



## **European Employment Observatory 2008-2009**

### **Background paper on measures to deal with the economic crisis**

**11 April 2009**

*This background paper was produced by the core team of the European Employment Observatory, with inputs from the national SYSDÉM experts.*

*The information contained in this publication does not reflect the position or opinion of the European Commission.*



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# 1 INTRODUCTION

This paper has been prepared to inform workshops being held in Spain, Sweden and the Czech Republic in order to assist DG EMPL in preparing for the Employment Summit on 7 May 2009.

The paper was originally drafted as background for a workshop held on 27<sup>th</sup> March and organised under the auspices of the European Employment Observatory (EEO)<sup>1</sup> to further analyse the crisis measures taken in the Member States. The workshop was attended by the representatives of DG EMPL, six independent labour market experts from the SYSDem network of the EEO (from Austria, Czech Republic, Germany, Hungary, Spain and Sweden) and members of the EEO core team.

The main aims of that workshop were to:

- Exchange views, opinions and analysis between the independent labour market experts and representatives of DG EMPL on the most promising and least desirable approaches taken in the Member States to counteract the economic crisis and preserve employment,
- Facilitate the preparation of DG EMPL and three regional workshops in (April).

This background paper uses the discussions and the conclusions reached at the 27<sup>th</sup> March workshop to:

- ‘Set the scene’ for the discussions in the three regional workshops;
- Provides an overview of measures currently in place or planned in the Member States (based on the latest February 2009 quarterly reports from the SYSDem experts in EU-27),
- Identifies key issues for further discussion in the three regional workshops.

This paper has been prepared by the EEO core team and is intended for internal use in the European Commission. It is structured around the following three main issues (as outlined in the Commission’s *‘Issues Paper to prepare the Employment Summit’*):

- Maintaining employment and promoting mobility (Section 2 of this paper). This will form the focus of the regional workshop to be held in the Czech Republic.
- Upgrading skills, anticipating and matching labour market needs (Section 3 of this paper). This will include the matching of labour market needs, including those for young people and will form the focus of the regional workshop to be held in Spain.
- Increasing access to employment (Section 4 of this paper). This will form the focus of the regional workshop to be held in Sweden.

In each of the main Sections, the known measures taken by Member States are described (i.e. in Sections 2.2, 3.2 and 4.2). The measures in the six countries represented by SYSDem experts who participated in the 27<sup>th</sup> March workshop are presented first, followed by an overview of measures in the other Member States.

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<sup>1</sup> <http://www.eu-employment-observatory.net/>



## 2 MAINTAINING EMPLOYMENT AND PROMOTING MOBILITY

### 2.1 EU policy direction

The EU strategy to promote employment and address labour market challenges through a well-balanced flexicurity framework has been gaining ground across Europe, with many Member States embarking on its implementation. This framework can prove especially helpful in the crisis, for example in retraining people in employment and easing transitions between jobs.

Allied to this, cases of restructuring and large scale redundancies are becoming more frequent across Member States during the economic crisis. However, steps can be taken to ensure better anticipation and coordination of restructuring processes, so as to avoid negative spill-over effects across Member States.

Workers' mobility, including across borders, is a vital component of a coordinated response to the crisis in order to redress labour market imbalances. It is also a fundamental EU citizens' right, which needs constant protection and appropriate enforcement. A concerted approach is needed, to reduce the employment impact of the crisis and to overcome the structural weaknesses of labour markets; its success depends heavily on the involvement of all stakeholders in playing a key role in adapting labour markets.

### 2.2 Measures taken in the Member States

In **Austria**, to achieve the objective of more flexibility, the so-called 'Labour market package' adapted regulations for short-time work. Provisions are made for an extension of the maximum period of time (from 12 months to 18 months) and the allowed minimum and maximum of lost working hours will be revised, although the exact details have yet to be decided.

Furthermore, since November 2008, temporary workers have been eligible for short-time work allowances if they have been working in the same company for a certain period and if they will be employed again full-time after the period of short-term work. If short-term work is combined with qualification measures, a special training allowance is granted. This allows companies to bridge times of reduced demand for employment. In addition, the establishment of labour foundations for temporary workers is planned.

In the **Czech Republic**, a part-time (partial) unemployment option was introduced in 2007 (allowing workers who accept a cut in hours from full-time to receive 60 % of their typical wage during days not at work). This was relatively little use of this previously, but it is now becoming widely used by a large number of employers facing a drop in demand.

In **Hungary**, HUF 20 billion (approximately EUR 66 million) is being made available to offices of the PES, to support active labour market programmes.

In **Spain**, in order to maintain employment, the government has recently approved, without consensus within the social dialogue, three measures that benefit those affected by labour force adjustment plans (*Expedientes de regulación de empleo*): replacement of the entitlement to full unemployment benefit in cases where the benefit has already been used during a period of suspension of the contract or reduction of working time; reduction of half of employers' social security contributions in respect to workers affected by suspensions of their contracts, and if the employer commits to maintain the jobs in a year's time; and older workers can combine their situation resulting from unemployment with other productive activities.

The Spanish government has also further reduced employers' social security contributions on part-time contracts, so that the reduction is 30 % more than the percentage by which working time has been reduced. Enterprises with liquidity constraints may also (by agreement) postpone



their payments of social security contributions if they commit themselves to maintain employment. The payment of unemployment benefits is also being made more flexible, so that the present delay (one month) and the resulting lack of protection is eliminated.

In **Sweden**, the trade Union Federation, IF Metall, and the employers' federations of engineering, metals and industrial and chemical employers, concluded in March 2009 a framework agreement on temporary layoffs and training. The agreement is valid until 31 March 2010, with a three months' notice period. To be valid, an arrangement has to be based on a local agreement between the employer and the union. Under the agreement, a person to be temporarily laid off from work will always receive at least 80 % of the monthly wage.

