European Response to the Economic Crisis in the Labour Market

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As a consequence of the economic crisis, unemployment rate in most EU Countries has reached a double-digit rate in 2009 and the return to pre-crisis levels will take several years. According to the latest data released by Eurostat[1], unemployment rate in Europe has reached 9.2% in September 2009, compared with 7.1% in September 2008. For the Euro area this is the highest rate since January 2009 and for the EU27 since the start of the series in January 2000.
It means than more 22 million of Europeans were unemployed in September 2009, with some Countries more affected than others, and all EU27 Member States experiencing an increase of their unemployment rate.
The situation is diversified among the 27 Member States: there are Countries, like the Netherlands and Austria, with an unemployment rate respectively of 3.6% and 4.8%, that seem to have been marginally touched by the crisis, while some Countries, such as Latvia and Estonia, have registered a double digit increase of the unemployment rate (respectively from 8.1% to 19.7% for Latvia and 4.1% to 13.3% for Estonia between the second quarters of 2008 and 2009).
Men and young are the groups most affected, as a consequence of the sectors directly hit, namely automotive industry and manufacturing. Youth unemployment is probably the worst indicator for the employment situation[2]; it represents a critical factor for Member States' policies in the coming years.
This is the European labour market situation in September 2009, a year later the beginning of the crisis in Europe. In fact, the crisis started to spread its effects in the third quarter of 2008 and it is far from being solved, even if signals of improvement are emerging in some Countries.
The European Union, and in particular the European Commission, has an extremely important role to play in order to drive the economic recovery, and it also represents a guide for Member States in dealing with their own situation and their own specific problems, created by different starting point when the crisis started.
Several actors are involved in the process of economic recovery, but of course a major role is played (for our analysis) by the Directorate General for Employment, Social Affairs and Equal Opportunities of the European Commission. It has a toolset that could be divided in two main areas:

1. it has executive powers and legislative initiative, which unfortunately it is limited due to the Member States will of keeping their sovereignty in social matters (take for example the welfare reform);
2. it has an important spending power, which represents the third highest budget within the European Commission (almost 10% of the EU's annual budget, roughly €11.5 billion) mainly represented by the European Social Fund (ESF). The mechanism according to which ESF works[3] foresees a delegation of power at Member States level: they are responsible for implementing the generic guidelines produced by the EC through several Operational

[1] Eurostat News Releases 153/2009, 30 October 2009, http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-30102009-AP/EN/3-3010009-AP-EN.PDF.
[2] Youth unemployment has reached 41,7% in Spain and 33,6% in Latvia and in other Countries the level is the highest ever registered.
[3] The general regulation for Structural Funds is the Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999Regulation . The specific regulation for ESF is the Regulation (EC) No 1081/2006 of the European Parliament and of the Council of 5 July 2006 on the European Social Fund and repealing Regulation (EC) No 1784/1999.

Programmes, which stand for seven years (2007-2013), and that need to be approved by the Commission.

The scenario becomes more complicated if we consider that also the Council debates on employment policies[4]. Since employment and social protection polices remain the responsibility of the Member States, the Community's contribution is confined to setting common objectives for all Member States, analysing measures taken at national level and adopting recommendations to the Member States.

And of the course there is also the European Parliament that, thanks to the co-decision procedure, is the third actors dealing with social policies in Europe. This fragmented picture, typical of the European Union, gives an idea of how to give a quick and clear answer to the economic crisis it far from being simple.

The initial European response to the crisis was the November 2008 Recovery Plan[5], which was approved by the European Council in December, followed by a Commission Communication[6] highlighting Cohesion policy contribution in the European Economic Recovery Plan (henceforth EERP) and its support to the real economy. The former (EERP) document details measures to accelerate smart investments at national and regional level by simplifying access to grants, facilitating support to people hit by the crisis and increasing the availability of finance for small and medium sized enterprises (SMEs). The EERP underlined the importance of "*stabilising economies, restoring growth and maintaining social cohesion and called for a co-ordinated approach given the interconnections, spillovers and common challenges*".

The Communication also foresees funding targeted at growth and jobs. Of the funding allocated under the Cohesion policy, more than 65% (€230 billion) is earmarked for investment in the four priority areas of the Union's growth and jobs strategy – people (employment), business, infrastructure and energy, research and innovation. This focus is crucial as these priorities will contribute to a quicker recovery, improve competitiveness and help the Union to adapt to a low carbon economy.

The EERP contains a specific and relevant reference to the Union's growth and jobs strategy and it sets the priorities in the four areas of the Lisbon Strategy. The reason behind this reference is that that should be a close connection between the fiscal stimulus[7](the main element of the recovery plan) and the four priority areas of the Lisbon Strategy.

