

3. Labour market developments in the crisis

Introduction

Over the period since the initiation of the Lisbon Strategy in 2000, Europe had seen rising rates of employment and falling rates of unemployment. However, the economic crisis has now reversed this trend: the EU average employment rate is back to its 2006 level, while unemployment has increased by two percentage points in a single year. Yet the impact of the economic crisis on labour markets displays considerable variation from one country to another. Some countries have succeeded in keeping employment levels up and unemployment levels down through recourse to employment-preservation and employment-creation measures combined with an expansion of active labour market policies. What is more, certain labour market groups or categories have been particularly hard hit by the crisis. These include men, temporary workers, youth and prime-age workers, as well as migrant workers.

This chapter will proceed as follows. The first section will discuss labour market outcomes with a focus on developments between the second quarter of 2008 and the second quarter of 2009 in order to obtain an overall picture showing which countries and which labour market groups have been particularly hard hit by the crisis. Employment rates and unemployment rates will be compared between

European countries and for different groups of workers. The development of specific forms of non-standard employment will also be monitored, since both temporary and part-time employment have in recent years made a sizeable contribution to employment growth. In a second section, the role of labour market and employment policies in cushioning the effects of the crisis will be briefly discussed, with the focus on active labour market policies and work-sharing measures.

Themes

- 3.1 Labour market developments in the EU
- 3.2 The role of labour market policies in the crisis
- 3.3 Conclusions

3.1 Labour market developments in the EU

Lisbon-period achievements and impact of the crisis

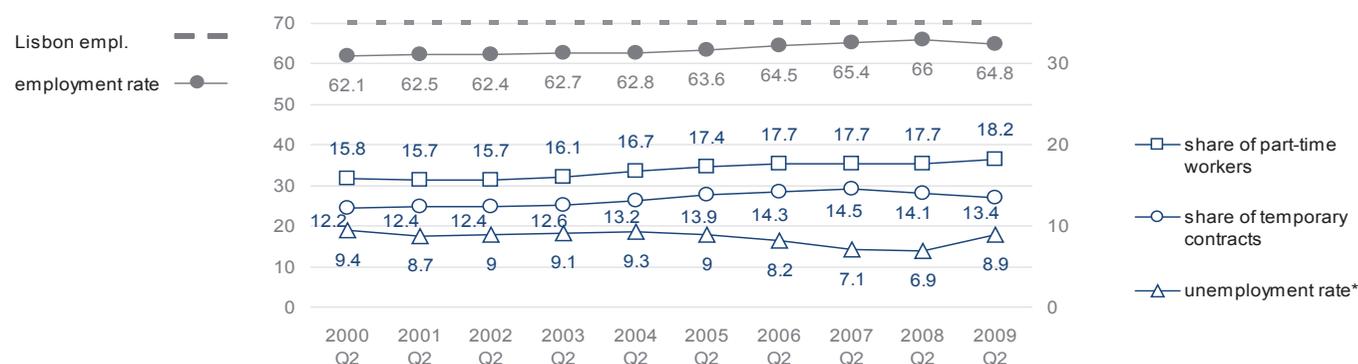
The Lisbon Strategy formulated highly ambitious employment goals for 2010: an overall EU employment rate of 70% and employment rates of 60% for women and 50% for older workers. Some positive developments have indeed taken place in this respect, insofar as employment growth has been especially strong among women and older workers (European Commission 2006: 38), while some countries have successfully boosted their employment rates. However, even before the crisis, overall employment rates – which had reached 66% by the second quarter of 2008 – remained far from the Lisbon 2010 target, since when the economic crisis has led to a drop in employment rates of more than one percentage point within a one-year period (Figure 3.1). In the second quarter of 2009, EU employment stood at 64.8%, while unemployment was 8.9%, representing a two percentage point increase within a single year. In fact, employment and unemployment levels are currently back to their 2006 and 2005 levels and further deterioration of this situation is most likely.

A considerable share of recent employment growth in Europe has been due to increasing shares of part-time and temporary employment (European Commission 2006: 24). Part-time employment, as a percentage of total

employment, increased by about two percentage points between the beginning of the Lisbon Strategy and the second quarter of 2008. Since the onset of the crisis it has grown by another 0.5 percentage points to a current level of 18.2%. Temporary employment (all contract forms of limited duration such as fixed-term employment and temporary agency work) has also increased by about two percentage points in the eight years since the introduction of the Lisbon Strategy – its share in total employment having reached 14.1% in 2008. Workers on temporary contracts – particularly temporary agency workers but also those on fixed-term

contracts – were in many countries the first to lose their jobs during the crisis. Temporary employment, which is usually not exercised out of choice but as a matter of necessity and is much more pronounced among young workers, has therefore fallen steeply since the onset of the crisis. In the second quarter of 2009 it accounted for 13.4% of all employment, a figure quite close to the 2004 level.

Figure 3.1 Developments in employment and unemployment over the last 10 years (EU27)



Data source: Eurostat (2009) *European Labour Force Survey (ELFS)*.