In the case of collective redundancy due to restructuring or individual notice due to shortage of work, the Swedish social partners have negotiated a 'security/adjustment' agreement in order to help workers who have been given notice to rapidly find new jobs by way of adjustment measures<sup>2</sup> and financial support. This has been in place since the late 1980s. By supplementing the role of public employment agencies, these agreements, covering about half of the labour force, contribute to improving the security of employees and to enhancing matching efficiency and geographical and occupational mobility in the labour market. The support programmes are administered by organisations, the so called security councils (*trygghetsråd*) and job security foundations (*trygghetsstiftelser*), specially designed for this purpose. The employers finance the various activities by paying a contribution amounting to 0.15 to 0.3 % of the wage bill. All employees covered by these agreements are included in the activity, regardless of whether or not they are union members.

In **Belgium**, following the economic recovery plan, the system of temporary unemployment for blue-collar workers is reinforced. The government decided to increase benefits, to increase the maximum wage level and to extend the system to temporary workers. The system of temporary unemployment is a specific Belgian unemployment regulation in which the contract of a blue-collar worker is suspended temporarily, e.g. for economic reasons. The system allows companies to temporarily inactivate blue-collar workers, without dismissal.

In **Bulgaria**, a new (and innovative for Bulgaria) practice is the utilisation of a decrease in working hours as a way of avoiding high levels of unemployment (from May 2009). The idea is to provide employers with subsidies to the wages of part time workers for a three-month period.

In **Estonia**, in December 2009 it was decided that the new Employment Contracts Act will enter into force on 1 July 2009, which is six months before the originally planned deadline. The government expects that this will ease the effects of the economic downturn on the labour market by providing more flexibility and increasing security.

In **Finland**, February's budget proposal includes additional spending on flexicurity-related measures. Active labour market measures regarding employment, training and programmes will be extended to include also persons laid-off. Moreover, in connection with this extension the Employment and Economic Development Offices will have additional human resources for a fixed period of time to handle the increasing tasks related to flexicurity. The sufficiency of funds for active labour market measures will be reviewed later this year.

In **Lithuania**, with the aim of assisting business, the government initiated the process of labour market liberalisation and submitted proposals to liberalise the Labour Code so that employees could more easily agree with employers on the conditions of working time, severance pays,

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<sup>2</sup> Anything from simple advice, such as how to improve a CV, to more far-reaching measures, such as changing occupations or starting a business.



payment for idle time, holidays, overtime work, fixed-term and long-term contracts, and other conditions.

According to the government, labour (industrial) relations will not be liberalised further than set out in the relevant EU directives. In addition, validity of the liberalisation only during the period of crisis is being considered.

In **Luxembourg**, the government decided to modify and reinforce the law on part-time employment measure through three new measures. The final law was approved by the Parliament on January 2009 and stipulates for instance that, only for 2009 and only in the case of part-time work unemployment, the employer pays compensation for eight hours for those workers who do not work more than 20 hours per week. Another measure is intended to reduce the financial burden of companies facing economic difficulties, the government refunds the employers' part of the compensation.

In **Slovakia**, the second package was approved by the government in a special session on 2 February 2009 and ratified by the parliament on 12 February. It contains eight measures in the field of labour market policy, which aim to support retention of (threatened) jobs and creation of (new) jobs by way of financial allowances, co-payment of labour costs, and flexible work arrangements (flexi-accounts). The measures involve an amendment to the Employment Services Act and the Labour Code, which stipulate the new tools for a limited period from 1 March 2009 until 31 December 2010.

In **Slovenia**, one of the measures directly aimed to improve the situation in the labour market was the Act on Partial Subsidising of Full-Time Jobs. The Act aims to provide assistance to employers should they decide to shorten working time. It is based on the principle that economic measures taken during the financial crisis should seek to ensure employment and maintain jobs, and reduce working time (with the possibility of subsidies for full-time work).

### **2.3 Summary of anti-crisis measures for maintaining employment and promoting mobility**

The anti-crisis measures taken in the Member States in relation to maintaining employment and promoting mobility can be categorised as follows:

- Revising contractual agreements and arrangements to ensure a better balance between job flexibility and security. There are examples of:
  - revisions and adaptations to the practice of short-term working in AT, BG, LU, SLV;
  - increased financial support for temporary work in AT;
  - broadening the scope of the temporary unemployment measure in BE; and
  - introducing more flexible work arrangements in SLK.
- Proposals for a more systemic change in the balance between flexibility and security – there are examples of this in EE and LT.

An overview of the main measures currently in place in the Member States to support restructuring is provided in Table 1.



Table 1: Overview of Member State measures to support restructuring

Labour market position	Restructuring measure	Advantages	Disadvantages	Conclusions
People at work	Providing financial support to prevent layoffs and minimise job cuts	Prevents unemployment and secures a job and subsequently an income	Structural problems in certain sectors are masked  Relatively high costs to the public budget over an uncertain period of time	This is an important ad-hoc measure, but a <b>short-term solution</b> . However, in the absence of creation of new jobs, measures to minimise the loss of current jobs are critical.
	Intensifying support through PES placement services	Early intervention may prevent long-term unemployment  Individual guidance may support placement activities  The process of filling vacancies is accelerated	Only applicable for existing vacancies, but doesn't create any new jobs	Can only be considered as an accompanying measure.  Likely to be effective in the <b>short term only</b> and not sustainable in the longer-term
People out of work	Transitional work arrangements (work placements, work experience)	The unemployed are employed at least over a certain period  Acquire job experience  Opportunity to become acquainted with potential employers	Revolving door effect	Seen as an intermediate step to employment.  Could be seen as a <b>long-term</b> measure
	Re-employment subsidies	Provides financial incentive for employers to hire new workers and thus reduces unemployment  Has positive gross effects (also in times of economic downturn)	Employers get accustomed to subsidies as a rule  High creaming effects in the crisis  High deadweight and displacement effects	Trusted instrument with negative side effects (positive effects are more apparent in the <b>short-term</b> )  Useful in combination with personalised reemployment programmes/plans
People in new jobs	Public works	Work of public interest and socially essential or beneficial work is provided  Expansion of parts of the social infrastructure  Possibility of integrating hard-to-place people	Restricted budgets of local authorities may allow limited application	Could be considered as a promising approach for the local/regional context.  Possibility of immediate, <b>short-term</b> positive effects on the labour market, but affordability is an issue for the longer-term.



