural Rights
 EU: European Union
 EU MS: European Union's Member States
 HR: Human Rights
i.e: id est, that is
 ICESCR: International Covenant on Economic, Social and Cultural Rights
 IHRL: International Human Rights Law
 ILO: International Labour Organization
 IMF: International Monetary Fund
inter alia: among others
 MDG: Millennium Development Goals
 NGO: Non-Governmental Organisation
 OCA: Optimum Currency Area
 OECD: Organization for Economic Co-operation and Development
 R&D: Research and Development
 UDHR: Universal Declaration of Human Rights
 UN: United Nations
 US: United States of America
 WB: World Bank
 WTO: World Trade Organization

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ABSTRACT

The purpose of this thesis is to evaluate the impact of the crisis on the major political and economic problem in Europe, the youth unemployment, which has risen to a level unseen since the Great Depression. Nowadays, there are more than 5.462 million young people (under 25) unemployed in the EU, representing a 22.4% of the total young population.

This thesis reviews the social implications of the crisis-related youth unemployment in Europe, from the opportunity costs for governments to the psychological problems for the unemployed. We will try to provide answers to some fundamental questions, e.g., what are the 'brain drain' effects for EU countries? Is unemployment relaxed by labour mobility? How is the ageing population affecting the pension system?

In addition, a comparative study about the labour market in two European countries, Spain and Germany, will be made in order to analyse the differences between them. Main questions: what are the secrets for the low level of unemployment in Germany? Can the German model be copy-pasted in other EU countries?

Moreover, we will analyse how the crisis-related unemployment has affected human rights, and study these violations according to international legal documents. Main question: what economic model is more compatible with human rights and which one promotes better the goal of full employment?

At the end of the thesis, proposals to eradicate this problem will be researched, from both macro and microeconomic perspectives. In addition, we will study some important politico-economic aspects like the changing role of the state after the crisis, the deregulation of labour markets or the accountability of financial institutions. We will also adopt a critical view on Europe's proposals to combat the crisis, from the problem

of reducing wages to some other recurring mistakes, such as the lack of fiscal policy coordination, to the democratic deficit of some international financial institutions.

Overall, this thesis attempts to prove that, even though European politicians have claimed that the fight against unemployment is one of the top priorities, policy concerns have in fact shifted after the crisis. Preserving price stability to avoid inflation and the implementation of austerity measures, in order to lower the public debt, seem to be the guidelines for economic recovery, while no energetic attempts to create jobs are being held. The conclusion of this thesis will be that the role of the state must be redirected towards the protection of human rights, and the politico-economic decisions must provide a consistent answer to the severe youth unemployment problem.

INTRODUCTION

There is growing concern regarding the situation of young people in the labour market. Despite the fact that today's young population is smaller in number and better educated than their older counterparts, high youth unemployment remains a serious problem in Europe.

The main purpose of this thesis is to examine the extent to which the situation of youth in the labour market has deteriorated in Europe over the past decades. Furthermore, we will analyse why the EU governments have not addressed this problem effectively. In addition, we will talk about the social costs of this mass youth unemployment.

The thesis is organised as follows:

The first part presents a scoreboard of the position of youth in the labour market using a battery of statistical indicators, paying particular attention to trends over the past decade. The purpose of this chapter is to give a general overview of the youth unemployment problem. In order to do this, some general statistical data will be provided, mainly from Eurostat. In addition, there will be a short explanation about the differences on the two types of unemployment: the structural and the crisis related unemployment.

The second part highlights the social implications of the crisis related unemployment for the young population, paying particular attention to the effects of the ageing population and the maintenance of the pension systems in Europe.

The third part examines the differences in youth unemployment rates and labour markets in two different European countries: Spain and Germany. This chapter will attempt to give solutions to the Spanish labour market in order to catch up with the German one.

The fourth part contains a list of specific Human Rights violations in the context of the economic crisis, paying particular attention to the economic and social rights. International Human Rights Law will be applied in order to make a study about these violations.

The fifth part aims at giving solutions from macroeconomic and microeconomic perspectives to tackle the youth unemployment problem, in order to find an economic model that would be most compliant with human rights. Moreover, it will deal with issues related to the reformulation of the role of the state, the accountability of financial institutions or the lack of democratic deficit within the EU institutions.

Due to the background of the author (Law, Economics and Human Rights), this thesis will attempt to provide an economic analysis of the situation and a possible solution by relying in existing sources and data. Even though some human rights' aspects related to unemployment are particular interesting, e.g., labour discrimination through ethnicity and gender, structures of class or minorities, this thesis will not deal with such matters.

Overall, this thesis attempts to prove that austerity measures themselves will not promote economic growth and full employment in Europe, and that the most promising way to achieve this goal is through boosting employment and ensuring that young unemployed people receive adequate support to find new jobs.

PART 1

THE YOUTH UNEMPLOYMENT PROBLEM

“Europe cannot afford that so many young people who have the potential to contribute to our societies and our economies are left behind. We need to realise the potential of all young people in Europe in order to recover from the crisis.” – J.M. Barroso, 2011

1.1. INTRODUCTION

Young people are essentially for the future of Europe and its social, economic, cultural and environmental development. Nowadays, among the approximately 27.5 million young people in the 27 Member States of the European Union, 5.5 million have no work¹, which means that 1 in 5 people under 25 who are willing to work cannot find a job. The unemployment rate among young people is over 20%, double the rate for all age groups combined and nearly 3 times the rate for the over 25s².

Over the past year, labour markets have been affected by the economic slowdown. Since European labour markets have not fully recovered from the global crisis that erupted in 2008, the unemployment rate has increased in nearly two-thirds of the EU countries³. The trends are especially worrying among young people. Youth unemployment rates have increased in about 80% of advanced economies and turned into a structural problem. Therefore, there is an urgent need to ease young people access to employment, and in consequence, the EU and its Member States (MS) need to set targets and promote measures to support young people's employment.

¹ ILO, Global Employment Trends for Youth 2012

² European Commission, at <http://ec.europa.eu/social/main.jsp?catId=950&langId=en> (Consulted on 15 May 2012).

³ International Labour Organization: *World of work report 2010 : Better jobs for a better economy*. Geneva, ILO, 2012.

Some reasons for the difficulties that young people have to face the labour market include, for example, the mismatch between skills offered by education and training and those needed by employers, the impact of the economic downturn on sectors which previously offered low-skilled work to young people, and also demographic trends.

After all, it is unlikely that the European economy will grow at a sufficient pace over the next years to close the existing jobs deficit and provide employment for the over 80 million people expected to enter the labour market during this period⁴.

1.2. DEFINITION OF DIFFERENT TYPES OF UNEMPLOYMENT

Unemployment, as defined by the ILO⁵, occurs when people have no jobs but they have actively been searching for it within the past four weeks. There are three main types of unemployment: frictional unemployment, structural unemployment and the natural rate of unemployment.

The frictional unemployment is caused by the fact that it takes time for people to find and settle into new jobs. For example, job seekers tend to spend time to find the best possible job rather than taking the first job available. It could also be given because young students need some time to enter the labour market.

Structural unemployment is a permanent level of unemployment caused by forces other than the business cycle. It can be the result of an underlying shift in the economy that makes it difficult for certain segments of the population to find jobs. It is typically given when there is a mismatch between the skills and other attributes of the labour force and those demanded by employers. It can also be created when technological advances are produced or when countries sign new trade agreements.

⁴ Idem

⁵ Hussmanns, R., 'Measurement of employment, unemployment and underemployment', at http://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/publication/wcms_088394.pdf (Consulted on 17 May 2012)

The natural unemployment rate is obtained by the summation of the two types of unemployment explained above. Milton Friedman was the economist who introduced this concept. He described it as the rate calculated in an economic model that would capture “the actual structural characteristics of the labour and commodity markets, including market imperfections, stochastic variability in demands and supplies, the cost of gathering information about job vacancies and labour availabilities, the cost of mobility, and so on.”⁶

Some economists relate this rate to the full employment, because some frictional and structural unemployment are inevitable, so this is the lowest rate of unemployment that a stable economy can expect to achieve. But, has the economic crisis really changed the natural rate of unemployment?

Friedman emphasized that the natural rate might change over time due to market forces or economic policies. According to Taschi and Zaman, it is conceivable to think that there is a higher natural rate of unemployment in Europe:

“The past recession has hit the labour market especially hard, and economists are wondering whether some fundamentals of the market have changed because of that blow. Many are suggesting that the natural rate of long-term unemployment—the level of unemployment an economy can’t go below—has shifted permanently higher. We use a new measure that is based on the rates at which workers are finding and losing jobs and which provides a more accurate assessment of the natural rate. We find that the natural rate of unemployment has indeed shifted higher—but much less so than has been suggested. Surprising trends in both the job-finding and job-separation rates explain much about the current state of the unemployment rate”⁷.

⁶ Friedman, M., ‘The American Economic Review- The role of Monetary policy’, at <http://www.aeaweb.org/aer/top20/58.1.1-17.pdf> (Consulted on 7 July 2012)

⁷ Taschi, M. et al., Unemployment after the Recession: A New Natural Rate?, at <http://www.clevelandfed.org/research/commentary/2010/2010-11.cfm> (Consulted on 5 July 2012)

The reason why the natural rate can change over time is because of changes or differences in economic policies that impact frictional unemployment (the ease with which firms can layoff workers, the ability and incentive for laid-off workers to find jobs, the adequacy of job retraining programs, the ease with which unemployed workers can link up with firms that have job vacancies) or structural unemployment (technological changes that impact industries, the education and retraining programs available to support workers in obsolete industries, the level of inter-generational mobility)⁸.

After a period of crisis, structural unemployment can create a higher unemployment rate due to the fact that it will take a little bit longer to rectify because the economy needs to be adapted. If this type of unemployment is ignored by the EU governments, it can then even lead to a higher natural unemployment rate. Some critics have argued that the rise of the natural unemployment rate in Europe is given due to a strict regulation of the labour market, e.g., high unemployment benefits or strict firing rules.

In addition, there is a different type of unemployment, the crisis-related unemployment, i.e., the loss of a job or occupation as a result of an economic crisis. This unemployment comes as a result of a restructuring of the labour market within a crisis context. For example, the austerity measures adopted in Europe have led to greater flexibility to fire workers, lower severance payments or the changing labour legislation. This type of unemployment is becoming structural due to a change in the production model. This situation is produced because some sectors are no longer productive, thus these sectors lacking from competitiveness and efficiency cease to exist or get restructured.

To sum up, the unemployment rate has been rising with the financial crisis, which indicates that at least some portion of the current unemployment rate may switch from being cyclical to being structural unemployment. In that case, the natural rate of

⁸ Weerapana, A., 'The natural rate of unemployment', at <http://www.wellesley.edu/Economics/weerapana/econ102/econ102pdf/lecture%20102-07.pdf> (Consulted 4 July 2012)

unemployment will most likely rise again and become the real problem to be solved in Europe by our next generations.

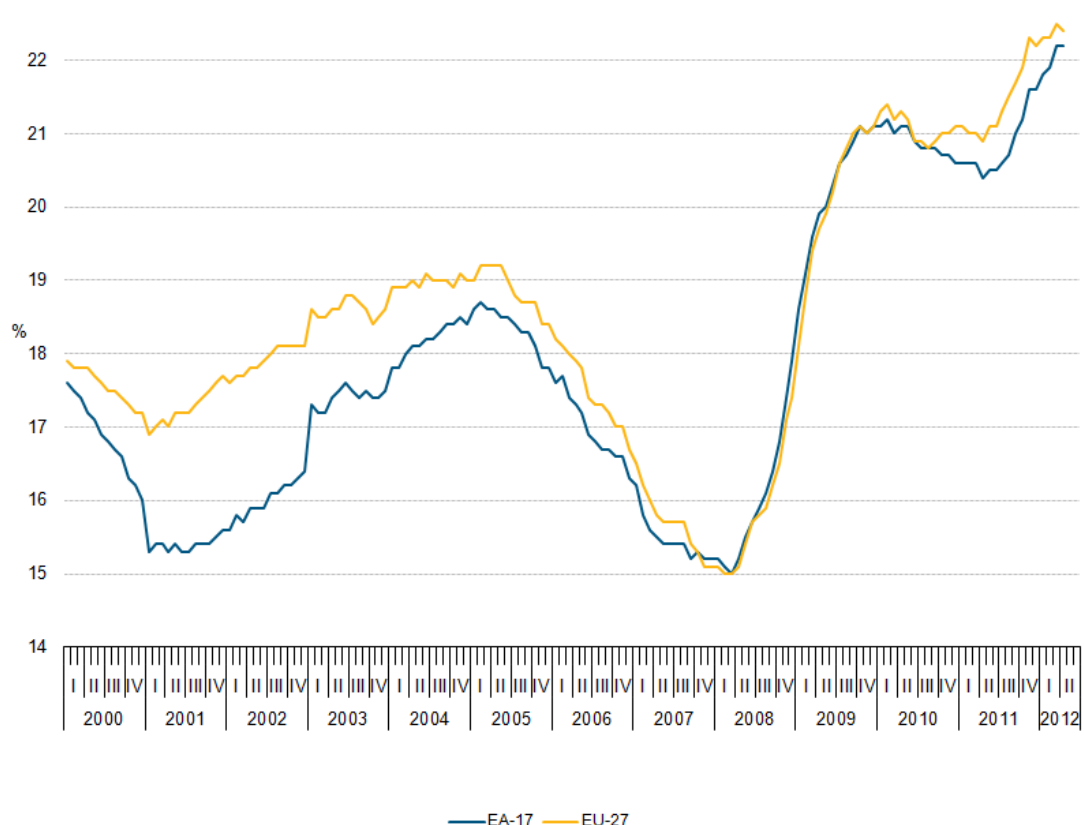
We must emphasize that whenever we mention the term ‘unemployment’ within this thesis, we will be referring to the crisis-related type, unless otherwise indicated.

1.3. NUMBERS ILLUSTRATING THE YOUTH UNEMPLOYMENT IN EUROPE

The natural youth unemployment rates are generally higher than unemployment rates for all ages. High youth unemployment rates reflect the difficulties faced by young people in finding jobs. Nevertheless, this does not necessarily mean that the group of unemployed persons aged between 15 and 24 is large because many young people are studying full-time and are therefore neither working nor looking for a job (so they are not part of the labour force which is used as the denominator for calculating the unemployment rate). For this reason, youth unemployment ratios are calculated as well, according to the share of unemployed for the whole population.

