Employment crisis in Europe and EU response. From pragmatism to “Europe 2020”

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Outline

- Description of the employment crisis in Europe – heterogeneity – country differences
- Latest update with Eurostat figures
- Analysis of changes in the EU employment policy framework during the crisis
- Two phases of EU response
  A) Pragmatism – temporary Keynesian parenthesis (from end 2008 to mid 2010)
  B) Return to neo-liberal order: “Europe 2020”
### Employment crisis in Europe

**lower elasticity of employment to output than in 1991-1994**

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>GDP growth</strong></td>
<td>3</td>
<td>1.8</td>
<td>1.2</td>
<td>-0.3</td>
<td>2.8</td>
<td>2.5</td>
</tr>
<tr>
<td><strong>Employment growth</strong></td>
<td>1.7</td>
<td>0.5</td>
<td>-1.2</td>
<td>-1.6</td>
<td>-0.1</td>
<td>0.8</td>
</tr>
<tr>
<td><strong>Unemployment rate</strong></td>
<td>7.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>10.4</td>
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<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<tbody>
<tr>
<td><strong>GDP growth</strong></td>
<td>2.6</td>
<td>0.5</td>
<td>-4.2</td>
<td>0.9</td>
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<tr>
<td><strong>Employment growth</strong></td>
<td>1.6</td>
<td>0.7</td>
<td>-1.9</td>
<td>-0.9</td>
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<tr>
<td><strong>Unemployment rate</strong></td>
<td>7</td>
<td></td>
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<td>10</td>
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</tbody>
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### Employment crisis – Country differences

Unemployment rates: July 2010 (change July 08-July 10)

![Unemployment rates graph]
Employment crisis – group differences

<table>
<thead>
<tr>
<th>EU27</th>
<th>2008 (1st quarter)</th>
<th>2010 (1st quarter)</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment rate (%)</td>
<td>7.1</td>
<td>10.2</td>
<td>3.1</td>
</tr>
<tr>
<td>Males</td>
<td>6.7</td>
<td>10.5</td>
<td>3.8</td>
</tr>
<tr>
<td>Females</td>
<td>7.6</td>
<td>9.8</td>
<td>2.2</td>
</tr>
<tr>
<td>20-24 year-olds</td>
<td>13.8</td>
<td>20.0</td>
<td>6.2</td>
</tr>
<tr>
<td>25-49 year-olds</td>
<td>6.4</td>
<td>9.5</td>
<td>3.1</td>
</tr>
<tr>
<td>50-64 year-olds</td>
<td>5.4</td>
<td>7.2</td>
<td>1.8</td>
</tr>
<tr>
<td>Low educated</td>
<td>11.4</td>
<td>16.6</td>
<td>5.2</td>
</tr>
<tr>
<td>Medium educated</td>
<td>6.8</td>
<td>9.7</td>
<td>2.9</td>
</tr>
<tr>
<td>High educated</td>
<td>3.7</td>
<td>5.5</td>
<td>1.8</td>
</tr>
<tr>
<td>Nationals</td>
<td>6.8</td>
<td>9.8</td>
<td>3.0</td>
</tr>
<tr>
<td>Citizens of other EU27 countries</td>
<td>8.3</td>
<td>12.4</td>
<td>4.1</td>
</tr>
<tr>
<td>Citizens of countries outside the EU27</td>
<td>14.1</td>
<td>21.2</td>
<td>7.1</td>
</tr>
<tr>
<td>Temporary employment rate (%)</td>
<td>13.9</td>
<td>13.2</td>
<td>-0.7</td>
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<tr>
<td>Part-time work rate (%)</td>
<td>17.8</td>
<td>18.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Self-employment rate (%)</td>
<td>14.3</td>
<td>14.5</td>
<td>0.2</td>
</tr>
</tbody>
</table>

EU response to the crisis – 1st phase (1)

- Economic crisis = crash test for EES
- EES unable to deal with growing cyclical unemployment (mass dismissals + labour demand deficit)
- Focus on supply-side policies and labour flexibility measures oriented towards *structural unemployment*. As regards ALMP, emphasis on *employability* and *activation* through training, not on job creation through subsidies.
- Two EU-level initiatives
  A) European Economic Recovery Plan (November 2008)
  B) European Council decisions (March and June 2009) on the policy priorities to address the employment crisis
EU response to the crisis – 1st phase (2)

**European Economic Recovery Plan**
- Fiscal stimulus of 1.5% of EU GDP (of which 1.2% through national budgets and 0.3% through EU and European Investment Bank budgets)
- Temporary state aid (guarantee to loans) targeted at sectors where demand has been disproportionately affected by the crisis (e.g. car industry, air transport).

**European Council** (March 2009)
Recognized the importance to prevent and limit job losses and allow social protection systems to fully play their role as automatic stabilizers.