## 2.4 Issues for discussion

The following issues and questions, in relation to maintaining employment and promoting mobility, can be identified:

***How could flexicurity measures (such as temporary flexible working arrangements, combined with skills upgrading or retraining) best be introduced in order to tackle the impact of the economic crisis?***

***Are such measures most effective as a short-term reaction to the economic crisis, or do they have value over the longer-term?***

- The role of flexicurity measures in mitigating the impact of the crisis is important, but flexicurity will not itself address the root causes of the current recession. The choices faced by policy makers primarily concentrate on the following options:
  - supporting working time flexibility (both decreases and increases in working time);
  - supporting wage flexibility; and
  - reduction of non-wage labour costs.
- Policy measures such as short-term work or partial unemployment (i.e. falling under support for working time flexibility measures) need to be treated with caution. They are based on an expectation of business improvement in the short term – companies are only willing to implement them if there is an expected upturn in the economy. In the context of a long-term recession, the issue is whether public funds used to support such measures are the most effective interventions?
- Another possible measure to minimise job cuts is support for an increase in working hours without a corresponding increase in wages. The danger here is that by working more, some of the company's workers will have to become redundant.
- Support to wage flexibility needs to take account of the possible downward spiralling of wages, which would be detrimental to maintaining the levels of consumer demand as one of the drivers of economic growth. Wage flexibility can work in the contexts where workers to forego some part of wage benefits if they see a chance for the company to survive.
- Is there sufficient evidence that the reduction of non-wage labour costs (e.g. the reduction of social security contributions) leads to a creation of new jobs or the maintenance of existing jobs?

***How can support for sector and company restructuring be strengthened and better coordinated?***

- The employment policy measures to support restructuring need to consider:
  - The fact that not all companies are aware of the size and extent of the crisis and have not developed any kinds of the crisis management programmes. Public policy could support the preparation of 'crisis management' programmes within the companies.
  - Supporting entrepreneurship among unemployed or threatened by unemployment.
- The financial liquidity support programmes (as part of the economic stimulation packages) are necessary to support more or less sound business structures and prevent





the disappearing of healthy work places. There are clear differences as to how such schemes are implemented. The choice is whether a government decides which companies should be considered for such support, or whether companies apply themselves for such support?

- Public investment and support to public works (as part of the economic stimulation packages) is currently a popular and widespread measure in the Member States to counteract the impacts of the crisis and maintain the jobs. It is presently concentrated on improving the infrastructure and is focused on specific sectors such as the automotive and construction. However, the alternatives to such investment – for instance, into upgrading of skills – need to be considered.
- Public works are used to engage unemployed people, using their potential, ensuring they do not lose their employability and provide a productive contribution to economy. However, this measure needs to be treated with caution when it is applied in the sectors with structural problems (e.g. construction). In such cases, they have a short-term boosting effect, but mask the need for more, longer term reforms and changes and thus do not address the underlying problems. Also, the efficiency of public works largely depends on the implementation capacity of local and regional administrations.
- There is an argument for reform and restructuring in the financial services sector. The main reason behind the current recession is the failure in the financial services sector to understand and act on the implications of its business behaviour. The actions taken by governments (apart from changes in regulation) could include improved training for the financial services sector, measures to renew the public's trust, and enhanced research and development in the sector.

***How can the single market be used more effectively to meet demand and supply for labour?***

***What are the specific obstacles to labour mobility that could be removed through public policy actions?***

- The question of mobility is very sensitive in the times of recession. Public policies can reduce the risks of job mobility and provide more job security – based on the recognition that in a period of recession people are reluctant to leave jobs, even for better jobs.
- Some research has shown that support for mobility can also increase existing regional imbalances, as workers move to regions of stronger economic growth and reinforce the downward spiral in the origin regions.
- Mobility can also have a cost to workers in terms of loss of social networks and subsequent loss to social cohesion. Measures to improve job mobility need to take account of such impacts if they are to ensure positive effects from mobility.



### 3 UPGRADING SKILLS, MATCHING LABOUR MARKET NEEDS

#### 3.1 EU policy direction

Skills are critically important for Europe's future growth and productivity, its capacity to adapt to change and create quality jobs. Young people, given that they are at an early stage of skills development, are critically affected by the current crisis. Skills matching and upgrading is essential in the short term, and it is also the best way to address structural changes and exploit new opportunities for sustainable jobs, such as the shift to a low-carbon economy and the development of new technologies.

