



The Rise of Unemployment in Europe

A Keynesian Approach

New Directions in Modern Economics series

Engelbert Stockhammer, King's College London, UK

This book offers a long overdue and refreshing Keynesian approach to the rise of European unemployment. It critically discusses the NAIRU theory and presents econometric evidence to assess the relative importance of capital investment and labor market institutions. The author also explores the reasons for the slowdown in capital accumulation, and is able to establish a clear link between changes in the financial sector, changes in corporate governance and investment expenditures.

'... convincingly challenges the mainstream explanation of unemployment in EU ... also offers a coherent Keynesian story.'

– Öslem Onaran, EAEPE Newsletter

'Engelbert Stockhammer effectively punctures the myth that high unemployment in Europe is mainly the result of rigid labour market institutions and generous social policies. The author revives a Keynesian perspective by using innovative theoretical models and careful statistical analysis to show that Europe's high unemployment rates have been caused mainly by depressed aggregate demand (especially reduced capital investment) rather than by labour market rigidities or high real wages. He argues that the root causes of Europe's high unemployment are found in its liberalized financial system and restrictive macroeconomic policies, and he suggests a new policy approach that could address Europe's most pressing social problem.'

– Robert A. Blecker, American University, US

'This book provides a long-awaited extension of the Kaleckian growth model, by explicitly considering the evolution of the rate of unemployment. The author provides a neat framework that compares the features and implications of the New Keynesian NAIRU model with those of the closely related post Keynesian theory of conflict inflation. He shows that the long-run rate of unemployment in the post Keynesian approach always depends on effective demand, in contrast to what occurs in the standard NAIRU approach, where it only depends on supply-side factors such as rigid labour markets. The framework is also used to provide empirical tests of the two major explanations of the rise of unemployment in Europe. Engelbert Stockhammer presents highly useful theoretical tools and empirical arguments for those who wish to object to "conventional wisdom" on labour and employment issues and policies. He gets us one step closer towards a synthesis of various heterodox traditions, linking in particular the Keynesian and the Marxist strands.'

– Marc Lavoie, University of Ottawa, Canada, and University of Paris 13, France

'Engelbert Stockhammer challenges the NAIRU story of European unemployment and the view that institutional rigidity is the cause of Europe's economic slowdown. He presents a convincing (post) Keynesian approach which combines innovative theoretical reasoning with up-to-date empirical research. According to this view, European stagnation is due to effective demand problems, in particular to a slowdown of capital accumulation caused by the "financialization" of non-financial firms and changing management priorities under the conditions of liberalized financial markets. These are the problems European policy makers should tackle instead of further pursuing a path towards deregulation.'

– Eckhard Hein, Institute for Economic and Social Research, Germany

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