III. Recovery from the Crisis: Comparing Labor Market Policies in Europe and the United States

Labor Market Policies to Tackle the Crisis and Sustain the Economic Growth in EU: Models and Solutions

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Introduction

Following the GDP decrease resulting from the economic crisis, EU member states experienced higher levels of unemployment and a decline in terms of employment rate. However, the implementation of so-called anti-crisis measures limited such increase—in some cases not to be as high as expected – in the majority of EU member states.

With the view to minimize the impact of the downturn in social terms and to support both companies and employees, the European Union took a number of actions to drive the economic recovery and coordinate EU member states' public interventions (European Commission 2008), with member states adapting existing labor market policies and/or introducing new ones. In this connection, the majority of member states launched ad hoc and comprehensive 'anti-crisis packages' consisting of a variety of measures to cope with the recession and resulting in a wide range of public policy tools aiming at reducing the impact of the crisis on the labor market.

In providing a review of the anti-crisis labor market policies issued by EU member states, which focus on measures to maintain employment, measures to support employment and reintegration into the labor market and income support for unemployed or workers in short-time work or temporary lay-offs, this paper analyzes the alternative strategies (models and solutions) adopted by EU member states for mitigating negative effects of the economic crisis on the labor market.

The Crisis in Figures

The starting point of the analysis is the set of figures describing the changes in the European labor market over the last two years:

- Between the second quarter of 2008 and the second quarter of 2009, the real GDP in the EU (27 member states) fell by almost 5% (Figure 1).
- The fall in GDP caused a reduction of labor demand and, accordingly, an increase in unemployment and a decrease in employment.
- The same happened to the Baltic States (Estonia, Lithuania, and Latvia), which experienced the highest rates of unemployment in Europe (Figure 2).
- Looking at the trends in Figure 2, Latvia, Estonia, Lithuania, Ireland, and Spain also had the highest decrease in terms of employment rate.

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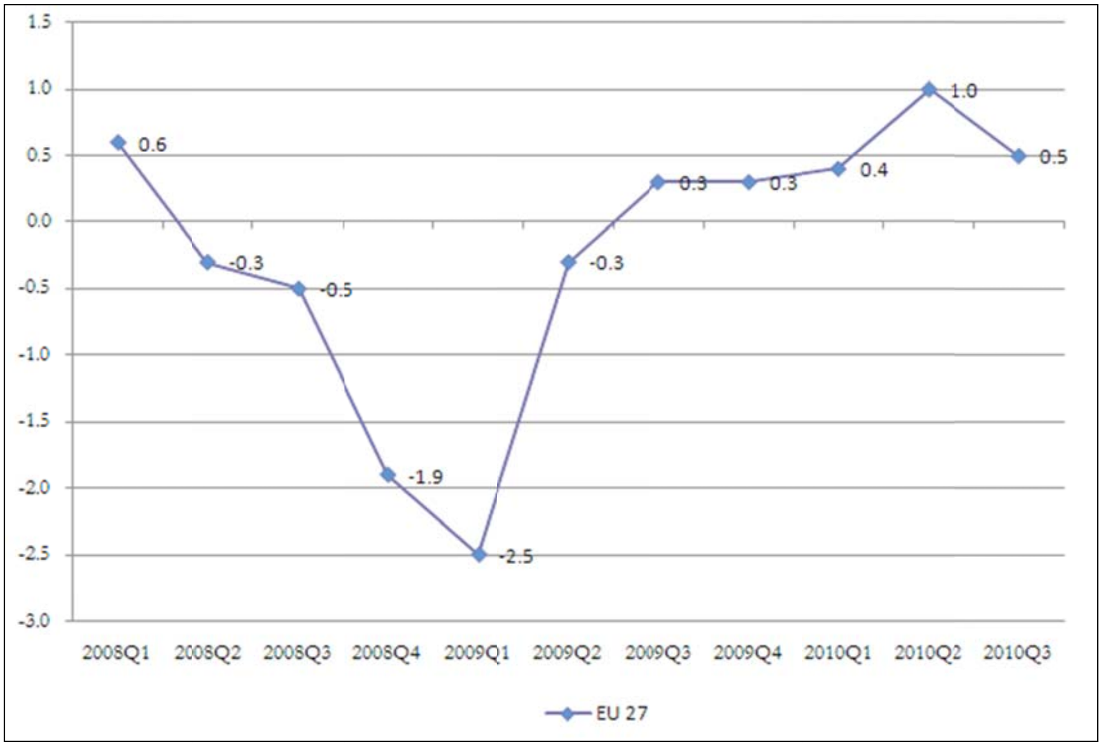
FIGURE 1
GDP—Percentage Change on Previous Period, Seasonally Adjusted and Adjusted Data by Working Days