#### 3.2 Measures taken in the Member States

In **Austria**, a major part of the strategy to counteract the impact of the economic downturn is the promotion of training for employees, unemployed and young people. Some trusted instruments have been modified to be more attractive for companies:

- Regional skilled worker training. As a special focus in the training programme of the AMS, the regional skilled worker training programme is to be continued. According to the regional demand for skilled workers, in total 6 400 persons should receive training in certain occupational fields.
- Further training leave plus. The further training leave plus is a modified approach of the already existing further training leave. Employees can take leave between three and 12 months and receive an allowance of the amount of unemployment benefit (but at least EUR 14 per day). The new aspect of this model is the company based training – carried out by an external training institution – and 50 % co-financing of the training costs by the provincial government (available in six provinces). This should motivate companies to keep workers during the economic crisis and provide further training under attractive conditions for grants.
- Apprenticeship training. During an economic downturn, companies tend to have a reduced willingness to invest in apprenticeship training. This is expected to lead to an increase in the number of registered young unemployed. Therefore apprenticeship places are provided in special training institutions, in which they may serve their whole apprenticeship. For 2009, an increase in the number of apprenticeship places in these institutions is planned. At the moment, 10 256 places are offered, for 2009 an increase to 12 000 (if necessary to 15 000) is envisaged.

In **Germany**, measures are envisaged to support qualifications of special target groups (e.g. employees over 25 without apprenticeship qualifications), extension of qualification of employees (*WeGebAU*), and supporting vocational education during the period of short-time work, using benefits from the European Social Fund. These measures are part of the overall business cycle promotion programmes.

The focus of measures addressing the economic crisis is on working hours, in particular on short-term work. Companies started to reduce overtime and use the working time accumulated on working time accounts. Moreover, agency work will be further reduced. Short-term work has expanded rapidly in recent months. 300 000 to 400 000 new applications are submitted monthly. The share of short-term workers with training measures is still unknown, due to the lack of statistical evidence.



In **Hungary**, funds have been made available for companies to fund one day of a working week, where that day is spent in training. This funding amounts to HUF 10 billion (EUR 33 million) for large enterprises, and HUF 20 billion (EUR 66 million) for SMEs.

In **Spain**, one of the measures announced in the anti-crisis plan to help the car industry relates to support for training programmes in engineering.

In **Sweden**, the government intends to increase the number of places in post-secondary vocational training and local authority upper secondary education for adults. To encourage more people to apply to adult vocational education programmes, the government proposes a temporary increase in opportunities for unemployed people to obtain a higher level of post-secondary student aid in 2009 and 2010. The government is allocating a total of around SEK 500 million (EUR 43 million) to this in 2009.

In **Cyprus**, the government announced that lifelong learning programmes will be intensified.

In **France**, an objective of the new agreement on professional training is to redirect financial resources to those population groups who need it most. The government has asked the social partners to encourage in-job training periods. Moreover, a significant fraction of the EUR 5 billion managed by social partners is to be allocated for the training of unemployed and less skilled employees.

In **Italy**, a Fund for Employment and Training was established, to be financed with resources from the Employment Fund and the Fund for Underdeveloped Areas.

In **Romania**, the government established an education budget set at 6 % of GDP. However, it is also intended to reduce public funding for R&D (allocated to the Ministry of Education's budget) by 65 %, compared to the 2008 allocation.

### **3.3 Summary of anti-crisis measures for upgrading skills and matching labour market needs**

The measures taken in the Member States in relation to upgrading of skills as one of the measures to counteract the crisis can be summarised as follows:

- Financial support to training as a bridge both for employees and employers during the economic crisis:
  - extra training leave in AT;
  - support to training during short-term work in AT and DE;
  - special training programme for struggling sectors in ES;
  - and extra adult vocational training places in SE.
- Financial support to vocational training of young people:
  - safeguarding apprenticeship places in AT, DE and UK.
- Financial support to specific target groups:
  - unemployed and less skilled people in FR;
  - and those over 25 without apprenticeship qualifications in DE.



### 3.4 Issues for discussion

The following issues and questions, in relation to upgrading skills and matching labour market needs, can be identified:

***What incentives work best to promote retraining and to help workers to acquire and employers to provide new skills (e.g. introduction of training vouchers, pooling training resources within sectors)?***

- It is important to acknowledge that labour market training, per se, does not create jobs, but needs to be seen as complementary to other ALMP measures. There are successful examples of training programmes (e.g. in Sweden) where targeted resources involved substantial participation in training, with a subsequent increase in middle and high skills and a decrease of low skills. However, some evidence shows that training programmes are less effective in a situation with very low labour demand, long unemployment duration and when it is difficult to identify future labour market shortage and needs – and these are all attributes of the current economic situation.
- Measures to support training and re-training of workers are a popular choice during a recession. Training is seen as a reasonable investment in the future upgrading of skills, and the downturn of economic activity provides time and opportunity for workers to train. The crisis is the best time to invest in education and training as it is the time when such investments are the least expensive (at least in terms of opportunity costs).
- The anticipated effectiveness of training measures is important. Re-training, according to the program evaluation literature, demonstrates variable results; thus, its intended role as a response to the economic crisis needs to be clearly expressed. In some evidence, labour market training is the least effective measure in terms of ALMPs (i.e. it does not have negative effects, but on average performs least well in comparison to other measures). Therefore it is important to ask if training is intended to have a short, medium or long term effect? Over what period should re-training measures operate - up to the point at which economic conditions improve, or beyond?
- How could life-long learning policies be made more effective, and what incentives could be used to promote wider coverage and better outcomes? In what areas could social partners strengthen joint actions (e.g. valorisation of competences and experiences, job and career guidance, recruitment behaviour)?
- The effectiveness of training as an anti-crisis measure is also dependent on the capacity of training institutions to provide adequately flexible training. Current training and education systems are, on balance, too rigid to respond to rapidly changing needs, and providers need investment and incentives to change. Therefore, we might ask what role state educational institutions could take in offering suitable special courses for redundant workers (i.e. how best to make use of their existing capacity and resources)?