The natural youth unemployment rate in the EU-27 was around twice as high as the rate for the total unemployment throughout the last decade. The EU-27 youth unemployment rate was systematically higher than in the Euro area between 2000 and early 2008⁹. Since then, the two rates were very close, until 2010, when the first rate started to increase more strongly than the second. Youth unemployment thus increased in both areas during the crisis, but the increase has been more relevant for the EU-27, than for the EU-17 (Euro area). (See graphic 1)

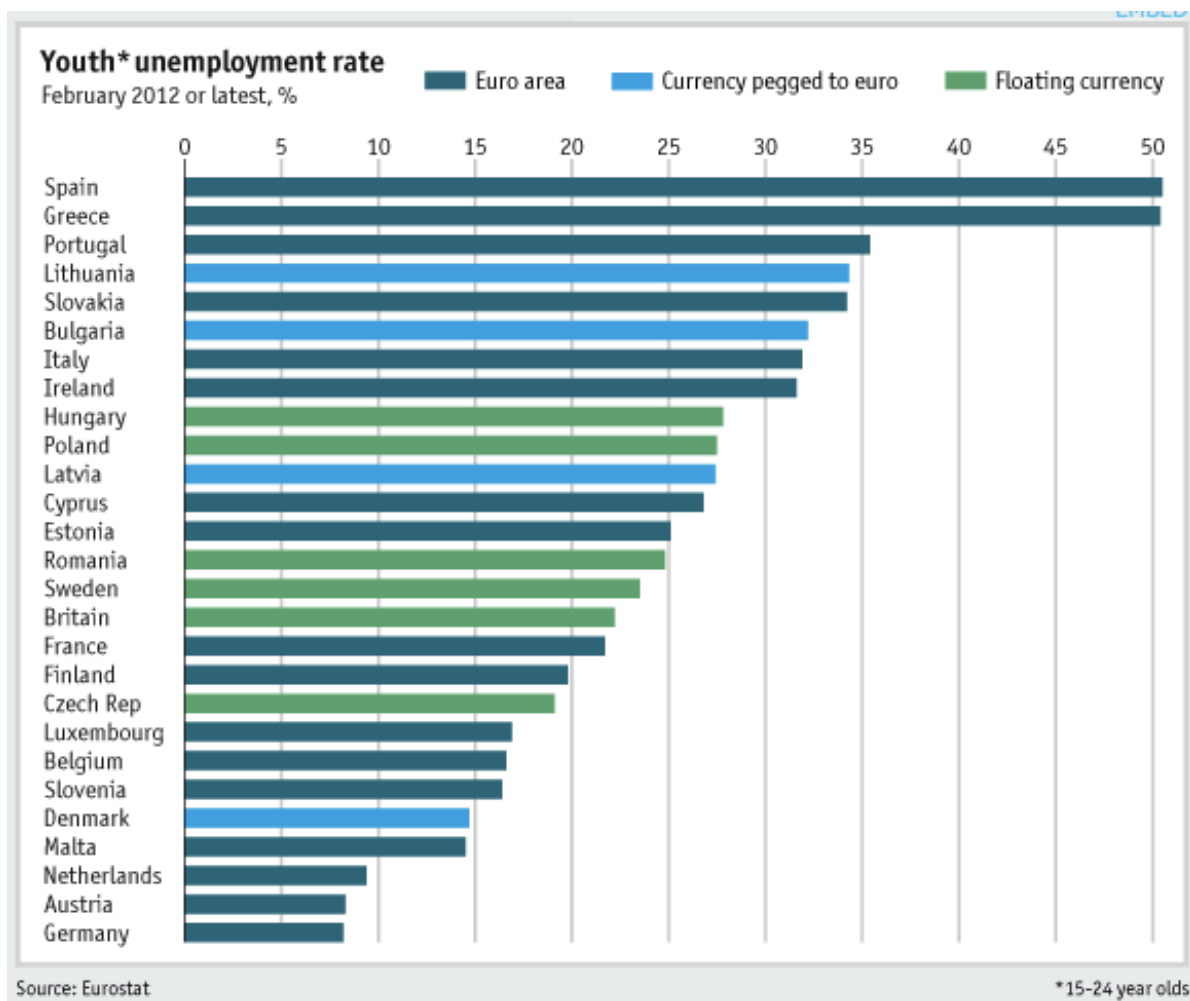
⁹ Eurostat, ‘Unemployment statistics’, at http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Unemployment_statistics, (Consulted on 30 June 2012)



Graphic 1, Source: Eurostat

According to the recent statistics, in April 2012, 5.462 million young people were unemployed in the EU-27, of whom 3.358 in the Euro area. Compared with the previous year, youth unemployment increased by 268000 in the EU-27 and by 214000 in the euro area. These numbers represented a 22.4 % in the EU-27, and 22.2 % in the euro area. During the last year 2011, these rates were 20.9 % and 20.4 % respectively. The lowest rates were observed in Germany (7.9 %), Austria (8.9 %) and the Netherlands (9.4 %), and the highest in Greece (52.7 % in February 2012) and Spain (51.5 %).¹⁰ (See graphic 2)

¹⁰ Idem



Graphic 2, Source: Eurostat

1.4. THE FINANCIAL CRISIS EFFECT OVER THE YOUNG POPULATION

Youth unemployment rates have doubled or in some cases tripled since the onset of the recession. Discouraged by the numbers, many young people have given up the job search, or decided to postpone it and continue their stay in the education system. This type of unemployment, called ‘disguised unemployment’, includes potential workers who are not employed but who do not count officially as unemployed because they are not looking for employment or applying for unemployment benefits. However, unemployment rates are expected to grow when those young people that have been delaying their entry into the labour market, return to activity and start searching for work.

The recession has hit young people particularly hard with regards to their employment prospects. Young workers, and specially those working on temporary contracts, are the most vulnerable towards the economic crisis. Normally, companies that are experiencing reduced demand for their products or services do not to renew training contracts, as they are usually temporary ones. This situation is known as the ‘last in first out’ or LIFO. The normal explanation for this is called the ‘inexperience trap’, or the fact that employers prefer experienced workers rather than inexperienced young ones. Therefore, they cannot manage to obtain an opportunity to gain experience. But even though young people might lack experience they tend to be highly motivated and capable of offering new ideas or insights.

In comparison with previous recessions, early retirement to reduce staff is not an option anymore as the financial incentives for early retirement no longer exist. The ageing population is putting more pressure on social security systems and has extended working lives by rising the retirement age. However, keeping older workers for longer put them in competition with young people who are willing to enter the labour market. This is particularly problematic in times of economic crises, when austerity measures are affecting job creation.

With this background, the chances of finding a new job are much more restricted, due to limited number of work opportunities and increased competition. Young people with lower levels of qualification find themselves competing with high skilled ones who are unable to find employment that matches their skills. In some countries, young people are being excluded from the national benefits systems because they have never contributed to it long enough to be eligible for support. The risk of losing financial independence and having to rely on lower social welfare payments can lead to further social exclusion.

1.5. WHY SHOULD GOVERNMENTS URGENTLY ADDRESS THIS PROBLEM?

Youth unemployment has both social and economic consequences. First of all, it is linked to social exclusion, as the inability to find employment creates a sense of uselessness. Many youth are unable to earn their own income and have to be financially supported by the family and live in their parents' house for longer. A lack of decent work, also threatens self-confidence and future employment prospects.

Second, it is important because it creates opportunity costs for governments, i.e., the government's loss of output that it could have been produced if all the workers had been employed. The government also spends money on unemployment benefits rather than recapturing the potential of underutilized youth workforce. The loss of income of young people is translated into a lack of savings and consequently, a lack of aggregate demand. If governments cannot receive contributions to social security systems and are forced to increase spending on remedies, then a threat to the economic growth arises. Therefore, designing appropriate policies to support their transition to stable employment should be a country's highest priority.

1.6. EU SOLUTIONS TO TACKLE THE UNEMPLOYMENT PROBLEM

The European Council endorsed the priorities for fiscal consolidation and structural reform. It underscored the need to give priority to restoring fiscal sustainability, reducing unemployment through labour market reforms and making new efforts to enhance growth.

The 'Euro Plus Pact' agreed in March 2011 is targeted at improving competitiveness by monitoring wage setting, in particular in the public sector, at labour market reforms increasing 'flexicurity', life-long learning and reducing taxes on low-paid labour, and at improving sustainability of public finances by means of extending effective retirement ages, reducing early retirement and implementing fiscal rules, i.e. 'debt brakes' into

national legislation. These commitments in the 'Euro Plus Pact' shall be reflected in the annual National Reform and the Stability Programmes which are assessed by the Commission, the Council, and the Euro-group in the context of the so called European Semester¹¹, and will thus have a major impact on European economic policies in the years to come.

Moreover, the Ministers in the Council of Europe in their meetings of 24 January and 21 February 2012, expressed broad support for the assessment presented in the Annual Growth Survey and its five priority areas: All ministers agreed on the high priority of reducing unemployment, in particular youth unemployment as the EU could not afford a "lost generation". Ministers underlined that growing unemployment has become a major issue for all MS. The CoE emphasised the importance of reforming the labour markets and making them more flexible in order to increase the participation of young people, women and older workers and the long-term unemployed.

Youth unemployment was identified as a priority area that needs to be immediately addressed both at national and European level. Ministers recalled the statement of the members of the European Council of 30 January 2012 and welcomed the creation of Action Teams on Youth Employment. Many MS had set up or were planning to establish youth guarantee schemes that would ensure that unemployed young people are offered employment, training or continued education within a short period of time. Several MS also welcomed the Austrian proposal for a 'European Youth Initiative for 2012-2013'. Youth counselling, coaching and accompanying measures to give young people a first work experience must be strengthened, particularly to overcome barriers arising from lack of experience.

In addition, the European Commission, in the 'Europe 2020' growth strategy, highlighted young people in one of its five headline targets: aiming to cut early school leaving to no more than 10% of the student population, and to boost the number of

¹¹ The European semester is a six-month period every year during which the member states' budgetary and structural policies will be reviewed to detect any inconsistencies and emerging imbalances. The aim is to reinforce coordination while major budgetary decisions are still under preparation.

youngsters graduating from university or further education¹². To implement the strategy, there are seven flagship initiatives. One of these initiatives, called ‘Youth on the Move’, aims to improve education and training and make it more relevant to young people’s needs, encourage them to take advantage of EU grants and opportunities to study or train in another EU MS, and help them to find employment.

All these strategies implemented by the 3 most important EU institutions support young people and confirm that they are ready to implement measures by mobilising the social partners and civil society organisations. However, these strategies are launched in the context of the greatest economic crisis in Europe. Therefore, these institutions should be warned about the effects of the national austerity cuts that have undermined the most valuable provisions to the young, i.e., social rights, the creation of stable jobs, training and student mobility. Young people need high-quality, permanent and adequately paid jobs, and incentives to hire young workers should not be directed to make their employment more insecure, rather than contributing to young people’s integration in society.

¹² EESC, ‘Europe 2020 and employment for young people’, at http://www.eesc.europa.eu/resources/docs/eesc_11_96_en.pdf (Consulted on 4 July 2012)

PART 2

SOCIAL IMPLICATIONS OF YOUTH UNEMPLOYMENT

“Job instability is, above all, a human tragedy for workers and their families; but it also entails a waste of productive capacity, as skills tend to be lost as a result of excessive rotation between jobs and long periods of unemployment or inactivity. More job instability therefore means weaker productivity gains in the future and less room for prospering and moving up the career ladder”- ILO.

2.1. INTRODUCTION

There are many social implications related to unemployment, from poverty to homelessness, from migration to crime; but when it has to be with young people, the consequences could be even more serious. This part of the population can create family tensions and breakdown due to financial hardship of their families. There is a risk of loss of confidence and self-esteem because they are more vulnerable than their older counterparts, and when accompanied by an unfavourable context, unemployment can create feelings of shame because of the idea of adding extra costs for their parents instead of reducing them. This situation contributes to the erosion of a healthy growth of the young people. Furthermore, it is particularly problematic for them when they have to postpone their entry to the labour market when their skills have become already obsolete before getting a job.

All these aspects contribute to a further isolation of the young people in society. While putting all efforts in getting an employment without finding any, they constantly face a rejection of society as they are viewed as “active and responsible individuals, masters or mistresses of their own fate”¹³.

¹³ Reiter & Craig, 2005, p. 6

But unemployment has other social costs for society that are not usually rated. In this chapter, these social costs will be further elaborated. In addition, there will be an explanation about the demographic and social consequences related to the “brain drain” effect that some EU countries are suffering as a consequence of the lack of employment prospects.

2.2. SOCIAL COSTS OF THE YOUTH UNEMPLOYMENT

There are some social costs related to unemployment: from serious economic and social deprivation effects, such as crime, poverty or social dislocation (increased divorce, worsening health and lower life expectancy) to others like demographic or psychological effects. In addition, there are some direct costs for governments, i.e., increased benefit payments, lost income-tax revenues and wasted capacity.

One of the most serious consequences of unemployment is crime. Young men are more likely to break the law than the rest of the population. Some researchers have identified a causal link between increased youth unemployment and increases in crime, specifically property crime (robbery, burglary, car theft and damage) and drug offences. No such link is seen for the overall unemployment¹⁴.

Another consequence of youth unemployment is migration. In a competitive economy, movements of labour are generally expected to deal with the unemployment problem. Youngsters are expected to move from countries with high unemployment rates to those with lower unemployment rates. This has been the case for Spain, where it has been calculated that during the period 2008-2010, about 120 000 people migrated outside the

¹⁴ Economist, the., “The jobless young: left behind”, at <http://www.economist.com/node/21528614> (Consulted on 1 June 2012)

country in order to find a future job¹⁵. These statistics show the big challenge that countries will have to face properly in the future in order to avoid periodic “brain drains”, particularly in a context of economic crisis. Such emigration effect implies big opportunity costs for governments that, after having substantially invested in the education of their youngsters, see how its investment in human capital reverberates in other labour importing countries.

Apart from the demographic effects, there are also effects on the individuals, e.g., psychological scars that appear in early ages and persist into middle age. However, long-term periods of youth unemployment are not very common because almost 80% of young people in the OECD who become unemployed find a work within a year¹⁶. But this situation could change in the future.

The temptation to refuse any kind of work is strong, especially after a long period being unemployed. In the case of Spain, a strategy of temporary contracts has been developed to provide with some kind of employment to the young people. However, these irregular jobs are remunerated very badly and they give few opportunities for training and career progression. This is the reason why most of the youngsters prefer to be jobless rather than working in a job with no possibilities to scale or a job that has no need to put into practice the skills obtained during their training period. In this situation they may forsake work to focus on their studies, or be willing to wait for the right job.

But there is also a forgotten part of the young population without high academic training that is usually “left behind”. For them, it could be even harder to find a job over their qualified partners. Employers that are seeking new recruits for quality jobs often prefer university graduates among the others. This situation drives them to a long-term unemployment situation and low wage prospects. Society in general and governments in particular should stress the need to provide them with job opportunities and implement better “school-to-work” transition policies.

¹⁵ Ornelas, A., ‘La crisis detona una ‘fuga de cerebros’ en España’, at <http://www.swissinfo.ch/spa/detail/index.html?cid=9054700> (Consulted on 1 June 2012)

¹⁶ Idem

On the other hand, unemployment is linked with certain levels of unhappiness, lower life expectancy, higher chances of a heart attack in later life, and suicide¹⁷. In addition, it has been investigated that workers who joined the labour force during times of economic depression suffered from a persistent lack of confidence and ambition for decades. Moreover, if we take into consideration that during tough times young people are often the first to lose out, due to the lack of professional experience and the easiness to be fired, they become obvious targets for employers seeking savings.

To sum up, there are other social effects such as the “full-nest syndrome”. Recent studies have demonstrated that a percentage of 46% of 18 to 34 year-olds in the EU lived with at least one parent. The youngsters that lived at home with their parents were more likely to be unemployed than those who had moved out. The effect is particularly notable in the countries of southern Europe, i.e. Spain, Italy, Portugal and Greece. These countries, also known as “Latin rim” under Scheppers’ typology¹⁸, are characterised by a high degree of ‘familialism’, i.e., the family has always had high responsibility over the attention and care of their children. Meanwhile, structural unemployment has been always higher in these countries than in the rest of EU countries while a declining fertility translates into smaller families and more dependence on their parents. These changes will affect young generations in the future, because if they live longer and spend more time at their parents’ home, they will fairly achieve an optimal level of independence.

¹⁷ Delaney, A., Joblessness And Hopelessness: The Link Between Unemployment And Suicide, at http://www.huffingtonpost.com/2011/04/15/unemployment-and-suicide_n_849428.html (Consulted on 6 July 2012)

¹⁸ Scheppers, 2002, pp. 188-9

2.3. DEMOGRAPHIC EFFECTS OF THE YOUTH UNEMPLOYMENT

2.3.1. INTRODUCTION

The main reason why I have chosen this particular effect among all the rest is because I feel identified with the values of my colleagues who, in the pursuit of happiness and a future job, have left everything apart in their countries of origin in order to find better possibilities of employment and/or education abroad.