3.1 Labour market developments in the EU

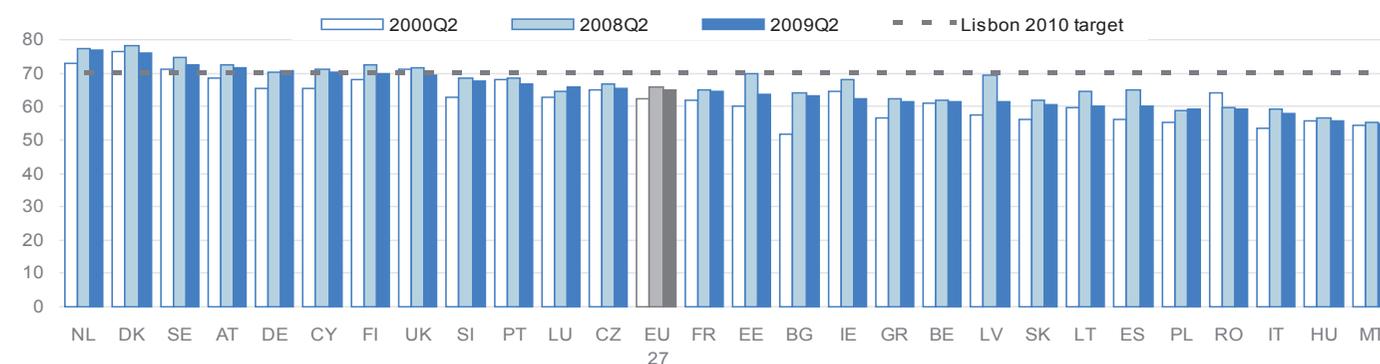
Employment rates

The Lisbon 2010 employment rate target was formulated for the EU as a whole and represents a suitable indicator for benchmarking European countries. By the second quarter of 2009 only six countries – the Netherlands, Denmark, Sweden, Austria, Germany and Cyprus – had exceeded the Lisbon target (Figure 3.2). High employment rates among women (considerably in excess of the 60% target) contribute to this positive outcome, and yet, as will be seen in section 1.4, particularly in the Netherlands, but also in Germany, Sweden, Austria and Denmark, a large share of female employment is part-time. As such, the employment rate in the Netherlands, if expressed in full-time equivalents, is only 58.6% (and 44.4% for women), which compares with 69.3% (women: 62.8%) in Denmark and a EU27 average of 59.9% (women: 49.8%) (European Commission 2008f, statistical annex). The worst performers, those with employment rates below 60% in 2008 (Malta, Hungary, Italy, Romania and Poland), all have very low employment rates for women.

The large majority of EU countries have seen increasing employment rates since the introduction of the Lisbon Strategy and the increases have been very sizeable in a number

of countries (particularly Estonia, Bulgaria, Latvia and Spain) which had comparatively low employment rates in 2000. What is more, a number of countries with above average employment rates in 2000 also saw further strong growth (e.g. the Netherlands, Germany, Cyprus and Slovenia).

Figure 3.2 Employment rates: Lisbon period achievements and outcomes of the crisis



Data source: Eurostat (2009) *European Labour Force Survey (ELFS)*. Age: 15-64. Note: FR: 2000Q1 instead of 2000Q2.

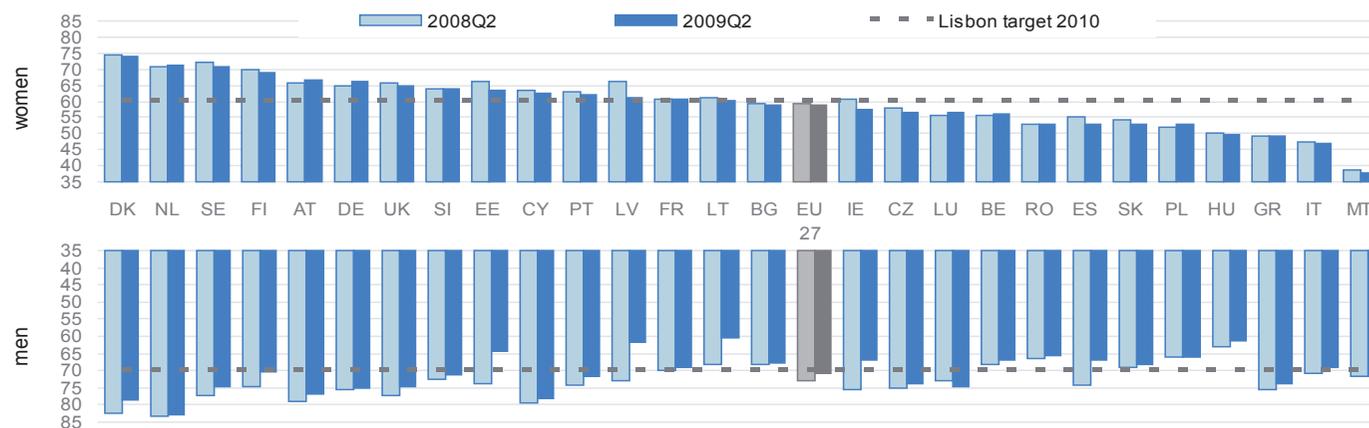
3.1 Labour market developments in the EU

Employment rates

However, the economic crisis has had adverse effects on employment in almost all countries, the only ones that still saw slight employment growth between the second quarters of 2008 and 2009 being Germany, Luxembourg and Poland. Five countries – the three Baltic countries, Ireland and Spain – experienced especially drastic falls in employment within this one-year period.

On the EU average, the employment rates of men fell much more steeply than those of women between the second quarters of 2008 and 2009. Employment rates of men are down by about two percentage points to a level of 70.9% whereas employment among women is down by 0.3 percentage points to a current level of 58.8% (Figure 3.3). Particularly steep declines have been observed in the three Baltic states, Ireland and Spain but also in countries such as Denmark and Finland with their traditionally very high employment rates. At present only 14 countries surpass the 60% benchmark for female employment rates, while 14 countries (but not in all cases the same ones) have male employment rates higher than 70%.