Source: Eurostat, seasonally adjusted and adjusted data by working days.

A case in point was Denmark, which, before the crisis had a low level of unemployment and during the economic downturn has experienced a worsening of its labor market situation. Here, despite unemployment levels that are not very high and are lower than the EU average (9.6%), such levels doubled in a two-year period. At the same time, the employment rate dropped by 2%, which was more than the EU average.

The situation of the labor market is less worrying in countries such as Germany, Austria, Belgium, The Netherlands, and Italy, where the rise in unemployment rates was in no case higher than 1.7%, with the decrease in employment rates not being as significant as in the countries mentioned above.

Indeed, Germany represents a unique case: After a very limited increase in unemployment (an increase of 0.4% from July 2008 to July 2009), an unexpected reduction was reported in 2010, with the levels of employment experiencing a growth.

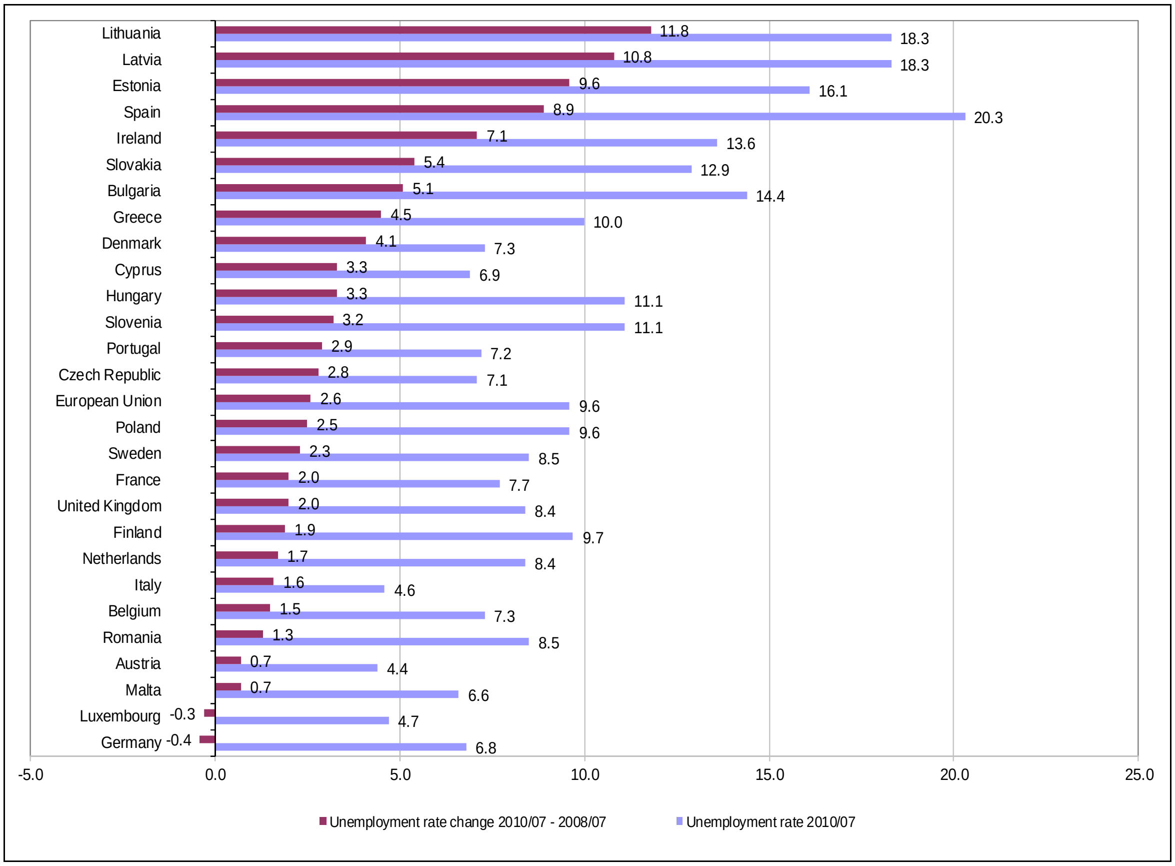
Such variability among European countries and the small impact of the recession on some of them is not coincidental.