The young population are expected to move geographically around the globe in order to find better opportunities when they are jobless but academically prepared. In a social level, this situation causes big “brain drains” and implies huge public expenditures for the countries that, after having invested in their nationals, see how they emigrate where the workforce is demanded. In addition, there are some demographic effects related to the ageing population in Europe that are crucial for Europe’s future structure of the welfare state. All these effects will be treated in this chapter.

2.3.2. THE YOUTH LABOUR MOBILITY

The decision of whether or not to emigrate depends on an individual’s valuation of the current and future costs and the benefits of this move. An individual’s decision to emigrate fundamentally depends on factors such as an expected increasing of the wage levels, unemployment compensations, the ease of finding a home, but it is also involves some consequences like abandoning one’s culture, friends and acquaintances.

Youngsters are normally more willing to seek opportunities elsewhere than their older counterparts. In South European countries, such as Italy, Greece or Spain, the constant ‘brain drain’ is a symptom of a stagnant economy. This situation is treated as a national tragedy by the governments, but they can fairly do nothing in a free market economy where the labour force reallocates where better payments are made, or simply where there are some jobs available.

If we look into a European level, all the efforts put by the European institutions with educational and apprenticeship programmes like Erasmus or Leonardo, have been directed to the consecution of a European Space of Higher Education. This space allows students to universally recognise their academic degrees, and has directly promoted a better labour mobility within European countries. All these measures have been taken in order to tackle potential “asymmetric shocks” in the economy.

The “asymmetric shock” is an economic concept introduced by Robert Mundell¹⁹, the Nobel Prize of Economics in 1999. He said that any particular region within a currency area, in order to maintain an optimum level of employment, has to reduce real wages or it should apply to the labour mobility in order to alleviate the so-called "asymmetric shocks". Mundell claimed that adjustments are produced when wages are rigid, labour mobility is limited, income transfers are difficult, and differences exist in the labour market and growth rates. In his studies about the Optimum Currency Areas, and specifically the eurozone, the Nobel Prize argued that countries with a common currency would not be able to properly absorb asymmetric shocks unless labour mobility is a reality. Mundell soon realized about the importance of the labour mobility in order to reduce the economic shocks of an eventual crisis. But the question is: are Europeans nowadays likely to uproot within borders, or even more difficult, across them?

According to the OECD chart, European workers are less likely to migrate between EU countries than the Americans or the Australians²⁰. The reasons could be different depending on the country of study, but what is an obstacle for labour mobility in Europe is the language diversity and stronger cultural embedding.

¹⁹ His work on the Optimum Currency Area (OCA) is considered the basic framework on which the euro area is built.

²⁰ Reuters, ‘Insight: For Spanish workers, Europe's not working’, at <http://www.reuters.com/article/2012/05/31/us-europe-labour-idUSBRE84U09Y20120531> (Consulted on 30 June 2012)

In theory, migration across EU borders, except those between the EU and Bulgaria or Romania, is relatively easy. In practice, there are some limitations related to language barriers, losing national pension's rights, or academic recognition of studies. Language barriers are the best indicator of labour immobility, however, housing-market frictions are also an important factor. In Spain, this situation is particularly serious as the housing prices rose since the housing bubble exploded. Also, there is an economic disadvantage for those who emigrate for labour motives because it modifies the national pension-scheme rights. Workers may lose part of their pension benefits or run the risk of inconsistent application of laws on pension taxation, translated into double taxation systems. Despite some efforts made by the European Commission in order to provide a better pension portability or exportability of national unemployment benefits, little success has been achieved.

Furthermore, professional qualifications act as a further barrier to movement across borders. EU law states that qualifications from one MS should be valid in another, but in practice recognition often requires negotiating a tangle of local rules. The OECD notes that just 7 out of more than 800 professions identified by the EU Commission qualified for automatic recognition of qualifications across borders. In 2011 they proposed a simplification of the recognition procedure, including a European “professional card” that would contain relevant professional information.²¹

In addition, within the public sector, there are still some jobs occasionally reserved for nationals only, which clearly violates the principle of non-discrimination. High unemployment benefits are also a barrier to emigrate. Even though peripheral governments are trying to reduce such benefits, opposition is fierce. Another one is the housing market, for example, high transaction fees and taxes in order to buy a house in Europe. This situation discourages renters to move from generous rent-control policies

²¹ Economist, The, ‘Mobile loans’, at <http://www.economist.com/node/21553481> (Consulted on 15 June 2012)

and public housing programmes and deepens the housing market sector by the reduction of potential buyers.

To sum up, European countries may have not realised is that labour mobility migrations can potentially be disastrous for the future of some nations, particularly if more developed nations within the EU attract their top talent students. As a consequence, if this problem continues to persist in Europe, and governments do nothing in order to keep those students and post revenues for the countries that formed them. This will become a decisive factor in the future economic development and the power of these nations.

2.4. EFFECTS OF THE AGEING POPULATION

Nowadays, the average age profile in the workforce is increasing, obviously because the average age of the population in general is increasing. There are less young people working while the old population is being kept in the workforce for longer. This demographic shift is resulting into labour shortages that affect primarily the young people.

It is very important to study the real impact that the increasing ageing population and the decreasing workforce of the young population is making in our society. We must not forget to stress the economic and demographic changes that are going on these days. The financial crisis is an additional burden on the already overcharged pension and social security systems. The unemployment, caused by the economic crisis, is leading to more welfare payments while fewer people are employed to pay contributions for the maintenance of the welfare state. In addition, payments like unemployment benefits are threatening pension payments, and vice-versa. Furthermore, demographic changes like declining birth rates also lead to a shrinking number of working people being able to pay contributions for pensions, healthcare insurance and other social insurance. In summary, the welfare state in the EU is facing grave problems since the start of the crisis.

2.4.1. CHANGES IN SOCIAL SECURITY SYSTEMS

Social security systems are entering a vicious circle: the less people employed, the less income, less contribution to social security systems and less tax income. If the elderly population is getting bigger because of the medical advances, then more money is spent on pensions and medical care, thus public spending gets higher while incomes are decreasing. That makes the “welfare state” practically a chimera, a reminiscence of our past that will never be achieved again.²²

Declining birth rates have a negative effect on the system since fewer working people exist to support a growing number of retirees. The problems get even more severe if unemployment is high and incomes are low. Currently, there seems to be a contradictory situation where labour shortages are being practised, while at the same time healthy people in legal retirement age find it difficult to retire as benefits from early retirement are lowering.

Some countries have already changed their social security systems in order to adapt them to the ageing population effect. They have done this either by using additional private insurance and pension savings or by raising contributions to social insurance or taxes. But the biggest problem comes with the young population, as they will be overburdened due to the need to finance the current retirees’ pensions as well as their own future pensions. According to recent surveys, in 2025 there will only be 3 people employed for every retired person in Europe as compared to 4 employed people in 2010, and this situation that is expected to decrease to 2 employees per retiree in 2050²³.

²² Berzosa, C., ‘Adiós al Estado del Bienestar’, at <http://www.attac.es/2012/04/18/adios-al-estado-de-bienestar-2/> (Consulted on 1 July 2012)

²³ Leis, M., ‘Active and Healthy Ageing, A Long-term View up to 2050’, at http://www.foresight-platform.eu/wp-content/uploads/2011/01/Paper_Active_Healthy_Ageing_FIN.pdf (Consulted on 20 June 2012)

Migration is an option to compensate for the declining birth rates and for the shrinking labour force. However, migration normally comes with societal challenges and recruiting care workers, like nurses or doctors, from developing countries could also have negative impacts among those regions, e.g., “brain drains”.

Most European countries already rose the retirement age or performed deductions from pension payments in case of early retirements. Some countries are also reducing pension payments or freezing them. Nevertheless, rising the retirement age is not suitable for specific jobs, especially those that require physical activity, e.g., construction. But if the retirement age is being increased, there will be a need to ensure that enough jobs will be available for elderly people. Furthermore, it also brings the problematic situation where young people could end up in competition with their older counterparts. The enterprises will have then to decide which workforce is more valuable for them, the one from the experienced worker or the one from the young inexperienced but fresh worker.

To sum up, if we provide a healthy ageing to society, it will not be only possible but necessary to make changes in the retirement age, when at the same time creating jobs that fit the skills of the elderly. As youth unemployment prevails, there will be some generational conflicts and financial burdens will have to be addressed properly.

3.4. GENERAL CONCLUSIONS OF PART 2

The healthy ageing effect combined with declining birth rates are bringing doubts about the future of the European 'welfare state' and the sustainability of the pension systems, which in turn poses questions about rising the retirement age or making a complete change of the pension system. Yet all these issues raise new questions. From the possibility of providing new jobs for older workers, by ensuring that those workers remain productive and enjoy work until later in life, to providing new jobs for young people in order to facilitate the arduous task of entering the labour market.

One of the most important challenges to be addressed by the governments is the periodic 'brain drains' that some EU countries are suffering. Such emigration effects imply big opportunity costs for governments that, after having invested in the education of their youngsters, see how its investment in human capital reverberates in other labour importing countries.

In addition, the growing need for workers taking care of the elderly is challenging social integration with every migration movement produced, while economic prosperity and growth is in retrogression as the number of young people being active in R&D, engineering and the industry is declining.

Even though labour mobility is considered as an option by the European Union to solve the economic problems in some peripheral countries, this situation is opening a new space for debate as some of the 'core' countries are beginning to consider the possibility to close their borders, declining Schengen agreements, in order to avoid strong migration movements from the peripheral countries.

PART 3

DIFFERENT UNEMPLOYMENT LEVELS IN EUROPE,
(CASE STUDIES ABOUT THE GERMAN AND SPANISH LABOUR
MARKETS)

"This is the generation that will be paying for the welfare state and pensions in the future. If they can't get started with relatively secure, well-paying jobs, start to put away some savings, start to accumulate assets, start paying into the welfare system, where does that leave the rest of us?"- Gayle Allard.

3.1. INTRODUCTION

Despite high youth unemployment is a severe problem throughout all EU countries, there are significant differences in the total unemployment rates of each of its MS. In this chapter, the facts for the different levels of unemployment within two EU countries will be examined, i.e. Spain and Germany.

The reason why these two countries have been chosen and not others is due to the fact that there is a big gap in the youth unemployment level of these two specific EU countries (from a low of 7.9% in Germany to a high of 52.1% in Spain).

Spain has persistently had the highest natural rate of unemployment of all of the EU MS, and there have even been times during which its unemployment rate was twice the EU average. Meanwhile, in Germany, the situation for young people has not deteriorated substantially over the course of the crisis. Unemployment only slightly increased between 2008 and 2012 and it is suggested that the system of apprenticeship training still works effectively to integrate young people into the labour market.

In this chapter, we will try to answer this question: Would the German model work in

other European countries? In order to give an answer to this question, we will make a comparison between the Spanish and the German labour markets, we will point out the “pros and cons” of both models, and finally we will propose solutions for the reform of the European labour markets.

3.2. THE SPANISH CASE

3.2.1. UNDERSTANDING THE SPANISH LABOUR MARKET BEFORE THE CRISIS

Spain, the Mediterranean country in the South of Europe, has historically had the highest level of unemployment of all of EU MS, and there have even been times during which its unemployment rate was twice the EU average. After a steady growth since the 90s, Spain has experienced the sharpest increase in unemployment among EU countries during the crisis, amplified by structural problems of the labour market. Before the financial crisis, Spanish unemployment was pushed down by the credit growth and prolonged by the construction boom, but then it started to grow up until the levels we are witnessing today.

First of all, Spain has a rigid dual market that causes adverse effects on unemployment and productivity. This basically means that while older workers are protected, younger ones are not. It is also dual since compensation in the public sector is relatively high while productivity is relatively low, compared to the private sector. But rigidity in the labour market is not the only reason behind the high unemployment rate.

During times of economic growth, Spain has seen large foreign capital inflows coming inside of the country. But this capital was mainly used to finance the real estate sector. All the structural problems of the Spanish economy started there. In 2006, there were

more houses built in Spain than in the UK, France and Germany combined²⁴. Nobody could deny by 2003 that a real estate bubble was occurring.

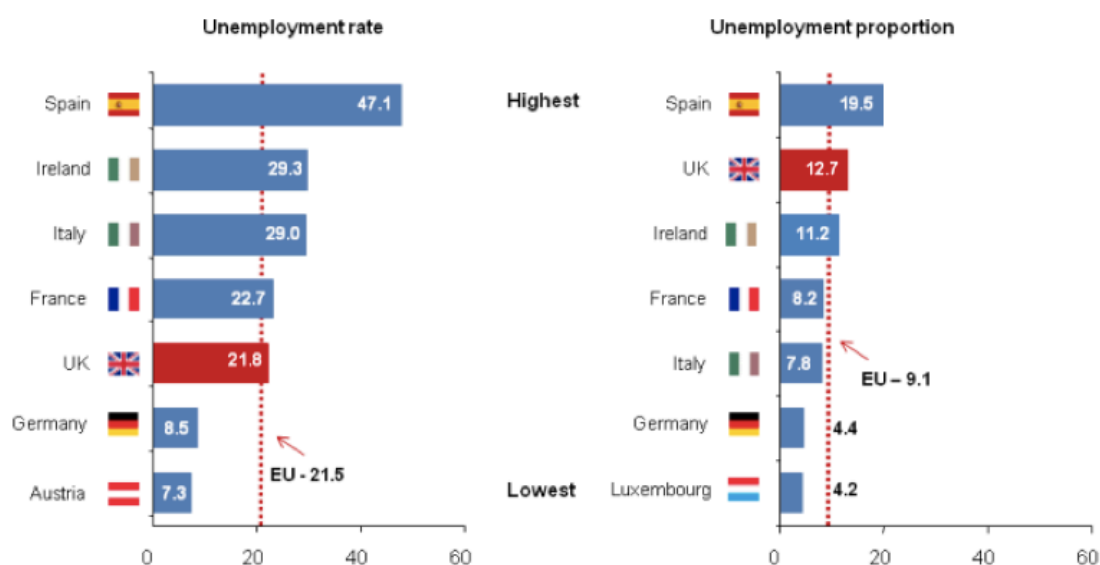
The real estate boom caused a misallocation in the labour market. The majority of youngsters who finished school skipped university studies and started working right away. In that way, they could earn a higher wage than most of the university graduates. It was a normal reaction towards monetary incentives, and since they were unaware that the real estate bubble was forming, they preferred the idea of entering the job market with no university education, rather than continuing studying.

3.2.2. THE CURRENT SITUATION IN SPAIN

Across the EU-27, Spain is on the top of the unemployment list. In the third quarter of 2011 its youth unemployment rate stood at 47.1%. The lowest rate within the EU was in Austria at just 7.3%. The UK rate of 21.8% was close to the EU average of 21.5%. (See graphic 3)

For the unemployment proportion, which does not count the youth population who are inactive and not engaged in the labour market, Spain comes on top again with around 19.5%, so just under one in every five young people are unemployed, more than double the EU average of 9.1%. The UK is above the EU average at 12.7%, while Luxembourg has the lowest proportion of young people unemployed, at 4.2%.

²⁴ Corporate Europe Observatory, “Spain in crisis: the role of the EU”, at <http://www.corporateeurope.org/publications/spain-crisis-role-eu> (Consulted on 30 June 2012)



Graphic 3- Source: Eurostat

In June 2012, the level of unemployment among young people in Spain is the highest in the EU, a stunning 52.1%²⁵. This means that more than half of the young people in Spain are unemployed. And within this rate, there is a 23% that do not work, but do not study either, for a 16% of EU average. They are called “NI-NIs”, as a reference to the Spanish term “NI estudia, NI trabaja”, “No work, neither studies”. But the figures back in 2007 were that Spain had a 13% of youth unemployment that was at the EU average. So Spain has adjusted to the crisis by penalising especially young people. In general figures, Spain has gone from less than 2 million unemployed in 2008, to almost 6 million nowadays.