***How can the EU and Member States improve their capacity to match skills and labour market needs and strengthen their anticipation and forecasting in the mid-to long-term perspective?***

- Given that anticipation of labour market needs is, by definition, difficult to undertake accurately during the economic crisis, is it more preferable to focus on acquisition of general (rather than specific) skills? However, would such a focus (on general) skills ensure an adequately skilled labour force in improved economic conditions?



- Given that most (if not all) of these measures are long-term actions (useful for restructuring), to what extent can they provide significant contributions to solve the economic crisis (as a cyclical crisis)? Some responses are adequate if we believe that the crisis is long lasting and others when it is relatively brief. Some are adequate if the structure of labour demand remains broadly unchanged, while others are valid if we think it will be very different.

***Is there scope for keeping young people in education longer (or to re-integrate young unemployed into education)?***

- Keeping young people in education for longer is a viable option if the capacity and planning of education institutions supports such a policy. However, it is also a temporary measure which will be more successful the shorter the economic crisis.
- What are the most effective ways to reduce early school leaving?
- Are there feasible measures that could encourage firms' (in particular during an economic recession) to hire newly qualified workers, and to reduce their reluctance to invest in younger workers seeking to upgrade their skills?
- For young people without vocational training, governments are establishing (or increasing) incentives to provide apprenticeship places or providing apprenticeship places in sectoral training facilities. However, during the economic crisis, it can be expected that companies will be inclined to offer fewer apprenticeship places. In these circumstances, what could governments and social partners do to help promote the entry of more young people into the labour market through apprenticeships? Would a significant expansion of the number of apprenticeships be feasible to facilitate, in the longer-term, the entry of young people into the labour market?
- What good examples can be shared to redesign (vocational) education systems better to prepare young people for the jobs of the future?
- What are the most effective ways radically to reduce early school leaving?



## 4 INCREASING ACCESS TO EMPLOYMENT

### 4.1 EU policy direction

The crisis reveals the persistent weaknesses of labour markets, especially in the light of the increase in restructuring processes. Older workers, the low skilled, immigrants and those on precarious contracts find it difficult to obtain and maintain employment, and they also tend to be amongst the first to be laid-off.

### 4.2 Measures taken in the Member States

In **Austria**, a labour foundation concept aimed at around 2,000 young people threatened by dismissal is currently developed. The target group are young people up to the age of 25 who were temporary workers or workers in SMEs which are affected by the crisis. On rare occasions, older workers are also entitled to participate. Labour foundations were a successful ALMP instrument in the period of structural change in some sectors during the late 1980s/90s, used to mitigate the impact of mass layoffs in certain sectors or big companies. The labour foundation includes modules such as vocational orientation, intensive vocational training and outplacement. Participants receive an increased unemployment benefit payment.

In the **Czech Republic**, foreign workers were those first hit by mass layoffs. To fight off a potential increase in illegal activities and to avoid other social costs of a large group of unemployed foreigners, the Interior Ministry launched a project in January 2009 offering financial subsidy to foreigners who voluntarily return to their home country. While the programme does not guarantee a visa to return to the Czech Republic, subsequent return should be much easier than for those expelled on the grounds of illegal residence. The Ministry expects that this approach will be much more cost effective than forceful expulsion of laid-off foreigners. However, it could be argued that the costs will be higher because some of those involved would have arranged their return trip anyway and those likely to participate in the grey economy or in criminal activities would not take up this option. The project was launched in mid February and should assist up to 2000 foreigners, primarily from Vietnam and Mongolia, during eight months.

The Czech Ministry of Labour recently announced a new policy initiative which resembles Germany's *WeGebAU* program. The government allocated CZK 3 billion (Euro 115 million) from ESF, for approximately two years, under the '*Education is an opportunity*' programme to provide subsidies to employers for further training and retraining of their employees. The subsidy can cover up 100 % of costs but no more than CZK 24 000 (Euro 950) per employee (three times the minimum wage) and a maximum of CZK 5.4 million (Euro 200 000) per firm. Firms of all sizes are eligible but the subsidy per employee is higher in case of smaller firms and for provision of general, rather than firm-specific training. Another programme, '*Educate yourself*', is available for firms facing a drop in demand and which have opted for 'partial unemployment' (reduced-time working), to co-finance employees' training.

The Czech government has also introduced ad hoc cuts in employers' social security contributions. The discount applies regressively so that it represents almost 10 % of gross wages for those with very low wages and declines to zero for wages above 30 000 CZK (slightly above the average wage). The speed of implementation is important; it should apply retrospectively to January 2009, with a strictly limited duration until 2010, when it will be reviewed. The advantage is that it is easy to implement and helps protect the jobs of those who are most threatened by the crisis. It is difficult to estimate the net costs, but with no positive effect on employment, the policy would probably cost CZK 18 billion (Euro 690 million).

**Germany**, employment is supported by measures in the overall support packages. In addition to the 480 billion Euro stabilisation programme for the financial sector, 100 billion Euro are available as bank guarantees for SMEs in case of serious financial instability. Non-wage labour costs will



be stabilised through lowered unemployment insurance rates, and refund of social contribution rates for short-term workers. Moreover, job placement services of public labour offices are planned to be extended.

Trade unions, however, are not yet in the position to fully realise the dimension of the economic crisis. Wages are increasing between 3 and 4 %; this is supported by reference to the growth in recent years, and the burden it imposes for the future appears to be neglected. Moreover, the extension of working hours still is a matter of serious conflict.