Figure 3.3 Development of employment by gender in the crisis, 2008Q2 and 2009Q2



Data source: Eurostat (2009) *European Labour Force Survey (ELFS)*. Age: 15-64

3.1 Labour market developments in the EU

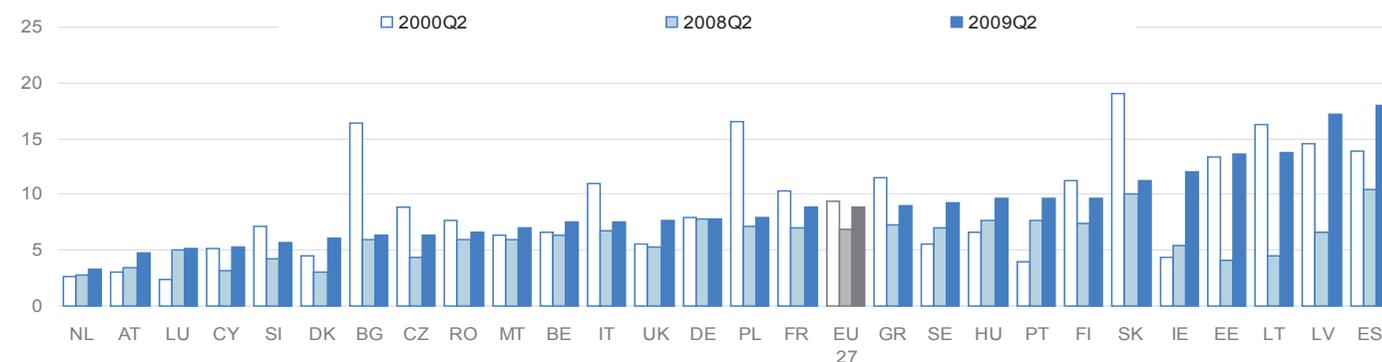
Unemployment rates

Some countries have made enormous achievements in terms of reducing unemployment since the beginning of the Lisbon Strategy (e.g. Bulgaria, Poland and Slovakia) and the 2009 EU average level of unemployment is still somewhat below the 2000 level. However, quite a number of countries (e.g. Ireland, Sweden and Spain) now have unemployment rates well above their levels at the beginning of the Lisbon Strategy (Figure 3.4).

Looking at the second-quarter European labour force survey data for 2008 and 2009, only Germany saw no increases in unemployment rates, whereas unemployment more than doubled in Ireland and Latvia and more than tripled in Estonia and Lithuania. Jumps in unemployment were also very large in both Spain and 'flexicurity champion' Denmark, having risen, in the latter, from a very low initial level.

By the second quarter of 2009 only the Netherlands and Austria had unemployment rates of below 5%, whereas one year earlier this had been the case in eight countries. In Ireland, the Baltic countries and Spain unemployment is higher than 12%, in Spain as high as 18%.

Figure 3.4 Unemployment rates: Lisbon period achievements and impacts of crisis



Data source: Eurostat (2009) *European Labour Force Survey (ELFS)*. Age: 15-64. Note: FR: 2000Q1 instead of 2000Q2.

3.1 Labour market developments in the EU

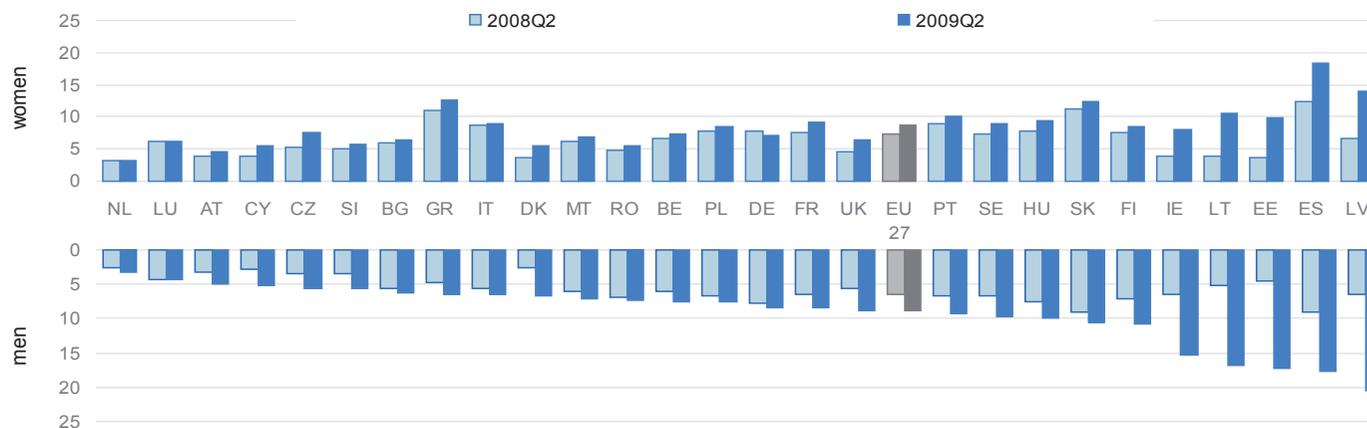
Unemployment rates

Unemployment rates increased from 7.4 to 8.8% among women and from 6.4 to 8.9% among men (Figure 3.5). In the second quarter of 2008 in only five out of 27 countries was unemployment among women lower than or equal to that among men, but this is currently the case in 16 countries.

Figure 3.6 shows that in all countries unemployment rates are considerably higher among youth than among other age groups. At 19.6% on the EU average, youth unemployment is more than double the total unemployment rate (8.9%). Among prime-age workers the unemployment rate is 8%, whereas older workers – who are more likely to enter early retirement or functional equivalents of prolonged unemployment – have an unemployment rate of only 6.3%.