The first proposal presented in the EERP (under point *1. Launch of a major European employment support initiative*) is a simplification of the criteria for ESF support and a commitment to step up advanced payment from early 2009 in order to:

- rapidly reinforce activation schemes
- refocus Member States programmes to concentrate support on the most vulnerable
- improve the monitoring and matching of skills.

The recovery plan stresses the relevance of Cohesion Policy and ESF priorities to alleviating the effects of the economic crisis on jobs and it asks for an acceleration of investments to support the

[4] Employment, Social Policy, Health and Consumer Affairs Council (EPSCO), which is one of the nine Council formations deals directly with employment issues. Within the Council, and in particular in the framework of the Employment Committee and the Social Protection Committee, Member States can exchange ideas and information or share the results of their own experiences.

[5] COM (2008) 800 final – Communication from the Commission to the European Council – A European Economic Recovery Plan.

[6] COM (2008) 876 final – Communication from the Commission the European Parliament, the Council, the European Economic Social Committee and the Committee of the Regions – Cohesion Policy: investing in the real economy

[7] The Plan calls for a budgetary stimulus amounting to €200 billion (1,5% of the EU GDP) made up of a budgetary expansion by Member States of €170 billion, and EU funding in support of immediate actions of the order of €30 billion.

real economy. Following this suggestion, the EU has brought five important legislative and administrative changes to the Structural Funds, including ESF:

1. providing upfront liquidity: the EU allows Member States more time to spend the funds from the previous programming period which remained unspent. The action was limited in time (until June 2009) and made available € 7 billion (in addition to the € 18.53 billion of advanced payment already made to the Member States for the 2007-2013 period).
2. More front-loading of investment: in addition to the above mentioned € 18.53 billion pre-financing, the EU has made available extra advanced payment of € 6.25 billion for 2009. Added to the already available € 2.37 billion, € 8.62 billion in total will be advanced by the EU, with € 3.8 Billion assigned to the EU 15 (according to the previous scenario there was no money allocated to them).
3. Flexible funding to boost new projects: the normal EU contribution for ESF programmes varies from 50 to 85 per cent; with the new rules projects could receive 100 per cent EU funding to ensure they can be started, as long as this is balanced by national operations towards the end of the programming period in 2013[8].
4. Easing administrative burdens: thanks to an amendment of ESF regulation (which had already introduced the possibility of applying a flat rate for the reimbursement of project overheads), Member States are now entitled to apply a flat rate of reimbursement to all project costs, both direct and indirect, by agreeing an appropriate "standard scale of unit cost" with the project beneficiary.
5. Helping small projects: the amendment allows lump-sum grants to be made (the lump-sum is limited to an amount of € 50,000).

Although the EERP is the Commission's response to the crisis, most of the economic policy levers are in the hands of the Member States, and the onus in on them to take action at different levels, taking into consideration the various starting point among them.

Five months after the presentation of the EERP, each Member States has presented its own proposals and actions in order to counter the crisis. The common element has been a fiscal stimulus for increasing the demand in the short term, and measures to reduce the effect of the crisis on employment.

In March 2009, the Commission presented the Communication[9] "Driving the European Recovery", with the aim of setting out next steps in dealing with the crisis and leading the EU to recovery. It contains an ambitious programme of financial sector reform while it also reviews the measures being taken to sustain demand, boost investment and retain or create jobs.

The Communication underlines that the impact on jobs has spread; targeted actions are needed to limit the hardship for individuals and prevent the loss of precious skills. Steps can and should be taken to keep people in employment through the downturn and to use creative solutions to maintain the goal of developing a more highly skilled workforce.

According to the Communication, young people, those with short-term contracts and migrant workers are likely to be the worst hit. It classifies the measures taken at Member States Level in four categories:

1. Measures aiming at maintaining existing jobs: short-time working allowances, reduced social security contributions, wage subsidies and support to SMEs;
2. Measures to ensure rapid (re)integration into the labour market: vocational training and support for the disadvantaged, changes in sickness or disability benefits, and new eligibility rules for unemployment benefits;

[8] The Commission ha made this announcement in the Communication of 3 June 2009. It requires a change of the Structural Funds regulation in order to be effective. What is needed is a formal proposal to amend the Structural Funds regulation and enter into negotiations with Parliament and Council where the decision will be finally taken.

[9] COM (2009)114 final – Communication for the Spring European Council – Driving the European Recovery.