In **Hungary**, three programmes will be available shortly through the National Public Foundation for Employment (OFA), with the total allocated budget of HUF 5.95 billion (EUR 19.1 million):

- 'Keeping in work': to sustain employment in companies suffering temporary damages because of the crisis. Companies are eligible if they have announced mass-layoffs, but are prepared not to do so after having received the support. Firms receive 75-25 % of the wages and contributions of the employees, depending on the total number of employees (smaller firms receive more).
- Into work: to support the re-employment of individuals having lost their jobs through mass layoffs or due to the crisis. Firms receive 75-25 % of the wage of the re-employed individual, depending on the total number of employees (smaller firms receive more). Support is available for 3-12 months for re-training with accredited training institutions.
- 'New prospects: to support the smooth transition of laid-off employees into new jobs. 100-60 % of the cost of the layoff is granted depending on firm size, with a HUF 200 000 (EUR 643) cap per worker.

Further funds have also been made available to create new jobs with companies producing high added value (HUF 250 million, approximately EUR 833 000), those creating at least two jobs (HUF 1.5 billion, EUR 5 million) and support for the creation of telework-jobs (HUF 480 million, approximately EUR 1.6 million).

Also, in Hungary, non-direct measures have been taken to include: subsidised loans to companies in order to preserve solvency and liquidity, to finance investments and current assets; and state-backed loan guarantees and export insurance for firms.

In **Spain**, the government announced the creation of a EUR 8 000 million investment fund to finance public works at local level, prioritising those such as environmental protection, support for people with disabilities, and improvement of urban mobility. The aim of this initiative is to absorb part of the idle labour force from the construction sector. According to government estimates, the programme is expected to create about 278 000 direct jobs, and 400 000 indirectly related jobs.

In the case of open-ended contracts with unemployed people being entitled to unemployment benefits, employers can benefit from a 100 % reduction of social security contributions, up to the unemployment benefit amount and for a maximum of three years. This measure does not affect the amount or duration of entitlement to unemployment benefit for the jobless.

In **Sweden**, the government has instructed the Public Employment Service to expand its matching services and provide early and individual support to people who have lost their job. The coaching support is not only restricted to laid-off workers but also available to young people. The government is allocating SEK 1.1 billion (EUR 95 million) to this activity in 2009. The total employers' social security contribution for young people has been lowered to 15.49%; this amounts to a halving of employers' contributions, compared with the previous costs. The age group has also been broadened to cover everyone under the age of 26. The government has also increase the funding of Public Employment Service by SEK 300 million (EUR 26 million) in 2009. The government has also increased the number of places in work placement schemes and introduced new practical skill development schemes. The total cost for these two schemes



amounts to SEK 2.4 billion (EUR 207 million) in 2009. In order to limit the development of long-term unemployment, the government has also increased the compensation given to employers who recruit a person to a "new start job". This means that the employer will only pay about half the cost of these people's wages. It is estimated that this will cost SEK 0.9 billion (EUR 78 million) in 2009.

In order to stimulate activity and labour demand in the construction sector, the Swedish Government has proposed that work in the form of repairs, maintenance and improvement of one-family houses and tenant owner housing will be brought under the system of tax credits for household work. This measure will reduce tax revenue by an estimated SEK 3.6 billion. The Government has also presented several measures (approved in December 2008) to address the crisis in the automotive sector and facilitate a more rapid development of green technology. A new limited company was formed and received SEK 3 billion to conduct research and development activities in the automotive sector. Furthermore, the Government secured the possibility of making state credit guarantees of up to SEK 20 billion available to companies in the automotive sector to guarantee loans that they take from the European Investment Bank. The Government also has the possibility of providing rescue loans to automotive companies that are in financial difficulties, in exchange for adequate security.

In **Belgium**, the allowance for temporary unemployment – a system through which firms may defer direct lay-offs when facing an economic downturn - has been increased. Also, re-employment cells are being reinforced. Enterprises with at least 20 employees announcing a collective dismissal are obliged to create a re-employment cell. From now on, the guidance of the re-employment cell (outplacement) is also compulsory for employees younger than 45. Temporary workers (minimum work duration of one year), dismissed in restructuring, are also allowed to participate in the re-employment cell. For successful outplacement (leading to a job), the outplacement costs will be reimbursed at a higher rate.

In **France**, the economic recovery plan also includes specific measures limited to some local areas. To support economic changes in struggling regions, partial unemployment benefit is increased and support mechanisms implemented for employees faced with compulsory redundancies (personalised reemployment programmes). The number of employment areas covered by professional transition contracts (CTP) will increase from 7 to 25.

Also in France, the tool of the Professional Transition Contracts (CTP) is further extended. It was introduced in 2006 and from February 2009, it is being implemented in 25 local areas. In such areas, any person affected by a redundancy in a company of less than 1 000 employees and who has concluded a convention reclassification may opt for a custom CTP. He/she then waives his severance pay but receives 80 % of former gross salary for 12 months, during which he follows a 'transition journey' which may include accompanying measures, training periods and periods of activity in companies or government agencies. This measure should be extended to ten further areas in 2009. Other labour market measures include:

- The rate of compensation for partial unemployment will rise from 60 % to 75 % of the former gross salary. This should be implemented through agreements between government and professional organisations, as has been done in the automotive industry. Increase of benefits for partial unemployment could be applicable from April 2009. Meanwhile, banks are encouraged to adjust the deadlines of the credit repayments for those employees who are affected by partial unemployment.
- A lump sum of EUR 500 will be paid to young and unemployed people who worked for at least two months (the standard unemployment insurance only pays compensation to people who have worked for at least four months). It will be financed by the state and paid from April 2009.





- The French government wishes to increase to 330 000 the number of people working on 'helped work' contracts in 2009. This represents 100 000 more than expected in the previous public budget.

