

Promoting Employment and Reducing Government Deficits in EU Countries: What Are the Policy Options?

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Abstract

Before the financial crisis, Europe finally managed to somewhat reduce its high unemployment rates that were present for decades due to a credit-funded boom in many countries and resulting strong aggregate demand. The financial crisis ended this credit-funded boom, pushing these countries into severe recessions. While a few countries achieved remarkable recoveries, others still face large economic problems with high unemployment rates, resulting in high average unemployment rates at the European level. Additionally, the traditional tools of stimulating growth, monetary policy, devaluation, and fiscal policy are all not available for countries needing them. On top of that, loss of investor confidence requires countries to cut spending even further although the opposite action would be required to support employment. Solving these issues requires an integrated European strategy. Over the medium term, strengthening demand by reducing income inequalities in surplus countries raises employment and reduces imbalances. Additionally, all countries need to ensure that future obligations, especially in health care and pensions, are properly funded. Accompanying these proposals is a need to tackle waste, corruption and tax evasion. Against this background, medium term fiscal sustainability of troubled countries can be achieved. This allows foreign debt guarantees to be put in place, thereby providing room for short term policy actions to generate employment growth.