But, what is wrong with the Spanish labour market?

It is said that the Spanish labour market is too rigid or inflexible. It is also a dual labour market, more than the rest of the EU markets. That means that between a third and a

²⁵ El Mundo, ‘El desempleo juvenil español alcanza un nuevo récord al llegar al 52,1%’, at <http://www.elmundo.es/elmundo/2012/07/02/economia/1341221759.html> (Consulted on 2 July 2012)

quarter of employed people are employed under a temporary contract. This “duality” of labour market affects mainly to young people because many of those young employed are under temporary contracts. In Spain there is a ‘LIFO’ system, where the last-in worker is the first-out. Historically, economic adjustments in Spain have meant two things: lowering wages and firing young people.

Another specificity of the Spanish labour market is that there is a lot of employment in the construction sector. In 2007, 13% of jobs were in construction, one year later only 7%. When the bubble came, many people were expelled from the labour market. Many of them left studies because the construction market gave a lot of money, but now they find themselves without any work.

What are the moral implications? There is a rise of the people called “Mileuristas”. This term used to be a pejorative way of calling the people who earned around 1000€, and it was related to low quality employments. Nowadays, this situation has changed until the point that a young person can consider himself a very lucky person if he/she can earn that amount of money.

The fact that the brightest and the best-prepared young generation ever seen in Spain is lacking of jobs now, means that a tremendous “human capital” is being destroyed. Meanwhile the social movements represented by the “Indignados” movement have had a bigger media impact rather than a real political impact.

Given the severity of the situation, some people might be left wondering why a revolution has not yet arisen. The answer could be given by the idea of a strong family support. The statistics show that 55% of under-34 people live with their parents. That implies that young people and their parents are moving back to their grandparents, who with their pensions have become the mainstay of the whole family. However, this is increasing family conflicts because grandmothers cannot deal now with their children and grandchildren at the same time.

3.3. THE GERMAN CASE

Germany, as seen by many countries inside and outside Europe, has been the role model within the labour market organisation. The youth-unemployment rate in Germany, at 7.9%²⁶, is one of the lowest in the EU.

But, what are the secrets for such a low level of unemployment?

We are going to point out two components of the success of the German model. The first one is the school-to-work transition provided by the system of apprenticeships and vocational training, which is divided into 350 trades and has helped to keep youth unemployment lower than elsewhere in Europe. The second one is the German corporatist model called “Mitbestimmung” (in English, “Participation”), that gives workers a say in the management of the company and makes it easier to promote structural reforms and to hold down wages.

To begin with, the system of apprenticeship is very developed in Germany. Almost a quarter of employers provide formal apprenticeship and nearly two-thirds of schoolchildren undertake them. Students in vocational schools spend around three days a week as part-time salaried apprentices of companies from two to four years. Training costs are shared between the government and employers: the governments of the Länder pay for the school-based component, while employers finance enterprise-based training, such as pay for apprentices, instructor salaries and equipment. As firms face costs of apprenticeship training that could be lost because of turnover of trained workers, there are rules governing the payment of trainees. The salaries for apprenticeships are relatively low, i.e., 25% to 45% of the average wage of a qualified worker in the same occupation. In addition, the working conditions and wages are determined with collective bargaining agreements specifying the minimum wage.

²⁶ New Europe online, ‘Growth in EU and Eurozone...but of unemployment’, at <http://www.neurope.eu/article/growth-eu-and-eurozonebut-unemployment> (Consulted on 2 July 2012)

When the apprenticeship period is over, qualifications are awarded on the basis of written and practical examinations, set and marked by external examiners. Government, unions and employers intervene in the final stage of the process. Competent bodies, e.g. chambers of commerce, issue official certificates valid within Germany. After, interns can apply for a skilled worker's job within the same enterprise or look for another job. Nevertheless, a job in the current enterprise is not guaranteed because apprentices are only limited to a certain duration.

In addition, the German economic model is mainly based on exports. The difference between exports and imports accounts for a 7% of the GDP. That means that Germany sells a 7% of the GDP more than it buys, the largest differential in the balance of payments in the whole Europe. This situation makes Germany a specialised manufacturer, particularly suited to the apprenticeship model. Germany also spends 2.6% of GDP in R&D, well above the average EU-15, just a 1.9%. This country is also the third largest patent producer. A large number of these patents arise from the SME representing 96% of all German companies.

Second, the German "*Mitbestimmung*" model consists on a worker participation in the management of the company (also known as co-management). It takes place in the great majority of German companies, including Small and Medium-sized Enterprises (or SME, enterprises with less than 500 employees) and gives jobs to two-thirds of German workers. A third of those are manufacturing companies, being very innovative for its large investment in improving the quality product.

According to Vicenç Navarro²⁷ the decentralization of companies was imposed by the Allies in the Occupied Germany after WWII, wishing to break with the economic centralization of the Nazi Regime. When Germany was divided during the Cold War, the communist regimes' discourse represented the triumph of the working class over the

²⁷ Navarro, V. "Lo que no se dice sobre el supuesto "milagro alemán", at <http://www.vnavarro.org/?p=5461> (Consulte on 15 June 2012)

state. And the US-led Western world opposed strongly the communist model, also called “Model of Social Economy”, in which workers could participate in the co-management of the enterprises. Within the enterprises with more than 2,000 employees, workers elect half of the Steering Committee of the company. The SME choose a third of that committee, while the worker’s advisory council must be consulted in a number of decision-making processes and working conditions, and it has veto power on key decisions.

Recent studies show that this degree of collaboration is very beneficial for the company and for workers as well. Naturally, this level of participation requires an entrepreneurial attitude very different from the Spanish one, where the attempt to solve the unemployment problem is given by the ease to fire workers with at the lowest costs for the employer. In Germany, employers retain workers, instead of dismissing them, and the unemployment insurance covers the hours that workers are not at the job. In sum, the insurance covers the difference for the worker to earn the same amount of money by working fewer hours.

To sum up, exporting companies in Germany are committed to the unions of workers, so the exporting production model does not entail the destruction of jobs. For instance, Siemens has an agreement with the metalworkers' union (IG Metall) that prevents jobs to be destroyed among its 128,000 employees and workers. The same happens with BMW, Daimler and ThyssenKrupp. All these companies have something in common: the unions negotiate with the Board of Directors of such enterprises (according to the law that requires co-management in large companies that trade unions have the same number of seats on the Boards of Directors than the management team). In addition, unions have the power of veto in many decisions. In conclusion, the strong collaboration of the tandem union-management team is another of the secrets of the German miracle to low unemployment rates.

3.4. A COMPARATIVE STUDY OF THE TWO MODELS

Spain has been economically struggling since the financial crisis started. The austerity measures passed by the conservative government have not tackled the two main problems of the country: The high unemployment rate and the very damaged financial sector. Therefore analysts are not very optimistic about the future of the Spanish economy. In fact, the IMF expects that it will shrink by 1.7% in 2012²⁸.

On the contrary, Germany has grown in the last two years after the financial crisis. What is the explanation for the German economy to be increasing while the Spanish one is still decreasing?

If we have a look at the companies at the two main Stock markets in Germany and in Spain, the DAX 30 and the IBEX 35, respectively, we will find out that Germany has a large number of manufacturing firms, e.g., automotive, chemical, technological, medical, and pharmaceutical industries. Those businesses need from very low-skilled level workers to very-highly educated employees. Besides, the country has very innovative top firms.

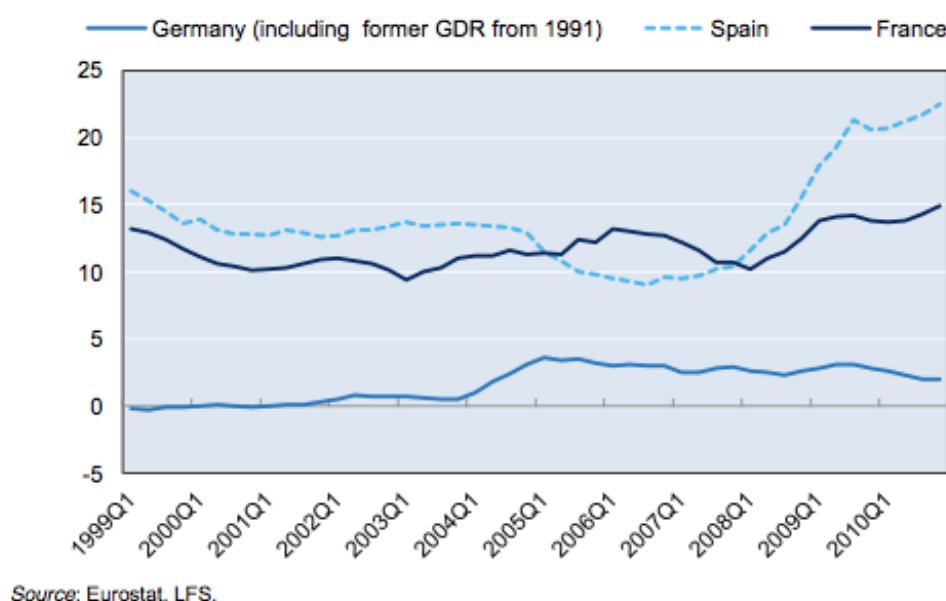
The two main activities by the 35 major companies in Spain are banking services and construction. Precisely, the two industries most affected by the 2008 economic bubble. Construction propelled Spain's economic growth in the 2000s making around 10% of the GDP and employing 9% of the labour force in 2009. Construction is also a huge job creator that pushes other industries such as steel manufacturers. But Spain has over built infrastructures, buildings, and houses. In fact, Spain built more houses than Germany, Italy, and France together during the bubble. Therefore, one of the largest industries has halted its economic activity triggering massive layoffs. Now, unemployment is at pre-housing bubble levels (1994-1996). The jobless rate had decreased but once the bubble exploded, we see that Spaniards are at the same situation as when it started.

²⁸ Latin American Herald Tribune, "IMF: Spain's Economy Will Shrink 1.7% in 2012", at <http://www.laht.com/article.asp?ArticleId=465187&CategoryId=12396> (Consulted on 15 June 2012)

Banks in Spain have accumulated numerous toxic assets from unpaid mortgages. Despite the Spanish government have bailed-out many “*cajas*” (savings banks), banks have used that money to pay the debts they had with other institutions instead of injecting money into the economy. Thus, there is no credit for individuals or companies. There is no fuel to start the engine. Therefore, the economy is stagnant. Unlike Germany, there are no other industries in Spain that can carry the economy into a better scenario. Its economy is not diversified and it depends strongly on the construction sector. Therefore if Spain does not invest in different industries, unemployment will be an endemic disease.

Whenever the economy suffers a negative shock, the flow of workers shifting from employed to unemployed increases. However, the Spanish labour market is unable to cope with those large increases in the number of workers becoming unemployed. These situations are not always the reflection of the economic downturn, rather than the governments’ inability to change the production model (structural unemployment) or to help workers in order to find new jobs (frictional unemployment).

Figure 6.10. Differences between youth unemployment rate and total unemployment (quarterly, seasonally adjusted, in %)



Graphic 4- Source: Eurostat

In graphic number 4, we can appreciate the difference between the youth unemployment rate and the total unemployment rate for Germany, Spain, and the EU average. It shows that, in a country such as Spain, with many young workers holding temporary contracts, youth unemployment was indeed shooting up during the economic crisis in 2008. Interestingly, such developments did not occur in Germany, even though the prevalence of temporary contracts between 15 and 19 years old, the share is even higher: 79% hold temporary contracts in Germany in 2009.

We must notice that this number might be strongly influenced by the particularities of the German apprenticeship system, where young workers are already employed in firms, but only on a temporary basis for the duration of their training.

While easing the legislation on temporary contracts leads to job creation and employment growth during periods of economic welfare, the problems created by dual labour markets when a recession hits the economy are catastrophic. Due to a large difference between firing costs for permanent and temporary workers, enterprises are reluctant to transform temporary contracts into permanent ones. This can result in high levels of unemployment among groups with a high prevalence of temporary contracts, especially for young workers.

3.4. PROPOSING SOLUTIONS FOR SPAIN AND THE EU: IS IT POSSIBLE TO COPY-PASTE THE GERMAN MODEL IN EUROPE?

The current debate dominating Europe's economic discussion is whether the "German model" could be copy-pasted in other EU countries in order to achieve the same results. We should not forget that Germany, like every other country of the EU, has its benefits and its drawbacks.

On the one hand, it was the first country in Europe to export to Asia its business

strategy, achieving an industrial presence and market knowledge years before the others. In addition, it has a long-term planning, large R&D in education, a focus on manufacturing, and an adequate level of labour flexibility.

On the other hand, Germany's perspectives for the future are not very positive: its demographic outlook is poor, its native population is shrinking and ageing fast, and the country does not welcome immigrants to participate in the economic growth, income inequality is rising, as well as living costs, and the invasion of foreign people looking for jobs has led to demonstrations against the multicultural model.

The crucial question is: Would the German model work in other European countries?

In short words, the answer will be “no”. The model could work if the other countries were like Germany, but since they are different, the German model would not work.

This is a brief list to explain our position. First, Germany's success has been elaborated since the eighties. During that decade its industrial icons emerged, e.g. Mercedes, BMW, Siemens, and ThyssenKrupp. These companies also led Germany's expansion into Asian markets under the “Go East” strategy. Even though these companies are still making profits in recent times, we cannot conclude that Germany has adapted to a modern-knowledge society during the last years.

Second, labour reforms introduced during the 2000s made labour contracts more flexible and reduced social spending while unemployment remained high. Moreover, after the German reunification they had the perfect opportunity to make social reforms, successfully accomplished by Gerhard Schröder.

Third, the European power structure is already assured, and trying to reduce the gap between the German and the European structures will not work. Even within a common currency union and a unified market, one region will always prevail above the others. In our case, this region is not Germany as a whole, but rather the productive South-Western belt, from Bavaria to the Ruhr. Today, these areas are restructuring the manufacturing map of the continent. Manufacturing is focused on Poland and other

Eastern European countries rather than on Italy, France, or Greece. This fact has also been reflected in the recent rumours about a “Three-tier strategy”, in which three concentric circles would be designed, in which the inner group will consist on EU countries around France and Germany; the middle circle would hold the weaker states, while the outer would group the rest:

“Even though the German model is not replicable as a whole, Germany may nevertheless inspire some degree of change. Long-term vision and investment on education have proven to be important leverages for growth in the medium-run. Instead of trying to copy and paste Germany, Eurozone countries should decide how to better be integrated in a “German-led” economic structure: How to supply components for value-added productions, how to modulate priority infrastructural investment, and how to allow for German direct investment in their territory, and vice-versa.”²⁹

To conclude, German policymakers who urge austerity and wage restraint measures on in Europe forget that the goal of growth is raising incomes and therefore spending, and that the real benefit from higher exports is to pay for more imports. The rest of EU countries are welcome to copy the best features of the German model, without its drawbacks. But Germany should also learn from its partners about the importance of raising and sustaining domestic demand. Thus the EU area will be an internally economic competent market.

²⁹Casertano, S., “ctrl+c, ctrl+v”, at <http://www.project-syndicate.org/blog/ctrl-c--ctrl-v> (Consulted on 30 June 2012)

3.5. GENERAL CONCLUSIONS OF PART 3

Europe's weaker countries are trying to copy the deregulation of the German labour-market model recently. However, liberalising labour markets is a hard task, especially during tough economic times. Germany did so during a period of prosperity and economic growth in Europe, but weaker economies trying to do the same thing during a period of economic downturn may perish. While Germany's labour market performed exceptionally well during the crisis, labour market dualism is not creating the same problems in Germany than in Spain.

