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Jobs Crisis: Moving Forward?

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European Commission President Jose Manuel Barroso

Photo: Jock Fistick

Geneva—Europe has entered an employment crisis of alarming proportions and with unpredictable social and political consequences. The figures speak for themselves. Over 27 million Europeans are unemployed—8 million more than when the global financial crisis erupted in September 2008. While the employment free fall paused during 2010-2011, it has gathered momentum ever since. Over the past six months alone, unemployment has grown by 2.5 million people. Though the trends are worse in southern European countries and parts of Eastern Europe, unemployment has resumed its upward trend even in hitherto successful European countries.

This is not a temporary deterioration that could be reversed once growth is back. The rise in unemployment masks a long-lasting effect of the crisis on the economy and society. First and foremost, in most European countries, youth—the foundations of future prosperity—are facing their worst prospects since World War II. Disproportionately affected by unemployment, nearly 30 percent of those aged 16 to 24 are at risk of poverty. Unless action is taken, the situation of youth will become unsustainable, threatening social cohesion across Europe.

The damage from this jobs crisis will be difficult and expensive to remedy. Nearly half the unemployed have been without work for more than a year. Many have become discouraged and stopped looking for jobs. Many of those who exit the labor market will be unable to participate in any future recovery, weakening the strength of the recovery itself.

The crisis has left a profound wound on the employment relationship. A sense of uncertainty and even fear among employers and workers has spread, weakening the ability of enterprises to create stable jobs. Indeed, in some low-unemployment countries, a large low-pay sector has built up. Many otherwise skilled workers are trapped in such occupations—a huge waste of productive capacity.

With wage moderation and in some countries wage cuts, cash is mounting in the accounts of many firms, contributing to the unprecedented rise in share values. Stock markets are returning to their pre-crisis levels, prompting optimism among some analysts. And yet productive investment and employment remain subdued.

Eroding Confidence

This crisis has deeply destabilizing effects on European societies. Past recessions mainly weighed on low-income groups like single-parent families, the unskilled, and vulnerable workers, but in this crisis, middle-income groups have been affected in an unprecedented manner. Small entrepreneurs, middle-income families with children, skilled workers, and well-educated youth are anxious about their prospects. Employment in low-wage occupations grew more than 4 percent between 2010 and 2012 in the EU, while employment in middle-wage occupations fell more than 6 percent. At the same time, top incomes show little signs of shrinking. A sense of unfairness is spreading.

These trends have seriously undermined confidence in the ability of national governments and European institutions to respond to people's deepest fears. The inevitable outcome is more polarized societies, greater political fragmentation, and daunting problems for establishing a stable coalition for change.

In short, the worsening employment and social prospects combined with decreasing confidence in the ability of political systems to tackle the crisis represent a time bomb. The risk of social unrest is on the rise, and ignoring it on the grounds that financial markets have recovered would probably be an epic mistake for Europe.

In fall of 2011, the European Commission's Directorate-General for Financial and Economic Affairs projected that the EU economy would grow by 0.6 percent in 2012 and by a healthy 1.5 percent in 2013. In reality, the European economy contracted by nearly half a percentage point in 2012 and the latest Commission's projections are for a stagnation in 2013—a mere 0.1 percent rate of economic growth is projected for this year. A number of EU nations are in negative territory, as they plunge into a double-dip recession. Likewise, in fall 2011 projections, unemployment was expected to stabilize at less than 10 percent in 2012 before falling to 9.5 percent in 2013. In fact, unemployment increased by almost one full percentage point in 2012 and is now expected to exceed 11 percent this year.

THE OUTCOME OF THIS RUN TO THE BOTTOM HAS BEEN A STAGNATION OF EUROPEAN MARKETS.

The sacrifices imposed on European societies have not paid off—at least not so far. The Global Jobs Pact adopted by the ILO International Labor Conference in 2009 recommended mitigating the effects of the crisis on jobs through a wide range of employment and social policy measures. But it also called for fundamental reforms geared toward putting the economy and labor markets on a sustainable track.

Mitigation measures broadly in line with the Global Jobs Pact were adopted in the immediate aftermath of the crisis. Active labor market policies were expanded, social protection was used as an "automatic stabilizer" to put a floor under the recession, an effort was made to maintain employment in otherwise sustainable enterprises, and a downward spiral in wages and working conditions was avoided. These measures were more or less coordinated. Indeed, they helped avoid a sustained global economic slump and limited the extent of job losses. Since the shift to fiscal austerity in the middle of 2010, however, mitigation measures have been progressively withdrawn in a growing number of countries as government spending plummeted.

The reduction in spending was primarily accomplished by downscaling job-friendly programs while 80 percent of the EU members responded to the economic crisis by either cutting wages or social security benefits or both. In Belgium, Estonia, France, Greece, Ireland, Italy, Netherlands, and Spain, pension entitlements were reformed. Other changes included reductions in unemployment benefits and entitlements for sick leave. On the income side, countries often relied on raising value-added taxes, which disproportionately affect lower-income groups and the marginally employed.