EU response to the crisis – 1st phase (3)

**European Council** (June 2009) adopted COMM “A Shared Commitment for Employment”
- Three *key priorities for employment policy*: maintaining employment, creating jobs and promoting mobility; upgrading skills and matching labour market needs; increasing access to employment

Main actions:
- Easing of ESF and EGF funding
- New EU micro-credit facility (business start up by unemployed, maintain employment in micro-businesses facing credit crunch)
- Provision of at least 5 million apprentices for young people
- Support for schemes to maintain viable jobs through short-time work and training
- Lower non-wage labour costs, recruitment incentives and promotion of job opportunities in household and care services to get the most disadvantaged back into work
U-turn in employment policy

**New tools:**
- Expansionary macroeconomic policy (fiscal and credit policies)
- Vertical (sector) industrial policy infringing EU competition law
- Strengthening of minimum income schemes
- LMP geared towards maintaining labour surpluses (micro-credits and subsidies) and keeping young people busy until the crisis is over (apprenticeships) – turn to passive vs. active policies and measures

**New objectives:**
- Limit cyclical unemployment (macroeconomic and industrial policy) and the impact of unemployment on aggregate demand (social protection)
- Avoid a permanent loss of knowledge and skills by firms and the escalation of industrial conflict and protest due to mass redundancies

**Broad objective:**
- Prevent recession turn to depression (deflationary spiral)

Temporary Keynesian parenthesis in a state of emergency

In 2009 EU Member States implemented
- Budgetary stimulation packages of different scale (% of GDP) – OECD (2009)
- Use of micro-credit facilities provided by the EIB
- Income maintenance measures (improvement of UB or minimum wage levels e.g. Bulgaria, Romania, extension in scope of the temporary lay-off support e.g. Belgium)
- Internal flexibility and job maintenance schemes (short-time work, temporary lay-offs, work sharing) in line with **flexicurity principles**: working time and wage reduction – partially compensated with top-ups by the state – in exchange for employment maintenance

Differential use and scope explains country differences in unemployment performance (e.g. Germany and Austria)
EU response to the crisis – 2nd phase (1)
Return to monetarism and the neo-liberal order

- ECOFIN and extraordinary European Councils from late 2009
  Rises in sovereign debts across the EU, the Greek debt crisis and
  the menace of similar crises in other eurozone countries, attack
  of the financial markets on the euro
- New “Europe 2020” strategy replacing Lisbon – European
  Councils (March and June 2010)
- Coordinated exit strategy – withdrawal of “temporary crisis-
  related state aid” (fiscal stimulus, short-term unemployment
  support, sector support schemes, access-to-finance support,
  support to the financial sector)
- Macroeconomic priorities: budgetary consolidation and deficit
  reduction under Stability Pact, contain wage developments and
  labour costs to combat external imbalances (competitiveness),
  stricter economic policy surveillance at the EU level.

EU response to the crisis – 2nd phase (2)
Mere revamp of EES…

- Mere revamp of EES under “Europe 2020”. Same rationale and
  content as before the crisis
- Main goal: increase the employment rate (from 66% among 15-64
  year-olds in 2009 to 75% among 20-64 year-olds by 2020).
- Intermediary objectives: increase LM participation; combat
  structural unemployment and LM segmentation; improve job quality;
  further develop the skills of the workforce.
  Job quality (restricted approach) = combating in-work poverty,
  providing adequate social security to temporary workers and the self-
  employed, improving health and security at work
- Differences: a) combating structural unemployment becomes a stated
  objective and flexicurity the main instrument to achieve it b) ALMP
  measures for the unemployed lose visibility and independence; only a
  component-instrument of flexicurity c) human resource policy extends
  to access and reform of higher education d) the principle of gender
  mainstreaming of employment policies has disappeared from EES
EU response to the crisis – 2nd phase (3)
but also some important differences

- **Main difference** = quantified targets have been reduced from 11 to 3. The new EES is less constraining for EU Member States. Only the two targets for the employment and early school leavers rates have remained, to which a new target is added for higher education attainment (40% of those aged 30-34 years by 2020)
- Two areas mainly affected from target abolishment
  a) **ALMP**: new start to all young unemployed and 25% of long-term unemployed (training, apprenticeship, job, employability measure) before reaching 6 and 12 months of unemployment.
  b) **Gender equality** in employment: the target for the coverage of 90% of children aged 3-6 and 33% of those under 3 years by childcare services has disappeared.

Achievement of targets costly for state budgets – priority to fiscal consolidation and labour market flexibility (covered behind flexicurity).

EU response to the crisis – 2nd phase (4)
but also some important differences

- In practice, budgetary consolidation does not leave any room for improving social protection and expanding the training and education system – necessary components of flexicurity strategy.
- Labour market flexibility measures are accompanied by “security-reducing” ones e.g. Danish reform of the UB system. FLEXICURITY IS DEAD
- Reduction of resources on ALMP and childcare services lead to
  a) work-first/workfare measures for the “activation” of the unemployed
  b) the encouragement of part-time employment as the only instrument to increase female participation (incompatible with the notion of full gender equality in employment)
Conclusions

“Europe 2020”

- Is in sheer contradiction with the need for a new policy mix of macroeconomic, industrial, employment and social policy and policy coordination at the EU level to overcome the crisis and combat unemployment.

- Brings about socially regressive policies in all EU Member States, especially the most heavily indebted and with the largest public deficits.

- Risks to plunge Europe in a new recession or long-lasting stagnation, exacerbating unemployment and poverty all over the continent.