



Published by the European Trade Union Institute (ETUI), 2016
ISBN 978-2-87452-396-0
257 pages, 20 €

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The ETUI is financially supported by the European Union. The European Union is not responsible for any use made of the information contained in this publication.

Unemployment, internal devaluation and labour market deregulation in Europe

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Unemployment rates in the EU rose after the economic crisis of 2008, passing 10% in 2012, but with big variations between countries. The worst afflicted had been subject to so-called policies of internal devaluation, aimed at curing unemployment by reducing wage costs. There have been claims that these policies have been successful as some of the countries subjected to internal devaluation have experienced some renewed economic growth. This book sets such claims against the evidence, comparing countries that to varying degrees followed that road (Greece, Spain, Portugal, Ireland) with others that did not (Germany, UK, Poland).

The conclusion is that internal devaluation was successful primarily in depressing demand and living standards thereby hampering rather than fostering economic recovery. The book also points the way to alternative, and more effective, solutions based on improved competitiveness and more employment following spending and investment in infrastructure, education and research, areas that have suffered in the interests of internal devaluation policies.

Key findings

- Unemployment was not caused by wages that were too high but by a drop in demand that in most cases particularly affected specific sectors such as construction. There were issues of competitiveness in some countries, but these were related to the absence of high-quality export sectors. Wage cuts have done nothing to solve this structural problem.
- Internal devaluation was effective in reducing current account deficits, but overwhelmingly as a result of a reduction in domestic demand and imports. Internal devaluation was not associated with higher exports.
- Internal devaluation has led to more rather than less unemployment. In several countries unemployment figures have been masking considerable emigration flows and growing numbers of discouraged workers who are no longer seeking employment. There is also more long-term unemployment, alongside an increase in precarious employment, with all the social costs attaching to these phenomena.
- Sustainable competitiveness depends on producing high-quality products, not on paying low wages. This is a path that will require spending and public investment in education, research and innovation, areas that have been subjected to cuts in the interests of internal devaluation policies.

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