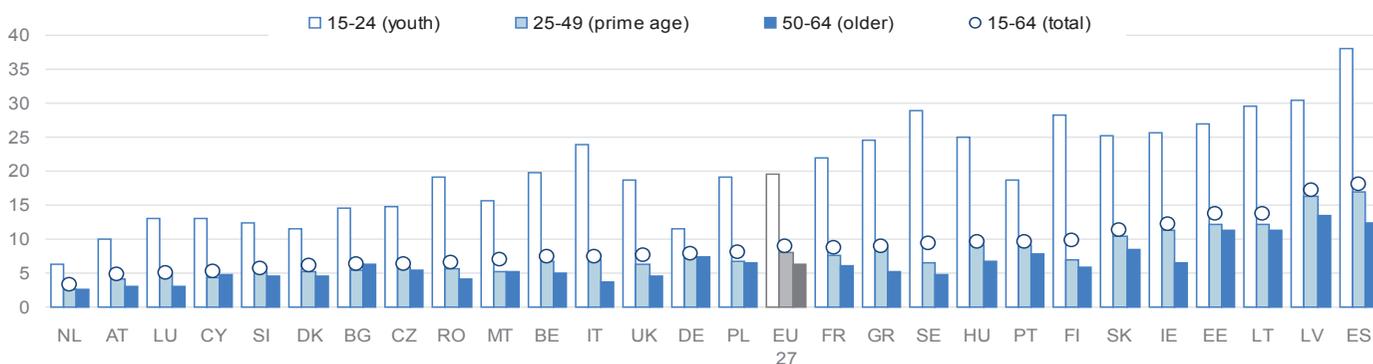
Italy and Sweden have a rate of youth unemployment that is three times the total unemployment rate and both Romania and Finland are close to a similar figure. In only six countries – the Netherlands, Denmark, Germany, Portugal, Estonia and Latvia – is youth unemployment slightly below double the total unemployment rate. The best performer here is Germany with its dual education system that cushions transitions from school to work.

Figure 3.5 Development of unemployment by gender in the crisis, 2008Q2 and 2009Q2



Data source: Eurostat (2009) *European Labour Force Survey (ELFS)*. Age: 15-64

Figure 3.6 Unemployment rates by age group and total unemployment rates, 2009Q2



Data source: Eurostat (2009) *European Labour Force Survey (ELFS)*.

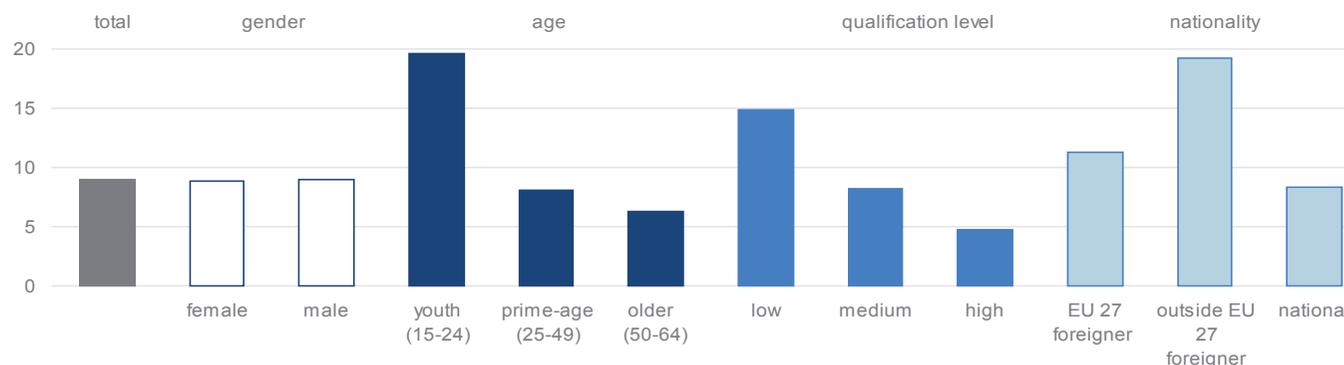
3.1 Labour market developments in the EU

Labour market subgroups and the crisis

The economic crisis has affected different groups of workers in different ways. Here, by way of example, the developments in unemployment will now be considered. Before looking at rates of change in regard to unemployment, it is important to take into account the initial levels. On the EU average, women now have marginally lower unemployment rates than men, whereas before the crisis unemployment rates of men were lower. As the last section showed, young workers are more likely than prime-age workers, and especially older workers, to be unemployed. Similarly, in all countries, persons with low levels of qualification have considerably higher unemployment rates than those with medium and particularly high qualifications, while, in the majority of countries, the incidence of unemployment is higher among migrant workers (and particularly non-EU migrants) than among nationals (Figure 3.7).

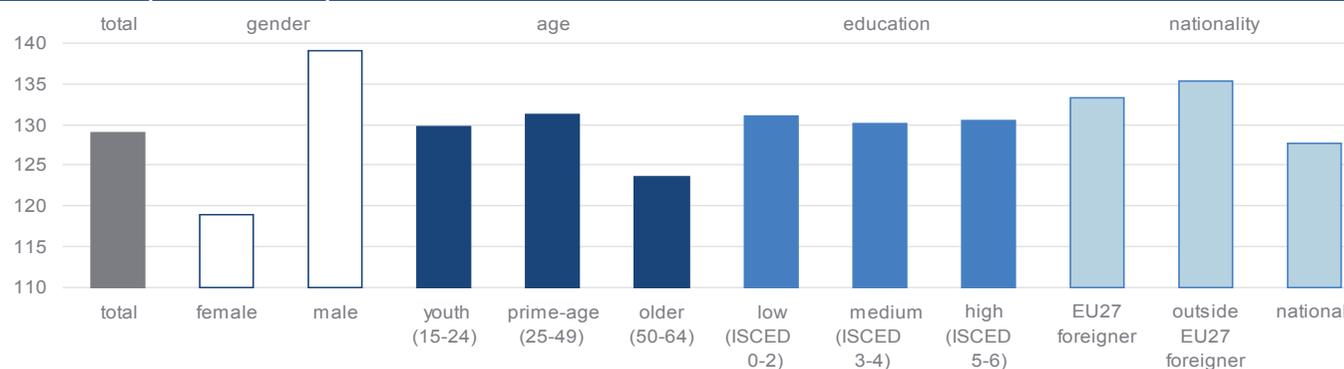
Figure 3.8 compares the rates of change of unemployment for the different labour market groups between the second quarters of 2008 and 2009. Overall unemployment increased by approximately one third. Due to the fact that certain male-dominated sectors (manufacturing, construction) were particularly hard hit, growth in unemployment was much greater