Reforms Aggravating

As to the more fundamental call for reforms embedded in the Global Jobs Pact, action has generally failed to match expectations. Reforms have tended to focus on welfare entitlements and labor market institutions, sometimes aggravating job losses and intensifying poverty. In the euro zone, some 13 of 17 countries have adopted labor market reforms since 2009, with most reforms easing dismissals or weakening collective bargaining. Less regulation and more restrictions to collective bargaining were seen as an efficient means of boosting competitiveness, long-term growth, and job creation. Instead, such reforms implemented in the middle of a crisis inevitably lead to more dismissals while failing to boost hiring.

A broad, inward-looking policy approach of austerity was undertaken in the hope that financial markets would react positively, boosting confidence, investment, and job creation. In reality, in countries that have pursued austerity more aggressively, investment and employment are in a nosedive.

Moreover, until recently, the prevailing view was that unemployment is a domestic problem to be addressed through domestic policies alone. But such a view has pushed more and more countries to put downward pressure on their domestic demand, in the hope that exports would pick up, and with them jobs to produce these products. Alas, the outcome of this run to the bottom has been a stagnation of European markets. In the past, countries like Germany or Finland facing competitiveness problems found it easier to adjust, because neighboring economies were expanding. No longer. Instead, income inequality has also started to rise again as the most vulnerable groups are confronted with the challenge of replacing their past incomes. The unbalanced growth patterns of surplus and deficit countries remain largely unaltered.

LABOR MARKET INSTITUTIONS HELP TO SUPPORT THE MOST VULNERABLE AND PROMOTE THE ABILITY OF INDIVIDUALS, FIRMS, AND ECONOMIES TO ADJUST AND SEIZE NEW OPPORTUNITIES.

No Easy Task

A policy shift is imperative, and must recognize the urgency to act quickly to mitigate the worst impacts of the crisis while being mindful of the importance of laying a solid foundation to recovery. Such a shift will not be an easy task, especially given the damage already made. But Sweden's experiences handling the financial crisis in 1990 and Iceland's more recent approach show that it can be done. As stressed by President Jose Manuel Barroso in his speech to the European Parliament last January, the European Union is facing a “genuine social emergency” that calls for emergency measures.

It is urgent to move ahead with the introduction of youth employment guarantees. These would ensure that unemployed youth are offered training opportunities, education, or special job-search support. Such programs are already underway in a number of Nordic countries, serving as models for a more universal scheme. The ILO euro zone jobs report published in July 2012 estimated that this policy would cost around €21 billion ($27.5 billion).

Unlocking credit to sustainable enterprises to create decent work opportunities is no less urgent. This means the sizeable non-performing loans, which make banks reluctant to engage in new credit, need to be tackled. In addition, there should be renewed emphasis on credit to small businesses, such as credit guarantee schemes (as in Germany) or earmarking of resources (as recently introduced in France and Ireland). Given the job-rich nature of small enterprises, this should help stimulate employment creation while providing much needed support to viable enterprises.

In addition to these emergency measures, a more balanced approach to stabilizing public finances is essential, freeing up resources for effective employment and social measures. Job-friendly policies are an effective means to stimulate demand and build the foundations of new growth. A different mix of fiscal measures will ensure key job programs are spared or even reinforced. Finally, a commitment to maintain the welfare system is vital, including essential health, education, and anti-poverty measures. This would address concerns that recent cuts are undermining long-term entitlements.

So much has been learned about cost-effective employment policy and social measures that it is now possible to achieve the targets with a limited budget in the short-term, while taking into account the many long-term benefits that a policy shift will enable.

An ambitious but lasting reform agenda that tackles current and future policy failings will rely on the ability to maintain or strengthen labor market institutions, notably public employment services and predictable, well-designed labor regulations and collective bargaining.

Collective bargaining, if adequately coordinated through social dialogue, can also help firms and workers improve competitiveness by facilitating the adjustment process, while easing the adoption of new technologies. Poorly designed changes to employment protection can have unintended consequences that will be difficult to undo. Employers, workers, and governments need to focus on the overall design of regulations, and how they complement and interact with existing social protection measures. More generally, labor market institutions help to support the most vulnerable and promote the ability of individuals, firms, and economies to adjust and seize new opportunities.

Action at the European level is also needed to build institutions that make the single currency viable and avoid a race to the bottom in labor standards and wages. Adjustments based on race-to-the-bottom strategies not only lead to job losses but also contribute to weakening the economies of countries that have hitherto enjoyed high growth. By contrast, adjustments that take place in a higher growth environment are less painful and entail greater benefits for all countries. Europe must play a key role in fostering new growth and employment drivers. The necessary transition to a more sustainable, inclusive, and resource-efficient economy will have to be supported by policies in each leading sector at all levels and will require strengthened European governance and social dialogue. Only then can Europe return to full, or fuller, employment.

Article Notes

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