Germany's neighbour countries should not try to import the model as a whole. What EU countries should make is to reinforce labour mobility factors, promoting competitiveness within their educational programmes, and providing better school-to-work transition processes. The reason for EU countries like Austria or Germany to have such relatively low unemployment rates comes mainly from their "apprenticeship schemes" which offer work-based training, funded by the Government and businesses, unlike in Spain.

From the point of view of this research, we conclude that it will be very hard for EU's peripheral countries to copy-paste the German model because, among other things, it is not based on exportable values that every other country in Europe has. As it was exposed in this article of 'The Economist':

"There is also much to be said for emphasising vocational training instead of producing more and more graduates with often useless university degrees. But many of the things that work well in Germany- its corporatism, its business clusters, its manufacturing prowess- are part of a traditional culture that would be hard, if not impossible, to transplant from one country to another".³⁰

³⁰ Economist, The, "Modell Deutschland über alles, The lessons the rest of the world should and should not take from Germany", at <http://www.economist.com/node/21552579> (Consulted on 1 June 2012)

PART 4

HUMAN RIGHTS' IMPLICATIONS OF THE YOUTH UNEMPLOYMENT AND THE ECONOMIC CRISIS

“No global economic and financial crisis diminishes the responsibility of state authorities and the international community with regard to human rights,”- UN HRC

4.1. INTRODUCTION

Recent austerity measures passed by almost all EU countries in order to fix the economic crisis have had negative impacts for the human rights of ordinary people. Fiscal caps that have been enshrined in national constitutions are causing contractionary economic policies that are curtailing economic and social rights to the most vulnerable people, i.e. poor, migrants, women and young people.

Despite levels of unemployment are desperately high in certain EU countries, cutbacks to social spending are leading to a social retrogression never seen since the 19th Century. Many measures taken in response to the are affecting work conditions such as wages and hours of work, access to social security benefits, public employment services, etc. Several NGOs and Human Rights' institutions are fighting to ensure that human rights are respected within the economic recovery measures.

In this chapter we will study the impacts of the recent measures adopted by the EU MS among human rights. In addition, we will focus our study mainly on Spain. We will conclude that there is an urgent need by the MS to recognise any kind of right's deprivation and to address the protection of all human rights. Main questions: Is there an international standard recognising the 'right to work'? Should states be accountable for deepening in social rights by implementing more severe austerity measures?

4.2. SPECIFICATIONS OF THE LINK BETWEEN YOUTH UNEMPLOYMENT AND HUMAN RIGHTS

4.2.1. THE RIGHT TO WORK

- 1. Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment.*
- 2. Everyone, without any discrimination, has the right to equal pay for equal work.*
- 3. Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.*
- 4. Everyone has the right to form and to join trade unions for the protection of his interests.*

First of all, I have chosen to elaborate this specific article because I think it is the most appropriate one to understand the kind of violations that are being committed towards the right to work in the context of high unemployment rates. The article 23 of the UDHR recognises the right to work, to equal pay and to just remuneration, as well as the right to freely join a trade union. This article is complemented with the next one, art 24. But both articles are already recognised at international level by the Conventions and Recommendations of the ILO.

The International Covenant on Economic, Social and Cultural Rights (hereafter: ICESCR)³¹ is a multilateral treaty adopted by the UN General Assembly on 16 December 1966, and came into force in 3 January 1976. It commits its parties to work toward the granting of Economic, Social and Cultural Rights (ESCR) to individuals, including labour rights and the right to health, the right to education, and the right to an adequate standard of living. However, our study will focus mainly on article 6 of the Covenant, the right to work. The ICESCR also provides for a role for UN specialised agencies in the process of monitoring the implementation of ESCR. The mandate of a

³¹ ICESCR, Concluded 16 December 1966; entered into force: 3 January 1976, By 16 June 2012, 187 States had ratified or acceded to the Covenant.

number of specialised agencies is closely related to one or more rights of the Covenant, such as the ILO with the right to work and labour conditions.

The right to work is defined as the opportunity of everyone to earn their living by freely chosen or accepted work. Parties are required to take "appropriate steps" to safeguard this right, including technical and vocational training and economic policies aimed at steady economic development and ultimately full employment³². The right implies that parties must guarantee equal access to employment and protect workers from being unfairly deprived of employment. The work referred in this article is 'decent work', that is the right to just and favourable working conditions, i.e., fair wages, equal pay for equal work, sufficient to provide a decent living for workers and their dependants. Safe working conditions, equal opportunity in the workplace and sufficient rest and leisure, including limited working hours and regular and paid holidays.

The Committee on Economic, Social and Cultural Rights (CESCR) has stated that the right to work includes "the right of every human being to decide freely to accept or choose work", including "not being forced in any way whatsoever to exercise or engage in employment and the right of access to a system of protection guaranteeing each worker access to employment". Nevertheless, the Committee of Experts on the Application of Conventions (CEACR) has noticed "that a number of countries have identified the link between the design and pursuit of an employment policy with the implementation of the right to work" and that "many countries have incorporated a policy toward full employment or the right to work in their constitutional and legislative texts." In that sense, the Committee on Economic, Social and Cultural Rights (CESCR) has underlined that the right to work "should not be understood as an absolute and unconditional right to obtain employment".

The truth is that, the loss of a job as a result of the crisis is a risk for the population of our time. However, there is no such an international standard guaranteeing a job or an

³² Committee on Economic Social and Cultural Rights, 'The right to work', General Comment n.18, Adopted on 24 November 2005.

income to every person yet. The individual right to a job, though argued to be and promoted as a human right, is not so widely accepted as such, and certainly not given full effect in practice. The consideration given to an obligation to pursue an employment policy that prioritizes full, freely chosen and productive employment, as recognised in Convention No. 122³³, could be raised in the light of fiscal tightening by governments. But the fact is that our governments are still a big step from taking into consideration employment losses, and measures taken to reduce or prevent them. They have not articulated a real strategy to save jobs, and employment policies are being diminished in favour of fiscal tightening and compacts.

There is a particular concern in this respect about the lack of social protection for young people under government's austerity plans. This is due to the fact that young people are engaged in non-standard forms of employment, like temporary contracts with little future prospection. Thus, there is a need for the governments to fairly address this threat, to provide more permanent contracts and to increase social protection and labour standards for young people. Such social protection measures are not viewed as a cost to society, but as an investment. Investing in young human capital has significant positive impacts on human development and productivity.

Rising labour standards and social protection for young people include not only respecting the right to a decent employment, but also improving the quality of jobs. Young workers who work under temporary contracts are unable to move their families out of poverty, since their wages are relatively low. Thus, employment policies must not focus only on the creation of jobs but also on ensuring adequate wages and working conditions. From a human rights perspective is very important to keep decent wages because it can enable workers to provide a decent life for their families and themselves. At the same time it helps to fulfil the basic human right to a decent standard of living, e.g. food, clothing, housing and medical care. In addition, raising wages of workers,

³³ Employment Policy Convention, 1964 (No. 122), adopted on 9 July 1964 by the General Conference of the ILO at its forty-eighth session. Entry into force: 15 July 1966, in accordance with article 5

especially young ones, also increases domestic demand that will encourage economic growth and recovery in the future.

4.2.2. MILLENNIUM DEVELOPMENT GOALS

“Achieve full and productive employment and decent work for all, including women and young people”- Target 1.B. MDGs

An employment-focussed development strategy can contribute towards faster achievement of the U.N. Millennium Development Goals (MDGs). The importance of an employment focus is crucial for fulfilling the goal of reducing income poverty, since the only way for most poor people to get out of poverty is to raise the quantity and quality of their employment.

Youth employment is a major focus of the MDGs and was reaffirmed by the Ministers and Heads of Delegations participating in the High-Level Segment of the Substantive 2006 Session of the Economic and Social Council (ECOSOC) who committed themselves to “develop and implement strategies that give youth everywhere a real and equal opportunity to find full and productive employment and decent work”.³⁴

A failure to successfully integrate young people into the labour market has broader consequences for the future prosperity and development of countries. Some situations of jobless are related to poverty, even when they have a job, young people can face poverty due to low salaries, i.e., the youth “working poor”. A primary cause of their inability to escape from poverty is the type of work they do and the inability to find more decent and productive work. The poor are most likely to be found working in jobs under poor conditions with long hours, low wages, lack of a contract (and thus security), and often in the informal economy. Similar to absolute poverty among youth, there is very little published evidence to show the incidence of working poverty for

³⁴ ECOSOC High-level Segment: Ministerial Declaration, 5 July 2006, E/2006/L.8.

youth. It is only through decent employment opportunities that young people get the chance to get themselves out of poverty. Therefore, youth employment is an integral part of the UN Millennium Declaration, both as an important target in its own right in the MDG 1.b and as a key contribution to meeting other MDGs.

4.3. THE FISCAL COMPACT AND THE IMPACT ON ECONOMIC AND SOCIAL RIGHTS

“The protection of human rights is not a matter of choice in designing and implementing measures aimed at economic recovery”³⁵.

The fiscal compact agreed by 25 of the 27 MS is a fiscal strategy inspired by Germany to revive growth and to create jobs, via cuts in public spending plus raising taxes to tackle the debt problem, which is translated into sanctions on countries that breach EU budget deficit limits and balanced budget rules in national law.

The consequences of this fiscal compact among ESC rights have been disastrous. Without any public money available for a stimulus, the leaders have focused on promoting structural reforms, such as loosening labour market regulation, instead of promoting job creation. The repercussion is so serious that many rights enshrined in national constitutions have been treaded down, such as the right to housing, the right to a decent job, the right to health or the right to education. National governments have realised how far these consequences are going but nothing is done in order to fix this situation. The absence of political accountability for ESCR has become more apparent in the context of the economic crisis. What began as a financial crisis turned into a human rights’ crisis.

³⁵ Saiz, I., “Austerity and retrogression: Have governments got the right?”, at <http://www.cesr.org/article.php?id=1229> (Consulted on 10 June 2012)

Despite the human rights dimension of the crisis, human rights have barely appeared in the prescriptions proposed by the international community, e.g., the outcomes of the G20 Summit in London in April 2009 and subsequent inter-governmental conferences recognize the ‘human dimensions’ of the crisis but not the need for human rights-based response to it.

4.3.1. HISTORICAL CONTEXT

The last two decades were of extraordinary progress among recognition of ESCR. Since the international community reaffirmed the indivisibility and equal importance of all human rights at the UN World Conference on Human Rights in Vienna, a range of new instruments have been adopted for the legal justifiability of ESC rights internationally. ESC rights have also been enshrined in national constitutions, giving rise to a big amount of case law worldwide. However, in practice ESC rights still remain to a large extent paper promises.

4.3.2. STATE RESPONSIBILITY TO ADDRESS HUMAN RIGHTS

The fiscal stimulus packages and anti-cyclical fiscal measures being taken by many EU governments have not being interrogated from a human rights perspective. The response to the crisis reveals that these rights are still treated as mere utopic aspirations rather than legally binding principles. The states have not been actively pursuing their accountability to address ESC rights implications of the crisis. Human rights analysis has generally been absent from mainstream public debate on the impacts of the crisis and the solutions to it. As Ignacio Saiz stated:

‘The lack of reference to governments’ economic and social rights obligations suggests that these are seen as derogable in times of crisis, a luxury only permissible in times of plenty.’³⁶

The economic crisis has also brought the collapse of a number of assumptions that have been dominant for decades in international policy-making regarding the role of the state and the market in promoting human development. It has laid bare the deficiencies of the ‘minimal state’ model, and left an opportunity to reaffirm the state obligation to respect, protect and fulfil human rights, as well as to promote full employment.

A fallacy exposed by the crisis is the traditional objection that state intervention in the globalized economy is harmful to growth and should be avoided at all costs. This notion was overthrown when governments hurried to bail out their banks. The amount of credits provided to the financial sector has been in contrast to the shortage of social protection mechanisms for ordinary people affected by the crisis. Because of this situation, nowadays the accountability of the state is more challenged than ever. The question of whether the State should be accountable to its citizens and not the markets is very demonstrative. Should the state be accountable for deepening in social rights or for trying to solve the economic situation, even if that means stepping over those rights? What it has been proven so far is that states are no longer legitimized to guarantee the full enjoyment of the social rights alone. In order to protect those rights, a big struggle of the citizens organised in civil society groups, NGOs and other organizations is desirable. Those mechanisms will have to adopt a strong stance because trying to convince states to change their policies towards a better cooperation is a hard task.

After all, the crisis has offered an unprecedented opportunity for the human rights defenders to become more actively engaged in rethinking the role of the state in economic and social development. The return of the state demands that we strive harder to hold governments accountable for their role in regulating the market and

³⁶ Saiz, I., “Rights in Recession? Challenges for Economic and Social Rights Enforcement in Times of Crisis”, at <http://jhrp.oxfordjournals.org/> (Consulted on 10 June 2012)

redistributing resources, as essential means of honouring their positive obligations to fulfil economic and social rights³⁷.

4.3.3. PROMOTING THE ACCOUNTABILITY OF FINANCIAL INSTITUTIONS

The main question that still needs to be addressed is how to translate human rights into concrete and binding obligations to limit the activities of international financial institutions. Proposals for reforming the inter-governmental institutions such as the IMF or the WTO have rightly focused on opening up their undemocratic governance structures to greater participation³⁸. But the reform agenda must also include how such institutions understand and adhere to responsibilities under IHRL. Despite being clearly bound by international human rights treaties, the IMF and WTO, and to a lesser extent the World Bank, have vigorously resisted assuming any responsibility for ensuring compliance with human rights³⁹.

The IMF has been deeply discredited for its role in promoting the deregulatory trend that led to the crisis, its failure to anticipate the collapse of the financial system, and its imposition of loan conditionalities. The IMF and other financial institutions were entrusted by the G20 leaders to ‘restore credit, stabilization and growth’, but no clear guarantees were given to achieve these goals.

To sum up, if these institutions are meant to keep the leading role in international economic governance, accountability to the full range of human rights obligations must be embedded within their mandates, and these must take priority over any other competing global policy consideration.

³⁷ Idem

³⁸ UN-GA, 2009a

³⁹ Darrow, 2003

4.4. HUMAN RIGHTS AFFECTED BY THE CRISIS. THE SPANISH CASE

In order to make a deeper investigation about this topic, I am going to select the country that I am better acquainted with, Spain. There are fundamentally 4 rights that have been threatened during the course of the economic crisis: the right to health, the right to housing, the right to education and the right to a decent job. In some European constitutions, these rights are established as guiding principles for economic and social policies, or even more important, as fundamental rights. Thus, they should be regarded as directive principles if recognised in every MS Constitution.

In this Southern-European Mediterranean country, the right to health and housing are recognized as guiding principles for economic and social policy. Moreover, Spain signed the ICESCR (International Covenant on Economic, Social and Cultural Rights) in 1977. With the signature of this Covenant, Spain committed to follow the standards and rules set out in the treaty. More specifically, Spain is obliged to use the “maximum available resources”⁴⁰ for the progressive realization and non-retrogression in achieving full enjoyment of the rights under this Covenant. These principles are to be protected even in times of serious limitations of economic resources, like economic crises, and all available resources should be put to guarantee them. The state is also responsible for the protection of the people who belong to the most vulnerable groups, as may be the case for women, migrant workers or young people. Cuts in public expenditure on these sectors are also responsibility of the state. The state is obliged to carry out an assessment of the possible impacts, as well as the implementation of a subsequent study to demonstrate that economic measures do not worsen the situation, and that there are no other ways to reduce public expenditure, e.g., increasing revenue through progressive tax reforms for the wealthiest sectors of the population.