Figure 3.7 Unemployment rates by labour market subgroup, 2009Q2



Data source: Eurostat (2009) *European Labour Force Survey (ELFS)*. Age: 15-64 if not stated otherwise.

Figure 3.8 Rate of change of unemployment by labour market subgroup: 2008Q2-2009Q2 (2008Q2=100)



Data source: Eurostat (2009) *European Labour Force Survey (ELFS)*. Age: 15-64 if not stated otherwise.

3.1 Labour market developments in the EU

Labour market subgroups and the crisis

among men, this distinction of gender being virtually the only instance of an outcome that applies, with very few exceptions, across the EU as a whole.

Youth and prime-age workers were, on average, more affected by unemployment in the immediate wake of the crisis than were older workers, a fact that may be due to the higher propensity among younger workers to be employed on fixed-term contracts but which is also attributable in part to firing rules that stipulate that those with the shortest experience in the firm are the first to be made redundant ('last in – first out'). Furthermore, older workers who become unemployed are often transferred, relatively quickly, to early retirement measures or functional equivalents and are thus no longer counted as unemployed. In only a few countries (e.g. Austria, Belgium, Czech Republic and Slovakia) did youth unemployment, relative to levels in 2008Q2, actually increase more strongly than unemployment among prime-age workers. However, the extent to which young people have been affected by the current economic crisis is likely to be under-estimated by the unemployment data, insofar as young people who lose their jobs, or who face problems in finding a first job, frequently decide instead to continue their education, which means

that they will not show up in the unemployment statistics. In fact, relative to the level in 2008Q2, in almost all countries youth employment had decreased more than total employment (Eurostat, Labour Force Survey 2009, figure not shown). What is more, if we look at percentage point increases in unemployment instead of rates of change, then unemployment among youth increased more strongly (from 15.1% to 19.6%) than unemployment among prime-age workers (from 6.1% to 8%) (not shown).

In terms of qualification levels, there are hardly any differences in the extent to which workers fell victim to unemployment. The EU average differences are more pronounced in terms of nationality with nationals being least affected and non-EU27 foreigners being most affected. Again, heterogeneity among countries is strong with countries such as Denmark, Estonia, Latvia and Sweden recording considerably weaker growth in unemployment among migrant workers than among nationals, and countries such as Greece, Luxembourg and Portugal recording considerably stronger growth (Eurostat, Labour Force Survey 2009, figure not shown). In regard to migrant workers, it is important to be aware that the unemployment records may not tell the whole story, insofar as

some migrant workers may not have access to unemployment benefits or may return to their home country upon losing their job during the economic crisis.

3.1 Labour market developments in the EU

Forms of non-standard employment in the crisis

Forms of non-standard employment have been actively promoted at the EU and national levels as remedies to unemployment and a way of helping to boost employment rates. Part-time employment is for the most part exercised by women and can be in the interest of employees insofar as it contributes to their efforts to balance work and family life. On the other hand, it is often exercised as a matter of necessity in the absence of sufficient child and elderly care facilities or of other sufficiently flexible working-time arrangements at the workplace level. Part-time work has been shown to have adverse effects on wages, social security benefits and career advancement (European Foundation for the Improvement of Living and Working Conditions 2003; Leschke 2007). Temporary employment (including fixed-term and temporary agency work) is over-proportionally exercised by young workers and taken up, for the most part, as a matter of necessity rather than choice in the absence of permanent jobs. This form of work much more frequently leads to spells of unemployment and can entail adverse effects, especially on unemployment insurance benefit receipt.

The shares of both part-time employment and temporary employment in total employment have grown

since the introduction of the Lisbon Strategy. Part-time employment was 18.2% in the second quarter of 2009 – up by 2.4 percentage points since 2000 (second quarter). Temporary employment is currently 13.4% – up by 1.2 percentage points with large losses during the crisis (see below).