In **Italy**, the social shock absorbers (*ammortizzatori sociali*) are extended to workers in economic activities not covered by the standard shock absorbers, such as retail trade and tourism, as well as to project workers, temporary agency workers and apprentices. Project workers, in particular, will be eligible for a one-off payment equal to 10% of their pay in the previous year if they have worked on a single-contract basis in crisis sectors or regions for at least three months, without contributions being paid for at least two months. On 13 February 2009, the government signed an agreement worth EUR 8 billion with the regions to further strengthen the *ammortizzatori sociali* targeted at workers involved in the economic crisis. The national resources will be equal to EUR 5.35 billion, and the regions will contribute EUR 2.65 billion.

In **Luxembourg**, the Minister of Labour and Employment presented the pilot project 'Indura'. The project supports co-operation between temporary work agencies (TWA) and the Employment Agency (ADEM). The ADEM assigns 15 unemployed people to every cooperating temporary work agency. The unemployed will receive an individual supervision during their job search. The TWA will receive premiums as a stimulation to place the unemployed. This project has gained in importance through the crisis.

In **the Netherlands**, to get people, who lost their job due to the financial crisis, back to employment as soon as possible, 30 employment service centres are being opened. In these centres, the UWV, employers and vocational educators work together to guide people from job to job or to arrange (re-) training.

In **Portugal**, the Initiative for Investment and Employment (*Iniciativa para o Investimento e Emprego*, IIE) combines employment policies to facilitate the transition of unemployed people and young first job seekers to employment; to provide support to struggling firms in the strategic sectors; and public spending on key infrastructure. In the IIE, a host of measures in the area of employment policy are envisaged. To implement these measures the government expects to spend EUR 580 million (26.7 % of the total funding for the IIE). The largest share of employment-related resources is for measures aimed at creating incentives to minimise job cuts. These incentives appear together with programmes to provide training to these employees in order to increase the competitiveness of the firms in the long run.

In **Romania**, one of the measures adopted is increasing the length of the unemployment benefit period by three months, to start following the approval of the state and state social insurance budget.

In **the UK**, the government's new package of support measures for the unemployed was launched on 12 January 2009. This provided for jobseekers unemployed for longer than six months to get extra support to get them back into work. Extra funds are being provided for the PES - Jobcentre Plus (an extra 6,000 advisers are being recruited, for example) to deal with the increased number of jobseekers and the greater support they will need in difficult labour market circumstances. In addition a number of specific measures were announced:

- 'Employers' Golden Hellos' – incentives of up to £2,500 paid to employers to recruit and train an unemployed person;
- New training places – extra funding for training places to help the unemployed acquire new skills to match current unfilled vacancies;
- Work-focused volunteering options – opportunities to work in a voluntary capacity to help the unemployed get back into the work mode;



- Help to establish a business – advice on creating a business plan, plus funding for the first few months of trading.

The total funding for this package of measures amounts to around £0.5 billion (EUR 553 million) and is in addition to £1.3 billion (EUR 1.4 billion) committed to providing support to those becoming unemployed so that they can receive support and have their benefit claim processed as quickly as possible. The government also announced increased funding to allow 35 000 more young people take up a new apprenticeship.

#### **4.3 Summary of anti-crisis measures for increasing access to employment**

The anti-crisis measures taken in the Member States in relation to increasing access to employment can be categorised as follows:

- Intensifying and widening the offer of support through the Public Employment Services. There are examples of:
  - extending job placement services in DE;
  - extra funding in SE and the UK; and
  - new methods of working (with private temporary work agencies) in LU.
- Providing financial support to prevent layoffs and incentives to minimise job cuts. Measures in this category include:
  - direct wage subsidies to companies in HU, FR, PT;
  - one-off payments to particular target groups in HU and IT; and
  - training subsidies and reduced labour costs (refunds of social contributions for low wage workers) in CZ.
- Supporting workers in the post-restructuring phase. Such measures include:
  - reemployment subsidies to employers who take on laid-off workers in HU, SE, BE, and the UK; and
  - strengthening and expanding personalised reemployment and transition programmes or plans in BE, FR, NL.
- Country-specific solutions to address particular pressing labour market issues include:
  - financially supporting a voluntary return of foreign workers in CZ; and
  - financing public works to absorb unemployment in ES.



#### 4.4 Issues for discussion

The following issues and questions, in relation to increasing access to employment, can be identified:

***What are the best practices, and how can different actors work together to (re) integrate redundant and the newly unemployed in the labour market, avoiding long term unemployment?***

- Measures to support vulnerable groups in their access to employment include:
  - Integration into public work arrangements,
  - Re-employment subsidies with attractive conditions when hiring vulnerable people,
  - Non-profit temporary work agencies for vulnerable groups,
  - Training/ re-training in labour foundations (especially for low skilled workers),
  - Socio-economic enterprises,
  - Service vouchers (target groups: long-term unemployed people, people re-entering the labour market).
- An important question is how can such measures implemented, by the right actors, so as to ensure sustainable employment, to avoid any 'revolving door' effects so that people from vulnerable groups have a long-term position in the labour market?

***How can people who are furthest away from the labour market, including long term unemployed and inactive people, be (re) integrated into the labour market? How can active inclusion policies be strengthened?***

- What are the most effective policies to help people enter or re-enter the labour market, and to promote the active inclusion of the most vulnerable (e.g. lower qualified people, women re-entering the labour market, second and third generation migrants, young people, and older workers)?
- How can active inclusion strategies provide a response to the existing weaknesses in social safety nets?
- How to strengthen the exchange of good practices on promoting employment opportunities for the most vulnerable (e.g. can service cheques be applied more widely)?
- Are there gender specific implications of the economic crisis that need to be mitigated?
- What is the most appropriate way of ensuring the interdependency between ALMP measures and economic stimulation packages? The nature of the economic crisis is leading to necessary actions that are not directly related to the labour market (e.g. loan support for firms), but that can have a huge impact on employment.