⁴⁰ Art 2 (1) ICESCR

However, since the start of the crisis Spain has implemented the most restrictive budget in the history of its young democracy. Particularly, it has reduced €27.3 billion its public spending, and additional €10 billion have been reduced in health and education, two of the most sensitive areas of social policy. The motive for these cuts has been to reduce the public deficit and Spain's borrowing costs. However, many experts warn that these cuts will come at the expense of the quality, accessibility and sustainability of basic social services. According to a recent survey⁴¹, in Spain 22% of households live below the poverty line and the poverty rate grew by more than two points in two years. Unemployment benefit provisions are lowering and many households do not receive any income at all. Moreover, despite being the 5th largest economy in the EU, Spain is actually one of the lowest spenders in the EU on social protection, health and education. Education, health and social protection are key investments for mitigating the negative impacts of the crisis and ensuring that future economic growth is sustainable and furthers the realization of human rights.

Even though civil society organisations have urgently asked the Spanish government to explain the criteria employed in deciding to cut the social spending in education or health, a human rights impact assessment has not been conducted yet, and the government has not complied with the human rights principles of transparency, participation and accountability while designing its financial budget.

4.4.1. THE RIGHT TO WORK

Spain has the highest rate of unemployment of all OECD and EU countries. Last figures from 2012 show that one in ten households has no employed member. Rising unemployment is deteriorating not only the citizen's right to work, but also the right to an adequate standard of living. Long-term unemployment in Spain has more than quadrupled since the economic crisis started, and they are the fastest-growing group of

⁴¹ Living Conditions Survey, 2011

people without work. In addition, more than 40% of those unemployed have been so for more than a year and 1/4 of the working population is working under a temporary contract⁴². That places Spain as the country with the highest rate of temporary workers in the EU-15 and the second highest in the EU-27. Even though reforms have been made to limit the amount of times temporary contracts can be renewed, the proliferation of this type of working conditions creates job precariousness, affecting young people in particular, which represent almost a 60% of Spain's temporary workers.

4.4.2. THE RIGHT TO DECENT WORK CONDITIONS

By establishing minimum wages, states offer social protection and make a good effort in order to reduce wage inequality and ensure decent work, as well as fair remuneration. When household income falls, the number of people experiencing financial difficulty reaching the end of the month increases. Household incomes have fallen in Spain since the financial crisis started, and is continuing to drop as unemployment is worsening. More than half a million households had no income-earners at all in 2011, eroding their right to an adequate standard of living⁴³.

However, the Spanish government has done nearly nothing to increase the purchasing power of the lowest-wage workers. Although the nominal minimum wage has increased slightly in 2011 and froze in 2012, the minimum wage (one-third of average wages) cannot guarantee a decent standard of living. According to Spain's Tributary Agency, almost 1/3 of wage earners received salaries equivalent to the minimum wage or less in 2010⁴⁴.

⁴² Center for Economic and Social Rights, 'Visualizing Rights: A Snapshot of Relevant Statistics on Spain', at <http://www.cesr.org/downloads/FACT%20SHEET%20SPAIN.pdf> (Consulted on 2 July 2012)

⁴³ Idem

⁴⁴ Idem

4.4.3. THE RIGHT TO HOUSING

The explosion of the real estate bubble was a central factor fuelling the economic crisis in Spain. Nowadays, one half of the households have financial difficulties to pay housing costs in Spain. Before the crisis, the government encouraged to buy houses instead of renting them, so many people took out mortgages. At the same time that unemployment is increasing, households now are facing difficulties in order to repay mortgages.

The right to affordable housing of people living in poverty has been particularly hit by the crisis. In 2006, before the crisis started, the Special Rapporteur on adequate housing, Miloon Kothari, warned that many vulnerable groups were spending more than 40% of their income on mortgages or were defaulting on their payments, a situation which was “not sustainable in the long term” and could threaten the right to adequate housing for these vulnerable groups⁴⁵. Since then, Spain has not made sufficient efforts to satisfy the affordable housing demand. In his 2006 visit, the Special Rapporteur also noted that the number of low-cost rental dwellings only covered 35.4% of poor households, compared to 72.8% on average in Europe in 2005⁴⁶.

Ironically, Spain has one of the highest rates of vacant housing in the European Union. This is due to the fact that Spain’s economic growth was mainly reliant on the lucrative construction sector, and when the housing bubble exploded, a lot of people lost their jobs and could not continue to pay their mortgages and were expelled from their houses. Thus the situation now is that banks, the same that have been bailed out by the EU with public money, have now the legal ownership of those vacant houses. At the same time, social housing has not increased at par with the amount of housing stock available at market price. For many low-income groups social housing, although sold at subsidized

⁴⁵ U.N., ‘El experto de Naciones Unidas sobre una vivienda adecuada concluye su visita a España’ at <http://www.unhchr.ch/huricane/hurricane.nsf/view01/9163EC7BF5D7FA5CC1257243007731E1?opendocument> (Consulted on 2 July 2012)

⁴⁶ Idem

rates, still remains unaffordable. In conclusion, the right to a housing in Spain still remains a luxury only affordable to wealthy people instead of a universal human right.

4.4.4. THE RIGHT TO AN ADEQUATE STANDARD OF LIVING

Unemployment in Spain is leading to job precariousness, reduced income and reduced social benefits on ordinary households, and over a million people were forced into poverty between 2009 and 2010. According to Eurostat figures, in Spain more than a quarter of the population is now at risk of poverty and exclusion⁴⁷, and the figure is even higher among children, while inequality levels are rising faster than in any other EU nation⁴⁸.

The gap between the wealthiest and the poorest has grown in Spain, converting this country in the first within the EU-15 in income inequality and 3rd in the EU-27⁴⁹. The top 20% of the Spanish population has an income seven times that of the bottom 20%⁵⁰. The OECD noted that in Spain “the growing share of income going to top earners means that this group now has a greater capacity to pay taxes”⁵¹. In addition, it recommended that Spain should reformulate the taxation system through progressive tax reforms that would affect the wealthiest sectors of the population.

Moreover, Spain has one of the highest rates of children living in poor households in the

⁴⁷ Eurostat, “People at-risk-of-poverty or social exclusion”, at http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=t2020_50&language=en (Consulted on 18 June 2012)

⁴⁸ Eurostat, “S80/S20 income quintile share ratio by sex and selected age group”, at http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_d11&lang=en (Consulted on 18 June 2012)

⁴⁹ Center for Economic and Social Rights, ‘Visualizing Rights: A Snapshot of Relevant Statistics on Spain’, at <http://www.cesr.org/downloads/FACT%20SHEET%20SPAIN.pdf> (Consulted on 2 July 2012)

⁵⁰ OECD, ‘Better life index’⁰, at <http://www.oecdbetterlifeindex.org/countries/spain/> (Consulted on 3 July 2012)

⁵¹ OECD 2011. Divided We Stand: Why Inequality Keeps Rising.

OECD, as almost 1/3 of children are at risk of poverty and social exclusion⁵², and 1/4 of the total population as well. In addition, the amount of working poor has deepened in the recent years, due to the fact that wages are too low to ensure an adequate standard of living. For that reason, Spain has committed under the Europe 2020 strategy to reducing poverty and social exclusion with a target of lifting 1,400,000 to 1,500,000 persons out of poverty and exclusion in 2009-2019⁵³. However, this target may have been dispersed due to the financial stress that Spain is going through, that deepens even more in social exclusion and situations of poverty.

4.5. RECOMMENDATIONS FROM A HUMAN RIGHTS PERSPECTIVE

Even though IHRL does not contain detailed prescriptions in how to solve financial or economic crises, it provides a normative framework of principles that should be considered in the setting-up of public policies and the processes through which they are implemented. These principles still have little resonance maybe because they are formulated in overly legalistic terms, or because to many social and economic policy-makers, human rights are perceived as having little more to offer than a list of utopian ‘everyone should’⁵⁴, “an impracticable charter of maximalist demands with little applicability to the day-to-day task of policy-making”⁵⁵.

Therefore, one of the most important challenges that human rights defenders are facing nowadays is ‘translating the abstract normative principles of international law into an ethical point of reference in the political arena and making them operational in day-to-day public policy-making’⁵⁶. It is likely that human rights law should be more actively inserted in debates around national and international governance in order to help states to fulfil human rights in an international economic level.

⁵² Center for Economic and Social Rights, ‘Visualizing Rights: A Snapshot of Relevant Statistics on Spain’, at <http://www.cesr.org/downloads/FACT%20SHEET%20SPAIN.pdf> (Consulted on 2 July 2012)

⁵³ Idem

⁵⁴ Idem

⁵⁵ Glasius, 2007

⁵⁶ Idem

In order to achieve this goal, states should also create systems of civil society participation that will have an influence in the most relevant decision-making processes. In that way, states will be more accountable when implementing a decision that could be prejudicial for the interests of its citizens. The participation of the citizenship in these processes is not optional for states, but a fundamental and inalienable right that gives democracy a real meaning.

Second, IHRL contains more specific principles that should form the framework of any measure adopted in response to the crisis. Governments should prioritize the achievement of minimum levels of rights enjoyment, like the right to an adequate standard of living, or to work under decent conditions in order to live life with dignity. Thus, government efforts must be directed to the maintenance and strengthening of programmes aimed at ensuring basic social protection for the most discriminated sector of society, i.e., the elderly, women, children and young people.

Governments have positive duties to fulfil ESC rights, as well as obligations to respect them and to protect them against abuses. They are required to implement the necessary policies to allow all members of society to freely exercise and progressively realize their rights. If the state claims that it cannot meet these obligations due to lack of resources, then it faces the assessment of justification. Even in a crisis context, states must generate and assign the maximum resources available to the progressive fulfilment of economic and social rights, moving forward as swiftly as possible towards their full realization and avoiding deliberately retrogressive measures⁵⁷. This obligation implies ensuring that essential goods and services are universally available and accessible, and taking steps to remove the barriers preventing poor and disadvantaged groups from achieving minimum levels of rights enjoyment.

⁵⁷ UN-CESCR, 1999

4.6. GENERAL CONCLUSION OF PART 4

The current crisis context has highlighted the need for greater accountability of state obligations to respect, protect and fulfil economic and social rights. The state responsibility to protect needs to play a vigorous role in the regulation of the market, while the responsibility to fulfil requires redistributive allocations through an effective, transparent, and progressive taxation system aimed at redirecting the available resources to the universal and progressive fulfilment of economic and social rights.⁵⁸

Considering human rights for the response to the crisis is crucial. A big commitment from the state to protect human rights is desirable. When implementing measures that may threat any of these rights, states should elaborate a human rights impact assessment, that is, after an exhaustive examination of all alternatives states should adopt the less harmful measure at their disposal. Public policies affecting human rights should be considered only as a last resort.

None of the duties should be repealed during times of crises. The financial economic context is not a justification for states to circumvent on their fundamental human rights obligations. In these times, it is even more important for states to guarantee minimum essential levels of these rights, take measures to help the most vulnerable people, avoid those retrogressive or discriminatory measures, and orient public policy towards the progressive realization of the rights of the whole population through the equitable distribution of available resources.

To sum up, the crisis has offered an unprecedented opportunity for human rights organizations to play a role in revising the rights-fulfilling state, placing regulation and redistribution at the centre of its functions, and ensuring that the new global economic architecture that emerges in the coming years is based on the respect, protection and fulfilment of economic and social as well as civil and political rights.

⁵⁸ Saiz, I., “Rights in Recession? Challenges for Economic and Social Rights Enforcement in Times of Crisis”, at <http://jhrp.oxfordjournals.org/> (Consulted on 10 June 2012)

PART 5

PROPOSING SOLUTIONS FOR TACKLING THE UNEMPLOYMENT AND THE ECONOMIC CRISIS IN EUROPE

“The global financial and economic crisis and the crisis of the Euro area have shown that the policy package combining monetary and fiscal policy abstinence and the deregulation of labour and financial markets has failed.”

5.1. INTRODUCTION

The G-8 leaders during the last summit in Camp David (May 2012) stated: “Our imperative is to promote growth and jobs”. At a European level, the need to support young people through strategies relating both education and employment is also a priority. The ‘Europe 2020’ strategy has recognised youth unemployment as a problem at the highest political level. Even the Council on “New skills for new jobs: the way forward”⁵⁹ has also stressed the need to develop links between education and training and the labour market, to improve the transition from education to work and to reduce the number of young people who are not in employment, education or training (NEET).

But the reality is another. Despite every job-friendly statement in the G-8, G-7 or G-20 summits, the policy strategy has no longer pursued the job creation and growth better than fulfilling the fiscal compact with the purpose of calming the financial markets. Even in countries that have not suffered the effects of the crisis, fiscal deficits are being reduced to avoid negative impacts from financial markets. Since the crisis started, EU governments have stepped over fundamental rights for the citizenship that had been achieved during the 19th Century. The deregulation of labour markets and the weakening of its institutions have been two of these severe consequences.

⁵⁹ “New skills for new jobs: the way forward”, CoE, 2010

In an attempt to calm financial markets, spread the confidence for investors and promote job creation and growth, the economic conditions and the employment growth has continuously deteriorated, specially in Southern European countries.

In this chapter we will study why these austerity measures have been a major failure for the economy of the EU, and the reason why they could not work in the future. In addition, possible solutions will be explained for solving the economic crisis, from a macro and microeconomic perspectives.

Main questions: What should EU MS do in order to tackle the crisis? Is it a good idea to lower wages? Can low wages be substituted by labour mobility? What are the main problems for the MS to leave the crisis? What are the EU institutions doing about it?

5.2. A HISTORICAL PERSPECTIVE OF THE ECONOMIC CONTEXT

First of all, we have to assume that full employment has not been a goal of macroeconomic policy in recent times anymore. The treaty called “Pact for Stability and Growth” has been ruling out a counter-cyclical fiscal policy that has threatened labour conditions and jobs and it is still a doubt whether it will threaten the economic growth as well. At the moment fairly none economic growth has been demonstrated.

But in order to examine the recent situation of the economy, we have to study first the historical changes that have hit the economy during the last decades.

5.2.1. THE LIBERALIZATION OF FINANCIAL MARKETS

Financial institutions have gained the leading role in the economy that states have lost. The deregulation of financial markets has redefined the role of the state that cannot control anymore the fluctuant changes in the “economy of the non-existents”, i.e., the

economy of speculations. The class compromises between labour and capital that during the past guaranteed wage rises according to inflation and labour productivity growth, has lead to a decentralization of wage setting and a rise of inequalities.

Therefore the role of the state that was initially conceived to implement full employment policies, has been redefined to that one of calming financial markets and implementing measures imposed by the IMF, WB or the ECB, uniquely.

In order to study this change in the world economy we have to go back in time until the Breton Wood arrangements, in 1971. During the Breton Woods, the ECC countries agreed to maintain stable exchange rates by preventing fluctuations of more than 2.25%. But when the Breton Woods system was over, the era of flexible exchange rates started. EU countries tried to establish more stable arrangements, and this is why it was replaced with the EMS (European Monetary System). The EMS created the ERM (European Exchange Rate Mechanism) and the Euro. But the ERM also led to the deregulation of banks and financial institutions, and at the same time, financial transactions were liberalised. The liberalization of financial markets meant the lifting of interest rate ceilings and a reduction of state influence on credit allocation, permitting new financial instruments like the hedge funds. The rise of interest rates precipitated the debt crises of the eighties, and created a structural problem for government finances since the GDP growth grew below the interest rates. This was due to a restrictive monetary policy by the Bundesbank, until the introduction of the Eurozone, when financial deregulation made the financial sector more attractive to investors. This was the starting point of the current economic crisis.