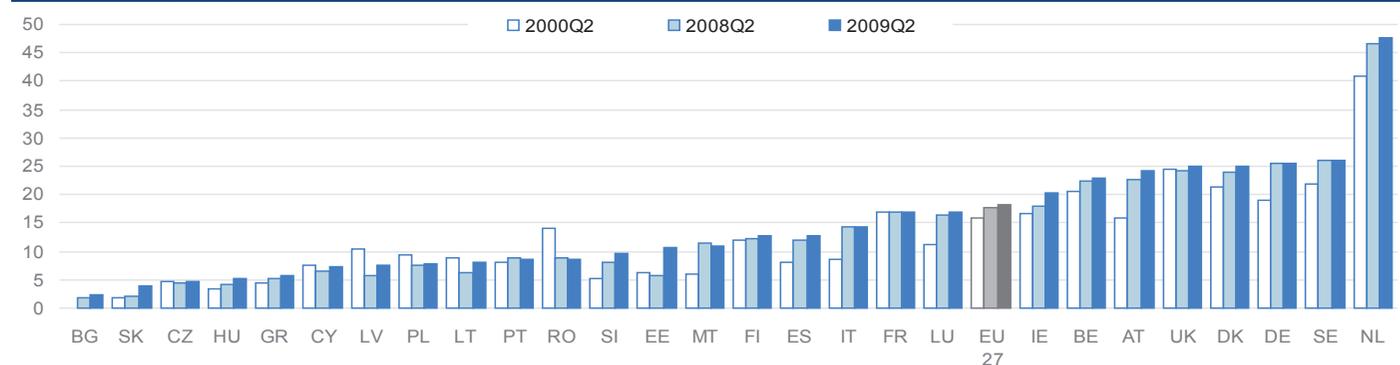
Part-time and temporary employment are unequally spread over Europe. The incidence of part-time employment is much more pronounced in the old member states, where in five countries – the Netherlands, Sweden, Germany, Denmark and the UK – more than 25% of the working population are employed on a part-time basis

(Figure 3.9). In the Netherlands this share amounts to almost 48% of the working population. At the other end of the scale, we find Bulgaria, Slovakia and the Czech Republic with part-time shares of below 5%.

Reflecting the traditional gender division of waged work and care and household tasks, gender differences in part-time employment are large. On average 31% of all women in employment in the EU work part-time, as against only 7.5% of men. In nine of the EU15 countries more than one third of women work part-time, and in six of these countries (Netherlands, Germany, Austria, Belgium, UK,

Sweden) the share is larger than 40%. In only four countries (Netherlands, Denmark, Sweden, UK) do more than 10% of men work part-time, the share of male part-time workers in the Netherlands being exceptionally high at 23.6% (Eurostat, Labour Force Survey 2009, figure not shown).

Figure 3.9 Part-time employment: developments since onset of Lisbon Strategy and impacts of crisis



Data source: Eurostat (2009) *European Labour Force Survey (ELFS)*. Age: 15-64. Note: FR: 2000Q1 instead of 2000Q2.

3.1 Labour market developments in the EU

Forms of non-standard employment in the crisis

In ten EU countries (out of 22 with complete data) more than 50% of women part-timers state that they work part-time due to care, family or other personal responsibilities. The shares are highest in Luxembourg, Ireland, Malta and the UK and lowest in Romania and Poland (Eurostat Labour Force Survey 2009, figure not shown).

Temporary employment is highest by far in Poland, Spain and Portugal, where the respective percentages of total employment are 26.3%, 25.5% and 21.7% (Figure 3.10). Spain has recorded huge declines in temporary employment since the onset of the crisis. Temporary employment is below 5% in Romania, the Baltic countries, Slovakia and Malta. Only three new member states (Poland, Slovenia and Cyprus) exceed the EU average. The share of temporary employment in total employment is undoubtedly influenced by the strictness of employment protection legislation for permanent contracts and the strictness of regulations pertaining to temporary employment (Venn 2009).

Temporary employment is somewhat more common among women than among men (14.3% vs. 12.6% in 2009Q2) and is for the most part exercised by young workers, their share in

temporary employment on the EU27 average being 39.5% as compared to 11.6% for prime-age workers and 6.4% for older workers (Eurostat, Labour Force Survey 2009, figures not shown).

Asked why they were employed on a temporary contract, the majority of respondents (15-64 years) in 20 countries (out of 26 with complete data) stated that they were unable to find a permanent job. The exceptions include both Germany and Austria where the majority of respondents, in the context of the strong dual education systems characteristic of these countries, are young apprentices on contracts that are by definition temporary (Eurostat,

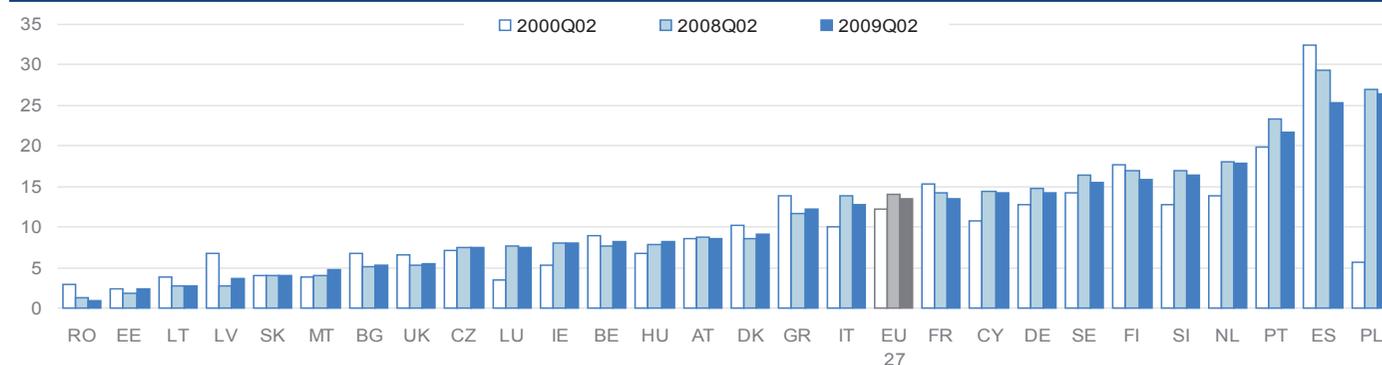
Labour Force Survey 2009, figure not shown).