3. Measures to support the most vulnerable: increase in minimum income/wage, extended coverage or duration of unemployment benefits, higher housing or family allowances, tax rebates or exemptions , and measures against over-indebtedness or repossession;
4. Measure to strengthen social protection and invest in social and health infrastructure: investments in housing, hospitals, primary care, long-term care infrastructure and schools, and actions to help pension funds meet their long term liabilities.

Another action taken at European level has been renewing the European Globalisation Adjustment Fund (EGF, part of the EERP). The changes should enhance the performance of the Fund by:

- Lowering the eligibility threshold for EGF applications from 1,000 to 500 redundant workers;
- Extending to 24 months the duration of EGF support (currently 12 months) so as to allow sufficient time for the measures to be effective in re-integrating particularly the most vulnerable workers into new jobs;
- Increasing the EU financial contribution from 50% to 75% to better reflect the emergency nature of the contribution (the other portion being paid by Member States);
- Temporarily broadening the scope of eligibility for assistance under the EGF to encompass workers adversely affected by the economic and financial crisis, and not only those (as is the case at present) who lose their jobs as a result of changes in world trade patterns.

The EU has also adopted a 'EU Shared Commitment for Employment[10]' which puts forward key priorities and actions to preserve jobs and help those facing difficulties while paving the way for recovery. The three key priorities are the following:

1) maintaining employment, creating jobs and promoting mobility;
2) upgrading skills and matching labour market needs;
3) and increasing access to employment.

In June EMCO committee analyzed a series of action taken a Member States level and what emerged is that, clearly, the Member States' responses to the crisis are different, reflecting their different starting point following the onset of the crisis, and the room of manoeuvre available to them. Most measures Member States have taken are aimed at stimulating specific recommendations under the Lisbon Strategy for growth and jobs. These actions can be classified in three principal categories:

- Measures to increase labour demand
- Changes to Active Labour Market Policies
- Change in income support.

However, the overview of the several stimuli undertaken at national level shows that the focus is on generic economic support measures (tax cuts, wage subsidies e.g. in the form of reductions of social security nets, state guarantees for vulnerable companies, or financial support for SMEs). A second focus is on infrastructure spending (which has a direct impact on employment) and sector specific support measures for the automotive sector, tourism, construction, etc.
While most of the Countries included some sort of improved unemployment benefits and flexible work contracts in their programmes, only very few concentrated their resources on such measures. This includes in particular short-time work schemes and flexible working hours. Training measures

[10] COM(2009) 257 final – Communication from the Commission to the European Parliament, the Council, The European Economic and Social Committee and the Committee of the Regions -A Shared Commitment for Employment.

and placement activities are also applied by many countries, but none of the EU Member States put this area into the centre of the policy programme.
The situation described before represents the starting point for my analysis. In details, in order to study how European Union is responding to the crisis in the labour market, and to verify if this answer is efficient or not, we should evaluate the way in which the different instruments (Structural Funds – ERDF and ESF – and EGF, along with the power of legislative initiative) in the hands of the EU have been used and/or been modified to be more targeted towards the economic crisis.
Structural Funds in general, and thus not only ESF, are characterized by well-developed system of decentralisation, which assign responsibility at National and Regional level in implementing the different measures. Member States are responsible for implementing their, in some cases several, Operational Programmes, built upon the general guidelines given by the European Commission.
The main problem in using structural Funds to try to solve problems created by the crisis is that, as their name indicate, they are "structural", so they are by nature directed to a long-term perspective instead of a temporary crisis, like the one we are facing today.
The EU, on one side, as we have already anticipated, is trying to change the functioning rules of the Structural Funds to counter the effects of the crisis, but the process is long and will be put in place only, hopefully, in 2010.
On the other side, the EU has given a broad idea on how to intervene at national level to counter the effect of the crisis and it has indicated the groups which are likely to be more affected by the crisis, and thus which deserve a particular attention (namely young people, redundant workers).
Member States have responded in different ways and, among the various measures taken, there are examples that could be classified as best practices.
The idea behind my research project is thus, on one hand, to study and verify whether the European responses for the labour market (responses given directly by the European Union) have been efficient and well targeted, and on the other hand, to create a list of the main responses undertaken at national level, always in the field of employment or with indirect implication on the employment side, and classified them into synthetic categories.
At the moment, the measures undertaken within the EERP are promising for the broad economic side, but for unemployment we are far from reaching a solution. The already existing capacities for the social safety nets are fully playing their role and a number of new innovative policies are also keeping people in employment.
However, it is not time for final conclusion; on the contrary, we should look deeply and constantly to the evolution, not only of the main labour market indicators, but to the broadly economic measures and to the direction that such policies will take in the coming months.