Although it is "too early to draw final conclusions" (European Commission 2010), there is evidence that the different performance levels within national labor markets result from the diversified nature of labor regulation and existing labor market policies, along with new measures taken by governments to combat the crisis.

Anti-Crisis Measures Across Europe

The combination of several factors at a national level actually produced 27 different ways in which the economic downturn hit the EU member states. In addition, there were 27 different responses to the crisis. Although each country adopted its own set of measures, it is possible to identify the most frequently implemented ones (European Commission 2009).

FIGURE 2
Unemployment Rate Change, Between 2008 and 2010



Source: Author's elaboration on Eurostat data.

In order to assess the effectiveness of these policies, it is necessary to review existing legislation and classify measures implemented by every European country, in accordance with a simple scheme.

Moreover, it is necessary to take into consideration that labor market policies adopted by national governments vary considerably, especially in terms of issues concerning the role played by social partners in each country.

Their participation in the development and implementation of anti-crisis measures, as well as the adjustment of existing labor market tools, also differs across Europe if one considers the level and the extent of each country's involvement in public policy design. This depends on the diversity of functions performed by the social dialogue over the time, and the power of each government in the present situation.

In Austria, Belgium, Italy, Germany, and the Netherlands—countries with a well-established social partnership—agreements between social partners contributed considerably to planning and adoption of stimulus packages.

As regards collective bargaining, opening clauses allow company-level agreements to deviate from sectorial collective agreements in order to cut costs and safeguard employment (i.e., to deviate from the general framework). These agreements usually envisage an extension in working time without full compensation in pay or cuts in working time, cuts in benefits, or delays in agreed pay increases.

The classification of policy measures is a preliminary step to verify whether—at least intuitively and while waiting for empirical evidence—there is a relation between patterns of labor market policies adopted by member states and the trends of the national labor market during the crisis.

To date, key reports from the European Commission, OECD, and EU institutions have analyzed public interventions in the labor market. In particular, the Eurofound has provided a useful classification of crisis-related measures implemented in the EU member states (Mandl and Salvatore 2009; Hurley, Mandl, Storrie, and Ward 2009). This classification is based on three different types of interventions: (1) measures to create employment and to promote reintegration, (2) measures to maintain employment, and (3) income support measures for the unemployed.

Measures to Create Employment and to Promote Reintegration

Measures to create employment aim at promoting the hiring of employees by means of economic incentives, mainly consisting of a reduction of non-wage labor costs and wage subsidies, or public sector job creation. In some countries (Germany, France, Italy, Portugal, Slovenia, Sweden), the economic incentives for companies are provided for the hiring of special target groups. Support measures for self-employment, based on the provision of consultancy and training (UK, Bulgaria) or the reduction/deferral of social security payments, also fall within this category. Several member states (Austria, Lithuania, Italy, Portugal, UK) have introduced or extended subsidies for business start-ups.