Part-time employment has further increased during the crisis from 17.7% to 18.2% in the second quarters of 2008 and 2009 respectively. Most countries replicated this trend. The largest growth in part-time work took place in the three Baltic countries, Slovakia and Hungary, all of which have well below average part-time employment rates (Figure 3.9).

The share of temporary employment, on the other hand, has decreased quite dramatically from 14.5% in 2007Q2 to 14.1% in 2008Q2 and 13.4% in

2009Q2. Country trends in this regard were somewhat more diverse. Some countries with comparatively low initial levels of temporary employment – such as Latvia, Estonia and Malta – saw relatively large increases over the last year, possibly because, during the crisis, employers prefer to conclude contracts of short duration that can easily be terminated. Other countries with, for the most part, higher initial levels of temporary employment saw relatively large declines (e.g. Spain, Portugal, Finland and Sweden) as temporary agency workers and workers on fixed-term contracts were the first to lose their jobs during the crisis (Figure 3.10).

Figure 3.10 Temporary employment: developments since onset of Lisbon strategy and impacts of crisis



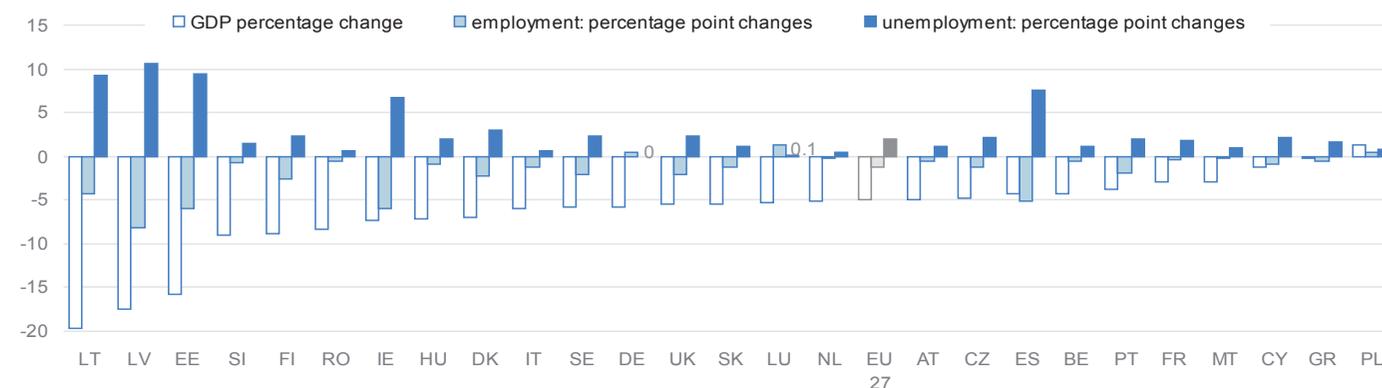
Data source: Eurostat (2009) *European Labour Force Survey (ELFS)*. Age: 15-64. Note: FR: 2000Q1 instead of 2000Q2; BG 2001Q2 instead of 2000Q2.

3.2 The role of labour market policies in the crisis

Relationship between GDP, unemployment and employment buffered by labour market institutions

Figure 3.11 shows that, while there is a reasonably high short-run relationship between changes in output, unemployment and employment in the crisis, labour market institutions and policies are in some cases able to act as buffers. The Baltic countries and Ireland show the expected pattern of large output losses combined with large growth in unemployment and large declines in employment. Spain, however, though experiencing below average output losses, nonetheless displayed large labour market reactions. Germany represents an inverse example in that, in spite of larger than average output losses, few labour market reactions – in terms of employment and unemployment – are visible. The situation experienced by these outliers can be explained, at least in part, by the application of (or lack of) labour market policies or institutions that help to cushion the effects of the crisis on labour market outcomes.

Figure 3.11 GDP, employment and unemployment rates, 2009Q2 (change compared to 2008Q2)



Source: Eurostat (2009) *European Labour Force Survey and National Accounts*. Age: 16-64. Note: incomplete data for BG.

3.2 The role of labour market policies in the crisis

Expenditure on passive and active labour market policies

Traditionally, expenditure on unemployment benefits and active labour market policies including employment services varies greatly among EU member countries. Nor is there any apparent link between the size of expenditure and the level of unemployment (Figure 3.12). In 2007 (latest data available) total expenditure on labour market policies ranged between 0.16% of GDP in Estonia and 3.29% in Belgium. Countries with very similar unemployment rates can be found at either end of the expenditure spectrum. Of particular note is the fact that Denmark and the Netherlands, which were among the countries with the lowest unemployment rates in 2007, are in second and third place in terms of expenditure on passive and active labour market policies as a share of GDP.

There is a clear division between new and old member states, with the UK representing the sole exception of an EU15 country with exceptionally low spending on both passive and active labour market policies. There are also large country differences in the activity ratio of benefits (the share of active benefits in total expenditure), without, however, any apparent country group patterns. The activity ratio of benefits has in general increased over the previous two decades.