5.2.2. THE CHANGING ROLE OF THE STATE

During the Neoliberal revolution in the eighties, the main objectives from a macroeconomic perspective were to control prices and to keep a fiscal stability, rather than promoting employment and growth. The state has taken on a much more limited

role in the economy and now it does not intervene in the market mechanism the way that it should. In Europe, the redefinition of the role of the state was codified in several treaties, e.g., the “Maastricht Treaty” and the “Pact for Stability and Growth”. Under these treaties, the price stability and fiscal restriction were the main priorities. Nothing was said about the full employment objective.

But the role of the state came together with another consequence, the weakening of civil society. Labour unions were attacked and miners were denied concessions. Nowadays these two collectives are suffering the consequences of the crisis. Labour union and government compromises were abandoned progressively and wage negotiation decentralized. Thus, labour unions were being replaced as leading organizations of civil society. Nowadays, the strongest civil societies are the NGO’s and other international organizations, e.g., Amnesty International, but they have very limited power to influence governments to change their positing regarding certain issues, like the economic one. In summary, states need to be empowered politically, because nowadays they lack from a democratic perspective due to the loss of economic and legal sovereignty.

5.2.3. THE ACCOUNTABILITY OF FINANCIAL INSTITUTIONS

The decision-making bodies that have drafted the recent EU treaties are no longer democratically elected, neither accountable nor transparent. In many cases, electorates would have not supported many of the policies if they would know the consequences in advance. The discontent about the democratic deficit of the EU is being reclaimed since the EU treaties were ratified and implemented.

The ECB, the institution responsible for the rescue packages to the European banks, is only concerned about price stability instead of employment stability. Not only the ECB, but also the most important institutions that rule the world’s economy are those who are not accountable to society or to democratically elected governments, e.g., IMF, WB, WTO. Even the European Commission’s meetings are made in private.

It is true that there is little representation of the EU population in the ECB. Apart from the fact that the ECB should be more transparent than it is nowadays, it should also provide some mechanisms of accountability. In addition, Europeans should have a mechanism to denounce any kind of violation towards their rights. It is also important the fact that the ECB should integrate a “code of conduct” taking as basic principles the protection, respect and fulfilment of universally recognised human rights.

On the other hand, the IMF is dictating economic policies to be implemented by the EU countries, but only on the interest of investors and lobbies. These people have different interests than the rest of the electorate. This is what leads us to say that there is a big democratic deficit between the economic policies driven by the states and the interests of the citizens. We have to shorten this deficit because electorate’s interest cannot be replaced by supranational institution’s interest, as those institutions haven’t been democratically elected at all.

5.2.4. THE DEREGULATION OF LABOUR MARKETS

From the Neoliberal academia, the reason that lies behind high unemployment rates in Europe is always the too regulated labour markets institutions and high wages. If we go back in time, during the Thatcher era in UK, there was a strong effort by the British government to deregulate labour market and, as a consequence minimum wages were lowered, unemployment benefits reduced and labour unions weakened. However, the employment growth is not only a consequence of these factors but a question related to the global demand. And the global demand is set by investment decisions. Therefore, unemployment cannot be explained only from the changes in labour market. It is a problem that must be fought in the goods market, not only in the labour one, because the latter is unlikely to reduce unemployment itself.

5.3. A NEO-KEYNESIAN APPROACH TO TACKLE THE UNEMPLOYMENT PROBLEM

Nowadays, there is a lot of criticism about the recent austerity measures, the banking system failures and the way that EU governments are facing the crisis. However, little solutions are given to restore confidence and keep the economy growing. This is the reason why possible solutions are needed to solve the unemployment problem, both from macro and microeconomic perspectives. At the end of the subchapter, some alternatives already introduced in economic fora will be discussed.

5.3.1. FROM A MACROECONOMIC PERSPECTIVE

In an attempt to deal with the crisis, it would be necessary to undertake a “three-tier strategy” in all EU countries. First, there should be a state committed to full employment and growth. Second, there should be a balance of power between capital and labour. And third, the financial sector should be subordinated to the real sectors of the economy⁶⁰.

First of all, it is necessary that the state regain an active and growth-oriented role to fulfil the full employment goal. In order to do that, some of the EU treaties should be revised first.

There are three mechanisms available for the states to respond to recessions: fiscal, monetary and exchange rate policy. Since the Maastricht Treaty, fiscal policy (via government expenditure and taxation) has been restricted. Nowadays, EU governments have a debt ceiling of 3% of the GDP, and the 60% for the public debt. However, some of the EU countries after the crisis have not adhered to these limits.

⁶⁰ Stockhammer, 2004, p.177

The second policy is the monetary policy (via interest rates), but in Europe it is subordinated to the price stability target and therefore unlikely to play an expansionary role in the economy to combat unemployment.

And third, the exchange rate is not a tool for the MS because of their membership in the EMU, and because externally they are floating exchange rates or fluctuating exchange rates in the foreign exchange market. In summary, there is no internal way for the states to respond to a crisis.

Furthermore, at a European level, there is a separation between fiscal and monetary policies. While fiscal policies are managed by national governments, monetary policies are taken on by the ECB. Thus, these fundamental policies need to be coordinated.

Secondly, there is a need to include a broad participation of non-conventional political organizations (civil society organizations, NGOs) in the policy-making processes of the governments. In order to achieve a balance of power between capital and labour, there should be a mediation of the conflict with strong representation of workers and their organizations.

“Within a Keynesian approach this is important not only to ensure a wide dispersion of the gains of growth but also to mitigate distributional struggles through institutions. Distributional struggle is identified as a key source of inflation by Post Keynesian theory and also underlines the NAIRU theory⁶¹. [...] Empirical literature establishes that centralized bargaining reduces inflation and the NAIRU.”⁶²

Thirdly, the financial sector should be subordinated to the real sectors of the economy. To do that, first it has to be restructured until it provides finance for long-term expenditures and regulated in order to create a stable financial sector that no longer

⁶¹ The NAIRU theory has become the mainstream theory in explaining unemployment in Europe and is often used to justify demands for a cutback of the welfare state, reducing unemployment benefits, reducing minimum wages, decentralizing collective bargaining, etc.

⁶² Stockhammer, 2004, p.183

causes more crises. The measures required to do that must include transparency of financial accounts and tighter supervision of unregulated financial actors.

5.3.2. THE KEYNESIAN MODEL: SOLUTIONS FOR THE UNEMPLOYMENT

The fundamental contribution of Keynes' economic policy was the Aggregate Demand (AD), i.e., the total demand for final goods and services in the economy at a given time and price level.

$$AD = C + G + I + (X - M)$$

C= Consumption, I= Investment, G= Government spending, X= total exports, M= total imports.

By using this formula, governments can combat the two major problems of any economy: unemployment and inflation. However, according to Prof. Pavón, Keynes committed a mistake⁶³ in his formulation. The British economist stated that that unemployment with inflation could not coexist, because logically, if there was an excessive demand, demand would push the supply and this would push employment. In 1973 the oil crisis erupted, and as a consequence inflation and unemployment coexisted because the inflation that appeared after that date was not a demand-based inflation, but a cost-based inflation. The price of the primary products, e.g., energy, oil, petrol, was rising uncontrollably, but it was not caused by a higher demand. Therefore, Keynes was unable to give an explanation to this new situation and Keynesian theories were automatically replaced by liberal policies or supply-side policies.

The supply-side policies considered that the state should be neutral towards any kind of economic decision. The state should only care about handling interest rates to improve the economy. Furthermore, the emphasis changed from the macroeconomic to the

⁶³ Pavón, J., 'Muerte y resurrección de Keynes', at <http://www.youtube.com/watch?v=mk6vgZGdar8> (Consulted on 8 July 2012)

microeconomic perspective. That means that the decisions must be taken in an enterprise level and not in a governmental level. These decisions consisted on lowering production costs, not letting wage to rise, and improving innovation, competitiveness and quality of products.

But in 2008, with the rise of the economic crisis, all governments from the EU to the US started to consider implementing Keynesian theories again. The reason is that the basis of the new economic situation is the coexistence of unemployment with deflation. Within this context, Keynes had the answer to stimulate the AD. According to Keynes, if we want to fight unemployment, we will have to raise the Aggregate Demand by stimulating consumption. In the economy, there are four basic ways to stimulate consumption:

- 1) Lowering direct taxes, so families have more money to spend and consume.
- 2) Lowering interest rates. That is the cost of money for businesses that later will promote investment.
- 3) Increasing public spending (G) to finance public projects like hospitals or schools, etc.
- 4) Promoting exports (X) through a lower exchange rate.

The problem of the unlimited public spending is that states incur in new public debt, and in the long run, this can create a structural problem. This is the reason why Neokeynesian economists propose that public spending should be increased only during times of recessions, and decreased during times of economic welfare.

5.3.3. LIMITATIONS OF THE KEYNESIAN MODEL WITHIN THE EUROPEAN MONETARY UNION

The EU MS cannot longer use the monetary policy instruments used by Keynes, because governments have no control over interest rates or exchange rates anymore. Therefore, the only economic policy instruments available at their disposal are the fiscal instruments: taxes and public spending.

The problem comes when governments implement these four economic policies because they are creating more deficit and public debt. Moreover, if the MS is a member of the Eurozone it has agreed beforehand, through the Stability Pacts, that the public deficit should not exceed from the 3% and 60% of their GDP for the public debt. In that sense, governments cannot use expansionary policies from the fiscal point of view: they cannot lower interest rates or increase public spending indefinitely because they EU obliges them to cut the public spending and the public debt.

From the unemployment point of view, we would necessarily need expansionary policies sustained in time with tax cuts and higher public spending in order to stimulate the economy. However, the reality is that the EU MS have limited possibilities, i.e., they cannot maintain expansionary policies indefinitely because they must return to the economic discipline. Moreover, according to the EU, if governments raise taxes and lower public spending, they are generating even more unemployment, i.e., the ‘unemployment trap’. And thus, this is the real problem that the European economy is facing nowadays. If the solution is that governments should make expansionary policies to promote consumption; according to their commitments with the EU, they must do now just the opposite, i.e., implementing counter-cyclical fiscal policies.

5.3.4. A MICROECONOMIC SOLUTION

The microeconomic perspective has been fundamental since Keynesian theories were abandoned and, as a consequence, the state was relegated in its role to control the fluctuant changes of the economy. Therefore, it is also important to understand what changes should be made in a firm level to meet the new labour market expectations.

Schumpeter considered that the essential element in the capitalist economy is the innovative entrepreneur. Innovation as a process of creativity is the basis for development of the capitalist economy. The entire economy converges in the enterprise. This is why it is necessary to move the emphasis from macroeconomics to microeconomics, because costs appear precisely in a microeconomic level. According to Schumpeter and the Austrian school, what we need to do is reducing any cost within the enterprise: salaries, energy costs, finance costs, increasing productivity through the incorporation of technological development and through innovation.

But reducing wages has been the leading discourse in the current neoliberal thinking. Even Neokeynesian thinkers, like P.Krugman, proposed that the only alternative for the peripheral countries in Europe to increase their competitiveness is by reducing wages, under some conditions. In his recipes about the Spanish case, Krugman stated the following:

*“In order to solve the competitiveness problem in Spain, wages have to fall in relation to the Germans. And if the Germans have no inflation, the only alternative would be that Spanish wages go down. But nobody has managed to lowering wages. Neither the Irish, with all its flexibility, or Latvians, with all its austerity. The wage reduction, then, is not an option. Therefore, if Germany refuses to have more inflation, Spanish competitiveness will remain low and the only option is to leave the euro.”*⁶⁴

⁶⁴ Sala i Martín, J., Paul Krugman: "Si Alemania no cede, el euro se rompe", at <http://www.lavanguardia.com/economia/20120708/54322010105/paul-krugman-si-alemania-no-cede-el-euro-se-rompe.html> (Consulted on 9 July 2012) – Translated from Spanish

Vicenç Navarro, Spanish expert in applied economics and public politics, puts Krugman's statement into question. In his opinion, competitiveness and exports do not depend primarily on prices⁶⁵. This can be clearly seen in Germany, where high exports growth has had nothing to do with a decline in prices of the exported products. The export growth has only translated into an increase of the GDP per capita in Germany. In fact, Germany's GDP per capita has risen more than in any other EU country, and unemployment is at a record low. Even though manufacturing exports have been hit by foreign competition in many rich countries, in Germany they remain strong drivers of growth. German exports success is based in part on the enormous economic growth in China (9%) and India (6%) and their imports of German goods. Germany is the perfect example to show that a high-wage country can succeed in manufacturing, without having to hold down unit labour costs.

However there is another point that should be mentioned related to the correlation of the German low unemployment with the German exports model success. Exports growth has not translated into massive jobs losses in Germany as a result of the co-management system within workers and enterprises that we already developed in Chapter 3. The explanation is that Germany's major export enterprises have committed themselves to export German products without detriment to jobs.

5.4. THE EUROPEAN UNION'S FAILURE AND ITS CONTRADICTIONS

The European failure on the global scale is not other than the impossibility to face the challenges that are being introduced by the new emerging economies, the BRICS (Brazil, Russia, India, China and South Africa). These economies are gaining the economic and technological power that Europe is losing. This new phenomenon that is

⁶⁵ Navarro, V. Por qué Paul Krugman está equivocado en sus recetas para España, at <http://www.vnavarro.org/?p=6871> (Consulted on 15 June 2012)

being produced due to globalization, is asking for urgent changes in the European current labour market system.

The whole economic system is based on competitiveness. In that sense, Europe has two ways to compete, by producing cheaper products than the rivals that could be exported out of Europe, or by promoting innovation based competitiveness. However, innovation is a long-term process and it requires a change in the production model that could take decades. With the new labour reforms within EU countries there has been a remarkable attack to collective bargaining. Collective bargaining has been decentralized. Salaries are now bargained at a company level where the employer has a certain power of coercion. Especially in Southern-European countries (the periphery) where there are so many unemployed waiting for work that the employer can stipulate the working conditions. With the new labour reforms, employers can decide whether to participate in the collective bargaining process or not. The reallocation of the collective bargaining process has moved from the sectoral agreement, between employers and employees, to the firm level, where the employer sets up the working conditions and employees are obliged to accept wages reductions.

5.4.1. REDUCING WAGES AS A COMPETITIVENESS RECIPE

Paul Krugman, Nobel Prize in Economics, proposes that the least competitive economies of the Eurozone have to reduce their wages around a 20% in a period of five years⁶⁶. He also comments that this goal would be easier to achieve with little inflation. However, there is a risk when governments lower wages:

“Even when countries successfully drive down wages, [...], they run into another problem: incomes are falling, but debt is not”⁶⁷.

⁶⁶ Krugman, P., 2012

⁶⁷ Idem

The debt is a structural problem that peripheral countries will suffer in the future. With the new bank bailouts, EU core countries are putting more pressure on peripheral countries with higher interest rates on the loans, due to the distrust that produces the inability to repay those loans.

In addition, there is second risk due to lower wages, because if wages are the reflection of consumption, the less money the workers earn, the less consumption is produced in the economy.