Measures to promote reintegration into employment, put into action by employment services, try to enhance the transition from unemployment to employment by addressing job mismatches, by supporting job matching through counseling, career guidance, search assistance, and activation measures; and by increasing employability through training. Efforts have been made to improve and adapt public employment services in order to manage the higher number of "clients" (for example, hiring additional staff, as in Germany, Norway, Spain, UK) and to economically support private employment agencies through economic and/or normative incentives (the Netherlands, Italy). In the same vein, and with the view to make workers more willing to accept a new job, mobility grants are envisaged (Slovakia, Lithuania, Czech Republic). In Belgium, for instance, employees who agree to move their residence in order to accept a job receive tax benefits.

Income Support for Unemployed People

Income support for unemployed people mainly consists of unemployment benefits, provided to reduce the socioeconomic consequences of job loss.

Unemployment benefit systems exist in every EU member state, even though amendments (in some cases, temporary) have been made at a national level to their regulation in order to respond to the increased number of unemployed people resulting from the crisis. Relevant changes concerned especially the following aspects: eligibility criteria, amount, duration of entitlement, and beneficiaries. More specifically, some countries relaxed the rules for entitlement to unemployment benefits (France, Finland, Sweden), while others extended the duration: Romania has envisaged an extension of 3 months, Latvia extended such period to 9 months and in Poland it passed from 12 to 18 months. In Czech Republic, the government has opted for an increase in the amount of funds, while Italy introduced (on a temporary basis) special benefits for employees with quasi-subordinate status.

Measures to Maintain Employment

Measures to maintain employment have the purpose to prevent dismissals and preserve existing jobs. Among these instruments, the main ones are short-time work arrangements and compensations.

Short-Time Work Schemes

Short-time work may take the form of a temporary reduction in working time or a temporary lay-off. In both cases, the employment relationship between employer and employee persists, and the arrangements have a limited duration (European Commission 2010).

Compensation for income loss is usually envisaged in case of short-time work, in the form of social security payments, to be either publicly funded—by means of taxes—or based on social security contributions.

Nevertheless, short-time work compensation systems across Europe differ considerably from each other in terms of procedures, degree of involvement of trade unions, "back-to-normal" plans, coverage, compensation amounts, and eligibility criteria. Moreover, it is possible to distinguish between well-established systems and innovative schemes introduced to face the crisis.

In the first case (which includes Germany, Austria, Belgium, France, and Italy), the compensation system is part of the unemployment benefit (insurance) system, in that employers and employees pay social contributions to a fund or to the unemployment insurance system so that in the event of short-time work or temporary lay-off, employees are covered by this fund for the lost income as a consequence of a reduction in working hours.

Conversely, in member states (e.g., the Netherlands, Poland, Hungary, Slovakia, etc.) that introduced, whether temporary or not, short-time work compensation as a new measure during the crisis, such new arrangements are not part of the unemployment insurance system and are funded by the State through taxes.

Short-time work compensation may be classified also on the basis of its function. In some national systems, it is part-time unemployment benefits (European Commission 2010). This means that employees working reduced hours or temporarily laid off are regarded as people working on part-time basis seeking full-time employment and, in some cases, they have to be available for a new job despite the fact that the employment contract with their employer is still in force.

In the majority of EU member states, even if short-time work schemes envisage lost income compensation within the unemployment insurance system, they represent a form of job protection against dismissal.

With reference to this measure, it is possible to point out that it might be of benefit to different actors involved in the national economic arena. Needless to say, employees benefit from short-time work schemes since measures of this kind avoid dismissal and help maintain existing jobs, at the same time ensuring income support by compensating for lost income.

However, short-time work schemes have many pros for employers. First of all, these arrangements allow companies to preserve human capital and skills that will be necessary in the recovery phase. Further, employers reduce potential costs related to personnel turnover, dismissal, recruitment process, and training.

Short-time work compensation plans are also convenient measures from the viewpoint of governments, as they help maintain social peace and cohesion when employers and employees share the impact of downturn. Finally, such arrangements represent a flexible tool for governments that are able to control the adjustment of the labor market.