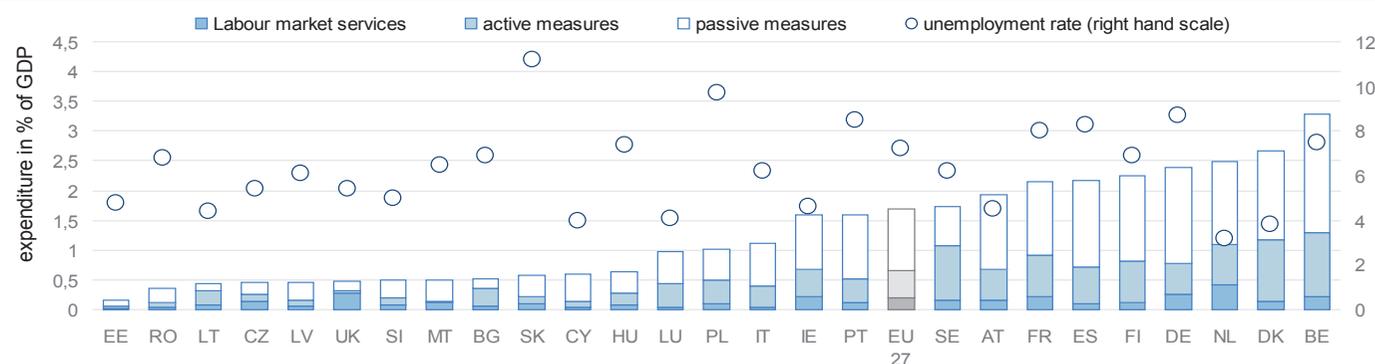
With the large growth in unemployment rates during the economic crisis, countries with traditionally low expenditure are likely to face severe problems in providing the unemployed with sufficiently high and long-lasting unemployment benefits and access to active labour market policy measures (see also Chapter 7). However, those countries which traditionally spend large shares of GDP on unemployment policies also face challenges in maintaining the same level of – particularly active – benefits in the face of sudden increases in unemployment. With the onset of the crisis, it has also become more evident that, in many countries, unemployment

insurance coverage is not comprehensive, in that, for example, it tends to exclude certain labour market groups that are unable to fulfil the eligibility criteria, such as young and non-standard workers (compare OECD 2009). In fact, a number of countries have recently expanded coverage of unemployment benefit schemes, extended benefit duration or increased benefit levels for certain groups of beneficiaries (European Foundation for the Improvement of Living and Working Conditions 2009b).

While the fiscal stimulus packages adopted included, in most countries, labour market and social policy

measures, additional funds for labour market programmes were in most cases rather limited (Watt 2009a). However, there are some exceptions and countries including Greece, Poland, Portugal, Spain and Sweden have announced notable increases in spending on active labour market policies as a response to the economic downturn (OECD 2009).

Figure 3.12 Active and passive expenditure on labour market policies and unemployment rates, 2007



Source: Eurostat (2009) *Labour Market Policy*. Note: information for Greece is missing.

3.2 The role of labour market policies in the crisis

Employment-preservation measures in the crisis

As well as (at least marginally) increasing and refocusing the use of active labour market policies and boosting direct job creation, for example in sectors particularly hard hit by the crisis, several countries have additionally placed special emphasis on maintaining employment by way of increasing working time flexibility (use of working time accounts and reducing overtime and income support for various forms of work-sharing). Work-sharing measures, in particular, have been extremely successful in terms of keeping employment levels up and unemployment levels down in a number of countries (see also Chapter 5). A prominent example in this regard is Germany where the short-time working allowance scheme has been boosted during the current economic crisis. Among other changes, access to the scheme has been made easier, the maximum duration has been progressively prolonged, the scheme has been opened up to new groups of workers and the training component has been strengthened. In fact, the number of short-time work benefit recipients increased from about 155,500 in March 2008 to 1,259,000 in March 2009 (for more information refer to Eichhorst and Marx 2009). Similarly, countries such as Austria, Belgium, France and Sweden adapted their short-time work or temporary lay-off schemes to

the requirements of the current crisis, while in other countries – for example Bulgaria, Hungary, Romania and Slovenia – such schemes were newly introduced (European Foundation for the Improvement of Living and Working Conditions 2009b). Subsidised training for workers on short-time work is a new trend in many countries.

An interesting development is that, in a number of countries, not only have eligibility criteria for unemployment benefits been relaxed but also short-time work or temporary lay-off schemes have been extended to workers on fixed-term contracts, temporary agency workers and part-time workers who, in many cases, had formerly been excluded. For more information on active measures and plant-level responses to counter the crisis, the reader is referred to Glassner and Galgóczi 2009; Leschke and Watt 2010, forthcoming.

3.3 Conclusions

The economic crisis has had severe labour market impacts in EU countries; however, the extent of changes in unemployment and employment rates varies significantly from one country to another because of the differences in the size of the shocks and in the importance of labour market policies. Due to the fact that male-dominated sectors such as manufacturing and construction were particularly badly affected, the crisis has hit men much harder than women. Also, taken on the EU average, young and prime-age workers have been more affected than older workers and the same is true of migrant workers. However, except for the gender effect, countries differ greatly in terms of the groups that have so far been hardest hit.

During the economic crisis part-time employment has grown further in line with the trend of the last decade. As regards temporary employment, however, there has been a trend reversal. Fixed-term workers, and particularly temporary agency workers, were in many countries the first to lose their jobs. Interestingly, however, in a number of countries some labour market measures have been explicitly extended to cover part-time and temporary workers or have been made more accessible for these groups of workers.

The large majority of EU countries have taken measures to reinforce and broaden passive and active labour market policies but also employment-sustaining measures during the crisis. However, the focus and extent of the measures taken has been very different – with some countries placing the main focus on employment-sustaining measures (particularly through work-sharing measures) and others concentrating more on assisting the unemployed or offering them retraining. In general, due to traditionally large cross-country variation in the importance of passive and active labour market policies in terms of spending, countries differ substantially in the degree to which they are prepared to cushion the labour market outcomes of the economic crisis.

In some areas the economic crisis has prompted ‘good practice learning’ – which is one of the aims of the European Employment Strategy – an example in this respect being the short-time working allowance that has been newly introduced in several countries, particularly New Member States. In most countries the trade unions have played an active role in designing and implementing anti-crisis measures, albeit with strong variations in terms of the degree to which they are formally in a position to influence policy.