Krugman also praised the fact that the peripheral countries may leave the EMU area in a hypothetical case, in order to devalue their currency and be more competitive:

“If you still have your own currency, however, you wouldn’t have to go through the protracted pain of cutting wages: you could just devalue your currency — reduce its value in terms of other currencies — and you would effect a de facto wage cut.”⁶⁸

Needless to say that, the exit of the EMU area by some peripheral countries is already being considered in economic fora as possible solution for ending with the impoverishment of those countries. Krugman stated this in one of his recent ‘op-ed’ in the New York Times:

“What is the alternative? Well, in the 1930s- an era that modern Europe is starting to replicate in ever more faithful detail- the essential condition for recovery was exit from the gold standard. The equivalent move now would be exit from the euro, and restoration of national currencies. You may say that this is inconceivable, and it would indeed be a hugely disruptive event both economically and politically. But continuing on the present course, imposing ever-harsher austerity on countries that are already suffering Depression-era unemployment, is what’s truly inconceivable.”⁶⁹

⁶⁸ Idem

⁶⁹ Krugman, P., ‘Europe’s economic suicide’, at http://www.nytimes.com/2012/04/16/opinion/krugman-europes-economic-suicide.html?_r=1 (Consulted on 8 July 2012)

Nevertheless, some other neoliberal economists argue that the dissolution of the Eurozone will have tremendous negative effects on the global economy and high costs for all the EU MS. They point out other alternatives as more viable and preferable, e.g., a uniformly regulated banking system, or a federally administered fiscal policy.

5.4.2. LABOUR MOBILITY AS A SUBSTITUTE OF WAGE FLEXIBILITY/ ASYMMETRIC SHOCKS/ FLEXICURITY CONCEPT

While in some OCA (Optimum Currency Area) a high degree of wage and price flexibility is an indispensable requisite for an optimal currency union, in others like the EMU area, labour mobility may be a substitute for wage and price flexibility⁷⁰. As Robert Mundell pointed out, the conditions for the countries to maintain an OCA are the following:

“Countries within an OCA should not be hit by shocks that are too asymmetric. Moreover, they should not be substantially worse off while others are booming. There should be a high degree of labour and/or wage flexibility within those countries and a coordinated fiscal policy ensuring that capital is transferred from countries that are doing well to countries that are doing poorly.”⁷¹

Needless to say that the economic crisis in Europe has hit countries in an asymmetric way. EU Countries have different levels of development and there is not such a high degree of labour and wage flexibility. The lack of wage flexibility is contributing to higher unemployment. This effect is particularly noticeable when prices fall due to a decrease in the demand for products so the marginal productivity of workers decreases. In this case, if labour supply is rigid in the short run and wages don't change, unemployment comes as a result.

⁷⁰ Eckhard, H., 2011, p-24

⁷¹ Dev Kar, at <http://www.financialtaskforce.org/2011/06/20/asymmetric-shocks-and-other-woes-of-the-eurozone/> (Consulted on 21 June 2012)

As we introduced in previous chapters, ‘asymmetric shocks’ are a big problem for the Eurozone. Whilst peripheral countries are hit by slow growth, lack of competitiveness and low labour productivity, the core countries are hit just in the opposite way. These shocks are mitigated through labour mobility, promoted by the creation of the European Space of Higher Education, and the recognition of academic degrees within the EU area. The labour mobility is a good solution to tackle the asymmetric shocks, but there is still some reluctance for the EU citizens to look for a work in another countries, due to language and skill-set barriers. In this sense, Krugman is very critic with the labour mobility in Europe because, as he states:

“While Europeans have the legal right to move freely in search of jobs, in practice imperfect cultural integration — above all, the lack of a common language — makes workers less geographically mobile than their American counterparts.”⁷²

However, due to institutional and cultural factors it is very hard in the short term to eradicate the unemployment simply by increasing the labour mobility. Therefore, other programs should also be used to moderate the unemployment problem by developing the economies of the periphery with the highest unemployment rates to create jobs and thereby decrease unemployment. This economic development can be achieved through investment and entrepreneurial initiatives either domestically or by the core countries.

Nevertheless, it is still argued that unemployment has little effect on labour mobility in Europe. Young people are less likely to migrate within EU countries than in other Optimum Currency Areas, such as USA. In fact, the high unemployment rate for youngsters, instead of increasing the labour mobility, what it makes is just the opposite: it increases the attractiveness of pursuing further education and staying jobless at home, rather than entering the labour market without a granted possibility of success. This results in huge amounts of overqualified workforce for the countries and increasing unemployment rates.

⁷² Krugman, P., 2012

In the context of the biggest economic crisis in Europe, the European employment strategy proposed to use a new term to deal with microeconomic problems, 'flexicurity'. Flexicurity is a mixture between the terms flexibility and security. It is basically a combination of easy hiring and firing rules combined with high benefits for the unemployed and a pro-active labour market policies. Flexicurity is seen as a way to preserve the European Social model, while at the same time maintaining and improving the competitiveness of the EU.

On the one hand, the supporters of flexicurity argue that, in the context of globalisation and technological changes there are continuously demands on business to adapt. This strategy would make labour markets more inclusive in some EU countries, by tackling labour market segmentation between insiders (workers with quality jobs) and outsiders (precarious employees who do not benefit from other advantages linked to a permanent contract, frequently youth and migrants). This new term has been adopted in a European level, by the EU Council and the Commission, and revised in the Lisbon Strategy for Growth and Jobs.

On the other hand, the critics of flexicurity argue that has not been practised in Europe, because if flexicurity means that workers get higher social security and unemployment provisions in return for lower work place protection; it Europe flexicurity policies pursued by the governments have simultaneously reduced work place protection and unemployment benefits as well.

5.4.3. THE LACK OF FISCAL POLICY COORDINATION/ ILLICIT FINANCIAL FLOWS/ THE DIFFERENCE OF INTERESTS

The intra-Euro imbalances between countries have to be overcome by fiscal policies, but there is a coordination problem with fiscal policies among the MS. That means that those countries with balance of payments' surpluses would have to increase their government deficits in order to allow those countries with balance of payments' deficits

to reduce their current account and thus their government deficits.

At a European level, the crisis has shown there is still a deficit of EU economic governance. Therefore, there is a need of strengthening national fiscal policies first. This reform needs to include the establishment of independent “fiscal watchdogs” within MS, i.e., mechanisms with broader macroeconomic surveillance and sanctions. An independent body, like the European Fiscal Council could decide, based on macroeconomic considerations, whether to implement appropriate cuts in the event of restructuring future sovereign debt.

It is also important to establish a strict control on monetary policy over the Eurozone, because the current monetary control is in practice circumvented by foreign borrowing (i.e., foreign loans as a substitute for the expansion of the domestic currency). Hence, it would be necessary to complement the monetary union with centralized fiscal policy to control foreign borrowing.

In addition, there is another shock hitting the EMU, the illicit financial flows. In the years leading up to the financial crisis, there was massive capital flight from the peripheral countries, i.e. Portugal, Spain, Ireland and Greece. The capital involved was both licit and illicit capital. This situation occurred with the “complicity” of Germany and France that continued to attract large foreign capital inflows. Capital flows imply two additional problems for the Eurozone. First, the loss of capital from the peripheral countries puts more pressure on long-term interest rates in the Eurozone. Second, they have an adverse impact on government revenues in the peripheral MS leading to wider fiscal deficits in those countries.

“The Mundellian paradigm for an optimum currency area did not foresee the potential instability of a union with the weaker members losing massive capital through legal and illegal capital flight even as stronger members attract large capital

inflows.”⁷³

From our opinion, the real problem with the Common Monetary Areas is the difference of interests. While some EU countries are promoting exports and competitiveness, others have to import those products. For example, Germany is an export-dependent of EU countries, needs the Eurozone to be able to buy its products. In addition, as the main influence of the ECB, it has no other choice but funding bailouts to those bankrupted countries. It is also very dependent on the Euro as a currency, and it cannot allow internal political pressures to destabilize the Eurozone. As George Friedman stated in a recent Stratfor report:

*“For all the German bravado about expelling countries, the preservation and even expansion of the existing system remains a fundamental German interest [...].”*⁷⁴

There is also a worry that EU countries become unable to compete with Germany, therefore unable to recover economically, and subsequently, to cover debt payments, creating increasing deficits. If this situation is produced, EU countries will have to check the rule under the Stability and Growth Pact that says that countries could not exceed a certain percentage of their GDP, under threat of massive fines. However, the French and Germans have consistently exceeded those limits without being penalised.

5.4.4. REESTRUCTURING THE EUROPEAN UNION

According to a report in German magazine Der Spiegel, the so called “Gang of Four”, i.e., European Council President Herman Van Rompuy, European Commission President Jose Manuel Barroso, Euro Group President Jean-Claude Juncker and European Central Bank President Mario Draghi, are working on a plan⁷⁵ that goes far

⁷³ Idem

⁷⁴ Friedman, G., ‘Spain, debt and sovereignty’, at <http://www.stratfor.com/weekly/spain-debt-and-sovereignty> (Consulted on 3 July 2012)

⁷⁵ Van Rompuy, H. “Towards a genuine economic and monetary Union”, EUCO 120/12, Brussels, 26 June 2012

beyond the Stability and Growth Pact. Within this plan, EU nations will have no deficits without the permission of the appointed board and any debt they take on will be issued through a EU mechanism. This mechanism will also eradicate cheating. It would be possible for EU nations to issue unauthorized bonds, but without a European guarantee, the market would charge those countries with high interest rates.

The problem will be the question of who will be allowed or not to borrow. Even though this decision should be, in theory, completely transparent and predictable, in practice, the different needs of EU countries are so diverse that the board will have to implement some decisions. This board will be composed of the finance ministers of some members of the Eurozone, but the question of who will be denied permission will create political tensions.

Within this new plan for the EU, the “Gang of Four” includes the idea of creating the figure of a Europe-wide finance minister, and the issuing of Eurobonds. The Eurobonds is a form of collectivising debt between all EU countries, in order to tackle the Eurozone debt crisis. This system would be the largest transfer of sovereignty since the Treaty of Maastricht by the MS to the EU, and it is being considered as the only way to protect the euro and move towards a real economic and monetary integration.

However, the Eurobonds include a number of future challenges for the European democratic system. First of all, the ability to manage national budgets will be transferred from national governments to unelected functionaries appointed by a multinational entity. Thus, a profound transformation of democracy in Europe will take place and no change of sovereignty made within the last decades will be as profound as this one:

“Elected governments will not be able to stimulate their economies without the approval of this board, nor will they be able to undertake long-term capital

expenditures based on the issuance of bonds. This board thus will have enormous power within individual countries”⁷⁶.

Second, the election of a Eurozone finance Minister for leading this board will be determined in some process that will not take into account the views of average European citizens. The board will be apolitical only in the sense that its members don't stand for election by the populations they supervise and they are not accountable to them.

5.4.5. RISING THE PROBLEM OF LEGITIMACY AND DEMOCRATIC DEFICIT

With the issuing of Eurobonds and the election of a board to control national debts, the question of the extent to which European publics are prepared to cede significant elements of national sovereignty in exchange for new loans will arise.

In practice, however, it could create a problem of democratic deficit. The board will determine its willingness to grant deficits based on its own values. For example, it may not permit deficits to fund hospitals for the poor, but on the contrary it may allow borrowing to fund bank bailouts. In any case, by taking power from the electorate, it risks a crisis of legitimacy.

EU supporters claim that rational governance by disinterested leaders is a preferred alternative, especially during times of crises. The fundamental idea behind this European political philosophy is the following: ‘the belief that disinterested officials are likely to render better decisions than interested politicians’⁷⁷.

However, some Europeans would prefer this situation rather than the current cycle of endless crises. It may work for a time, but every time a nation's government is

⁷⁶ Friedman, G., ‘Spain, debt and sovereignty’, at <http://www.stratfor.com/weekly/spain-debt-and-sovereignty> (Consulted on 3 July 2012)

⁷⁷ Idem

prevented from borrowing to fund a new project while another nation is allowed to, a strong debate will emerge. The question of who will determine which deficit is allowed and which one is denied, comes into mind. The 'realpolitik' and the interests of some MS will diminish in favour of other MS that will not take their opinions into account. Furthermore, this board will make decisions that will determine how the citizens of those individual nations live, without any kind of accountability.

CONCLUSION

The current crisis has laid bare the myth that austerity measures will themselves promote economic growth and full employment in Europe.

*“The austerity trap has sprung. Austerity has, in fact, resulted in weaker economic growth, increased volatility and a worsening of banks’ economy sheets leading to a further contraction of credit, lower investment and, consequently, more job losses”.*⁷⁸

The absence of effective market regulation by the states has not only failed to promote these targets, but it has also led to a redistribution of wealth towards the privileged minority within financial and corporate sector, while doing little for those who have seen their wages stagnate or without an adequate employment.

*“Deregulation policies will fail to boost growth and employment in the short term. [...] In the face of a recession, less stringent regulation may lead to more redundancies without supporting job creation. Likewise, the weakening of collective bargaining is likely to provoke a downward spiral of wages, thereby delaying recovery further.”*⁷⁹

The deregulation practices of labour markets will have to be abandoned in favour of stabilising labour unions and employer associations. European governments have to realize that the most promising way of tackling inequality is through boosting employment and ensuring that unemployed people, especially the youth, receive adequate support to find new jobs. This process must take from the early childhood period and be sustained through compulsory education. Once the transition from school

⁷⁸ International Labour Organization: *World of work report 2012 : Better jobs for a better economy*. Geneva, ILO, 2012.

⁷⁹ Idem

to work has been accomplished successfully, there must be sufficient incentives for workers and employers to invest in young skills.

Human rights movement needs to advocate for the human rights enforcement, by articulating clearly the fundamental principles that cannot be rescinded by governments even in times of recession. While human rights may not dictate a specific model or pathway to full employment and the realization of economic and social rights, any restructuring of the economic order must be clearly evaluated according to its capacity to deliver protection to human rights.

‘Human rights have to become a universal moral code for those global actions that escape the traditional control of the state system. Relying solely on the fortunes and misfortunes of the market mechanisms will not solve the problems.’⁸⁰

Apparently, the advocacy of economic and social rights has gone into recession. The economic crisis has exposed first of all, that the values ruling our society have sunk, and that we have forgotten the principles which should shore up our economic order; mainly about the regulatory role of the state and those that should rule the governance of international economic institutions. It will be important to move from the ‘symbolic economy’ of finance to the ‘real economy’ for states to recover their leading role in every economic decision.

States have to regain the role of the principal human rights duty holder as they are the only mechanisms with specific responsibilities to the public interest and accountable to them. There is a clear vision that states are less vulnerable to the pressure of a human rights institution than to the conditionalities required by the international financial and economic institutions. Thus, from a human rights perspective is desirable that the state should implement its responsibility to protect, i.e., to rein in the pursuit of profit and play a vigorous role in the regulation of the market. And the responsibility to fulfil, that

⁸⁰ Pikalo, J., ‘Economic globalisation, Globalist stories of the State, and Human Rights’, p-34.

requires redistributive allocations through an effective, transparent, and progressive taxation system aimed at redirecting the available resources to the universal and progressive fulfilment of economic and social rights.

States cannot retract its consent to be bound by human rights treaties, simply by arguing that it no longer have the capacity to comply with these obligations due to an economic recession. Even though there is a conflict between the state's obligation under IHRL and its obligations with an international financial institution, under which the state commits to cuts in public social expenditure in order to get a loan; in no way this situation diminishes the legal obligations of the state to respect, promote and protect human rights.

It is important to point out the direct human rights obligations for the international financial institutions under international law. The increasing participation of non-state parties in the economy is demanding a stronger public participation, accountability and transparency to the IMF, WB and the ECB, in order to strengthen the place of non-economic considerations, among them human rights, within their activities.

To sum up, it is likely that no other sphere of social or economic human rights will be as strongly affected by the crisis as employment-related rights. The question whether governments will be ready to abandon international protection of labour rights, in order to attract investment and maintain a lower quality employment is one of the challenges of the future. After all, the crisis has offered an unprecedented opportunity for human rights organizations to play a role in revising the rights-fulfilling state, placing regulation and redistribution at the centre of its functions, and ensuring that the new global economic architecture that emerges in the coming years is based on the respect, protection and fulfilment of economic and social, as well as civil and political rights.

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