Policies Adapted or Adopted by EU Member States

In order to analyze the alternative policy strategies adopted by EU member states, it is necessary to consider in total the set of labor market policies—both new or amended ones—that the EU member states put into action to face the crisis.

Table 1 (found at the end of this paper) represents the measures adopted or adapted (if already existing) by each EU member state against this background. The EU countries have been singled out by increasing unemployment rate growth (considering the difference between July 2010 and July 2008), ranked from the best to the worst in terms of performance.

At the early stages of the analysis, it is possible to point out that countries with the most significant increase in unemployment rates are those that did not envisage or did not amend existing short-time work schemes. However, EU member states with good labor market performance, such as Germany, Luxembourg, Belgium, Austria, and Italy, had already issued measures of this kind in their system but made them more flexible in the last few years in consideration of the needs of the moment, and improved or adapted the schemes by combining them with training and/or activation measures. Other countries, such as the Netherlands and Romania, have introduced (even on a temporary basis, as in the Netherlands) short-time work schemes to face the recession.

The next step is to contextualize such different combinations of policies in the wider regulatory framework of the national labor markets, taking into consideration the relevant social model. There are two main social models in Europe: the new welfare system model and the flexicurity model. The first one is characterized by a rigid employment protection legislation (particularly in the event of dismissal), an ungenerous unemployment benefit system, a minimum level of implementation of active labor market policies, and activation policies through public employment services. I decided to term this model the "new welfare system" as a way to distinguish it from the traditional welfare system in which active labor market policies and activation policies were usually very limited. On the other hand, the flexicurity model is based on a generous unemployment benefit system, high levels of implementation of active labor market policies and activation policies, and efficient public employment services. Examples of the first model can be found in countries such as Germany, Austria, Belgium, and Italy, while Denmark has always been the model for flexicurity, together with Finland, Sweden, Norway, and the Netherlands.

Even in this case, by looking at the labor market performance of these countries, and also by considering their social model, it clearly emerges that countries resorting to the new welfare system model had a lower increase in unemployment rates, while flexicurity countries, especially Denmark, experienced a higher rise.

Concluding Remarks

On the basis of these observations, new welfare system model appears to be more effective in facing the crisis, while the flexicurity system had and still has difficulty in this connection and turn out to be less effective in controlling the increase in unemployment.

It is not completely clear whether this is due to short-time working arrangements or to the presence in the new welfare system model of stringent regulations against (individual or collective) dismissal. It might depends on both aspects, because they are related.

When considering social models and labor market policy combinations applied by EU member states, it becomes evident that there is not a unique best solution to tackle different kinds of economic recession. Therefore, it is important to understand the context and legal framework in which any possible solution has to be implemented.

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TABLE 1
Policies Adapted or Adopted by EU Member States

	STW compen-sation	Training activities during time off/training support for employees	Reduction/ deferral of non-wage labor costs	Public expenditure	Income tax cut	Incentives to employ additional workers	Direct enterprise support (loan guarantees, low-interest loans)	Mobility grants	Retraining unemployed people	Improving employment services	Unemployment benefits(amend-ments)
Germany	+	+	+			+	+			+	
Luxembourg	+	+							+		
Malta		+									
Austria	+	+							+		
Romania	new		+				+			+	+
Belgium	+	+	+					+			
Netherlands	new	compulsory	+			+	+		+	+	
Italy	+	+							+		
Finland									+	+	+
UK		+				+				+	+
France	+	+		+		+	+		+		+
Sweden			+			+				+	+
Poland	new				+		+		+		+
EU 27											
Czech Republic	new	compulsory	+					+			+
Portugal	+	+	+			+					
Slovenia	new	compulsory				+	+				
Hungary	new	compulsory	+			+	+				
Cyprus		+									
Denmark											+
Bulgaria	new		+			+				+	
Greece		+				+					
Slovakia			+					+			
Ireland		+							+		+
Spain				+					+	+	
Estonia					+		+		+		+
Lithuania		+			+		+	+			
Latvia		+			+		+		+		+