WHY THE EUROPEAN COMMISSION IS WRONG: THE CASE OF SPAIN

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The Vice President of the European Commission, Olli Rehn, in charge of Economic and Monetary Affairs is becoming the most unpopular EU Commissioner in Spain. He emphasizes over and over again that labor market rigidities are causing the high unemployment in Spain. "Labor rigidities" is a polite way of accusing the Spanish trade unions for the high rate of unemployment that exists in Spain. Indeed, labor rigidities are supposed to mean that, because the unions have been able to get job security for some workers, employers have it too difficult to fire them. This supposed rigidity has not stopped them, however, from firing nearly 4 million workers out of the whole labor force of 16 million. According to Olli Rehn, employers should have it even easier to get rid of workers. The more workers they can fire, the more workers they will hire.

This position also appears in large sectors of academia, although using a different narrative. They divide the labor market between the "insiders" (those who have a job due to the power of the unions, primarily male adults), and the "outsiders", (those excluded from the labor market, i.e. the unemployed, youth and women) due to the rigidities. And they present the first group as responsible for the unemployment of the second. This position has achieved the category of dogma, not only in the European Commission, but also in the other two components of the Troika, the International Monetary Fund (IMF) and the European Central Bank (ECB). In Spain, this position has become part of the conventional wisdom, reproduced by major economic policy research centers, such as FEDEA, funded by the major banks and large corporations of that country.

The intention of this *insiders* (adult men) versus *outsiders* (youth and women) position is to divide the working population, indicating that job security is a "threat" to both youth and women's employment prospects. And a result of the pressure exercised by the Troika over the Spanish governments, both the one led by the social democrat José Luis Rodríguez Zapatero and the other one, the Conservative party led by Mariano Rajoy, have been eliminating job protection and permanent fixed contracts. And as a result, unemployment has exploded. It is already at 27% and among the unemployed youth, 57%. Employers have been firing and firing, with very little hiring in return. The outcome of eliminating the so-called rigidities has been the largest unemployment ever.

The Problem is Not in the Labor Market

The evidence is overwhelming that the major cause of unemployment in Spain has very little to do with the supposed rigidities of the labor market. European countries with greater job protections than Spain have less unemployment. Many Northern European countries, where trade unions have consistently had a stronger role and influence over the state than in Spain, have lower unemployment figures and higher occupational rates. Unemployment rates in Sweden (8%), Norway (3.2%), Finland (7.7%) and Iceland (6%) are markedly lower than the EU average (with the EU-27 at 10.5% and EU-15 at 10.6%), and much, much lower than Spain's (27%). Actually, one of the reasons for the low unemployment in Germany (usually presented as a model for other countries in the EU) is because of "work sharing" rather than firing workers; work sharing that has been established at the workplace as a result of the power of the trade unions in Germany.

Why Spain (and the EU) Has Higher Unemployment than the US

The evolution of unemployment in the EU and Spain as compared with the US is another case used in support of the argument that Spanish unemployment is a result of labor market rigidities. It is constantly said that the US has lower unemployment than the EU average and Spain because of greater US labor market flexibility. In other words, it is assumed that unemployment is lower in the US because it is easier to fire workers in the US than in the EU (including Spain). If that was the case, then how can it be explained that US unemployment was higher than the average of countries that later on became the EU-15 for the majority of years in the post-World War II period, even as the US labor market was already more 'flexible' than those of the countries that would eventually form the EU-15? In fact, unemployment in the EU only started to overtake the US unemployment rate when preparations to establish the Euro were underway, as the governing institutions of the Euro set controlling inflation as a top priority rather than job creation.

The true cause of unemployment: macroeconomic policies pushed by the Troika, including Commissioner Olli Rehn

Higher unemployment in the EU is due, in large part, to the system of governance of the Euro, a system of governance that starkly contrasts with that of the Dollar. The mechanisms governing the Euro reveal the clear domination of financial actors over the economic life of Europe, a practically absolute and suffocating domination with no comparable model elsewhere. For American progressives, accustomed to criticizing (for good reasons) the Federal Reserve Board, it may come as a surprise that the Feds, under Bernanke, are far to the left of the European Central Bank (ECB), the most right-wing and independent central bank in existence today.

Actually, the ECB is not even a central bank: it is a lobby for banking (very close to the German banking community, the center of European financial capital). The formation of the Euro system (See "The Causes and Consequences of the Euro", published in *Publico* in Spanish, July 2012) was indeed a triumph of neoliberal ideology; it weakened states and forced them to weaken the European Social Model, a model that ensured social protections for workers. One can simply peruse the published statements and documents of the European Central Bank (ECB), of the European Commission, of the

International Monetary Fund or of the Bank of Spain to gain a quick and clear view of what these financial institutions are proposing as solutions to the high levels of unemployment in Spain. Ostensibly, their proposals disempower the working class even further, reducing the system to even greater levels of human and social suffering.

These three Troika institutions, whose officers generally enjoy the highest pay and best job stability in the European labor market, continue to callously impose cuts, including curtailing unemployment insurance on unemployed populations with minimal resources. Aided and abetted by academics and economic think tanks in well financed institutions that enjoy the same lifestyle and privileges, the individuals behind these institutions proceed with an aggressiveness and class hostility that manifests itself in how these establishments have been treating the popular classes of the countries of the EU. What used to be called the class war is obvious and clear. The control of inflation requires, according to the ECB and to the European Commission to weaken labor as much as possible. And they are achieving what they have always wanted.

Meanwhile the evidence shows clearly that the US has a lower unemployment rate than the Eurozone because there is a federal government with a US central bank (the Federal Reserve Board or

FRB) with the goal of stimulative economic growth through creation of employment, besides controlling inflation. The agenda of the FRB, led by Mr. Bernanke, is indeed very different from the one pursued by the ECB, led by Mr. Draghi and, before him, by Mr. Trichet.

The poverty underlying the physical and social infrastructure in Spain

Another significant factor contributing to Spain's high unemployment is the slow production of jobs, due in part to the enormous poverty of social and physical infrastructure. This poverty stems from the tremendous poverty of state resources (whether central, regional or local). The figures sadly speak for themselves. Spain is one of the Eurozone countries with the lowest state revenues, lowest public employment and least developed public services (as documented in my book the *Underdevelopment of Social Spain*, 2006, in Spanish). These conditions are the result of an enormous regression in fiscal policies, conditions similar to those suffered in Greece, Ireland and Portugal, countries that are in even greater crises than Spain (for more on the crises in the peripheral countries, see "Why Does the Crisis in Spain Remain Unresolved and What Can be Done About It", published in *System* in Spanish, July 2012).

The argument put forward by the ECB, the European Commission and the IMF that the Spanish state has spent too much, far above its possibility, is also false and it is easy to show it. Spain has the lowest public expenditures per capita in the EU 15 and this was so when the crisis started in 2007. The rapid growth of its public deficit had nothing to do with overspending but rather with an enormous decline of revenues due to high unemployment and reduction of economic activity (facilitated by the enormous cuts of public expenditures and investments pushed by Olli Rehn, the Troika, and co.). What we are witnessing in Europe is the control of the institutions of governance (Commission and ECB) by economists of neoliberal persuasion (close to the Tea Party in mentality) that are achieving what they want: i.e., to weaken labor.