***How can the demand for labour, especially for the low skilled and those furthest away from the labour market, be increased? Could labour taxation changes contribute to preserving employment in the Member States, and if so, which?***

- In times of economic recession, whilst ALMPs may help to redistribute the reduced volume of work, especially in relation to vulnerable groups, they will not create a substantial number of additional new jobs. For sustainable employment, an increase in



the demand for labour is required. What measures might be implemented to secure an increase, in the longer-term, in the demand for labour?



## 5 CONCLUSIONS

The workshop discussions on the 27<sup>th</sup> March identified several key dimensions in formulating and defining responses of employment policies in the EU to the global recession:

- Key policy choices will depend on the analytical understanding of the recession:
  - The question as to the anticipated length of recession – depending on whether recession is expected to be temporary or long-lasting, different policy choices can be made. An alternative scenario of long-term (five years) global recession can also be envisaged, alongside with existing current prognoses of return to a small economic growth in 2010.
  - Policy measures can thus be chosen as responding to a short term sharp chock or planning for the longer-term deeper recession. However, the measures chosen will have an impact (not least psychological) on the duration of the crisis as well.
  - The question as to the nature of the crisis – whether it is part of the cyclical business downturn with ‘healthy’ crisis consequences such as ‘clearing’ unproductive parts of the economy; or, alternatively an unprecedented rapid global meltdown threatening also stable and healthy companies and sectors. Preserving employment in the latter case becomes critical as ‘healthy’ workplaces are threatened. However, if the primary cause of the crisis is essentially bad lending decisions to economic activities that would not have been financed by prudent banking, decisions could be taken to let these activities disappear.
  - The political decisions as to the priorities maintained during the crisis – is keeping the jobs the absolute priority leaving aside the issue of maintaining or increasing competitiveness? Is maintaining the wages more important than working towards greater social and economic equality? Are the ideas behind the Lisbon strategy – simultaneous growth and job creation – still valid?
- Such considerations call for measures to be chosen carefully, on the basis of their anticipated effectiveness and targeting. It also needs to be considered that the crisis may have a huge fiscal impact in terms of states’ revenues. The outcomes of the crisis are very uncertain to be able to predict at the moment, but, in one scenario, the current recession may also change the comparative economic advantages of world’s regions, countries and companies. The measures considered in this paper can make the transition smoother and support such wide-reaching change.
- Planning needs to continue for the period following the recession. Research shows that in the long term Europe needs more people in the labour force. If, during the current recession, large numbers of workers are pushed out of the labour market, bringing them back into the labour market will be at a considerable cost.
- Governments’ responses to the crisis and recession might change the relationship between the state and the market in the longer term. There are signs of company behaviour when market actors wait for the government ‘help’ without taking necessary action within the companies. Also, the governments should be wary of companies’ capacity to ‘blackmail’ for ‘help’, especially when a company is large or strategically important.



- The action at the EU level is already formulated in the December 2008 European Economic Recovery Plan. The EU is seen as having primarily two avenues for action:
  - Better use of existing EU level instruments – more short-term use of Structural Funds and the European Global Adjustment Fund, possibility of 100% Community financing etc;
  - Provide technical assistance/advice, strengthen norms, build consensus, provide a platform for information and best practices exchange.
- Labour market policy measures can be a support for the broader economic policy and can substantially help with the mitigation the crisis effects. They will not lead to a direct job creation in terms of sustainable employment, but will help to deal with the transition. Table 2 summarises, in a brief form, the potential of measures to contribute to the mitigation of the impact of the economic crisis and recession.



Table 2: The potential of measures to mitigate the impact of the crisis

Measures	Advantages	Disadvantages	Conclusions
<b>Flexicurity-related measures (further details in section 2)</b>	Help to provide flexibility and room for manoeuvre to avoid job cuts in the short term	Many measures put in place as a response to the crisis are based on the assumption of short crisis and rapid return to economic growth  Significant emphasis on the flexibility component of flexicurity	Temporary measures, <b>helpful in short term</b> , probably unsustainable if the crisis is longer
<b>Measures to support the restructuring process (further details in section 2), mainly providing financial support to prevent layoffs and minimise job cuts</b>	Prevents unemployment and secures a job and subsequently an income	Structural problems in certain sectors are masked  Relatively high costs to the public budget over an uncertain period of time	This is an important ad-hoc measure, but a <b>short-term solution</b> . However, in the absence of creation of new jobs, measures to minimise the loss of current jobs are critical.
<b>Measures to support the transition of unemployed people to new jobs (section 2)</b>	Ensure support to the unemployed person	Irrelevant if there are few new vacancies created	Mainly intermediate measures
<b>Support to creation of new jobs through subsidies (further details in section 2)</b>	Provides financial incentive for employers to hire new workers and thus reduces unemployment  Has positive gross effects (also in times of economic downturn)	Employers get accustomed to subsidies as a rule  High creaming effects in the crisis  High deadweight and displacement effects	Well-tried and tested instrument with significant negative side effects
<b>Direct creation of new jobs through public works (further details in section 2)</b>	Work of public interest and socially essential or beneficial work is provided  Expansion of parts of the social infrastructure  Possibility to integrate hard-to-place people	Restricted budgets of local authorities may allow limited application	Could be considered as a promising approach for the local/regional context  Significant implementation problems
<b>Support to training (further details in section 3)</b>	Well-spent investment in human capital  Low opportunity costs of investing in training in times of recession  Support to continued employability of the workforce	Effectiveness of training is debated and debatable  Depends on the capacity and flexibility of training institutions to deliver required training	Helpful in mitigating the effects and utilising the recession as an opportunity