

Mr. László ANDOR

EU Commissioner responsible for Employment, Social Affairs and Inclusion

"The Jobs Challenge in the EU and the US – What Can We Learn from Each Other"

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

Johns Hopkins University Center for Transatlantic Relations

Washington, DC, 2 February 2012

Ladies and Gentlemen,

I am grateful to the Johns Hopkins University's Center for Transatlantic Relations for having organised this exchange of views on jobs challenges in the EU and the US and what we can learn from each other. The CTR is one of the EU Centres of Excellence in the USA and an expert in the transatlantic economic relationship, which, according to the CTR's most recent report, employs up to 15 million workers in mutually "onshored" jobs on both sides of the Atlantic.

Comparing the EU and the US experience during the Great Crisis

What brings us together today has its roots in a phenomenon that originated here in the USA, and quickly extended to Europe and the rest of the world as a financial, economic and, more and more, a social crisis. A crisis labelled by some as the Great Recession and which I will designate as the Great Crisis.

The unemployment impact of the Great Crisis was felt earlier and more strongly in the US than in the EU, though the EU's rate is at a higher level. The unemployment rate in the US went from 5% at the start of the US recession at the end of 2007 to a peak of 10% in October 2009. It has only gradually fallen to 8.5% currently. In Europe as a whole, unemployment rose from 7% to 10%, a smaller percentage point and significantly lower proportionate increase than in the US, and is stuck at around this peak. Furthermore, it looks more likely to increase rather than decrease in the near future as Europe enters a moderate recession.

Of course, when considering EU averages, we have to remember that these figures mask a considerable diversity across countries. The effect of the crisis has not been uniform. Quite the contrary. Today (latest figures are for December 2011), unemployment stands at 9.9% in the EU 27 and 10.4% in the euro area. This compares with pre-crisis troughs of 6.8% and 7.2% respectively. But among those countries, Austria at 4.1% and the Netherlands and Luxembourg at 4.9% - all of which use the euro – have the lowest unemployment rates, while Spain at 22.9% and Greece at 19.2% have the highest. In other words, the worst unemployment rate in the euro area is over 5 times higher than the best.

Unemployment is and remains a common challenge for the EU and the US. And later I will go into further detail about how Europe has coped with the crisis and what underpins the relative resilience of European labour markets.

But first, we also need to recognise that Europe can surely learn from the US, for instance about productivity.

In terms of GDP per capita, the US figures are substantially higher than those of the EU. Higher labour participation rates account for some of this but looking at labour productivity per person employed, Eurostat figures show that in 1995 the US rates were 39% higher than the EU 27, in 2000 this was at 42%, in 2005 at 45%. The best-performing Member States in terms of productivity, Belgium and Ireland, are close to, but not above, US figures. Part of the explanation is a higher number of hours worked by each American worker. Europeans probably value leisure time more highly but even on the basis of hours worked US figures are better.

We can surely also learn from the US how to foster entrepreneurship, and, dare I say it, how to better manage aggregate demand.

Another area where Europe can take some lessons from the US is on labour mobility, which is often seen as an important adjustment mechanism. It is well known that the US has higher labour mobility than Europe, mainly because of language and cultural barriers. Around 30% of the US population live outside the state in which they were born – while according to a 2009 Eurobarometer only 13% of European citizens have ever lived in another EU country. But this "mobility gap" is smaller when you compare mobility within EU countries with that of the US. Moreover, mobility has increased in the EU in recent years, primarily due to EU enlargement.

With the growing diversity of countries in EU and euro area, mobility can be a real option for many workers. We see there is a potential to smooth adjustment but also for notably young workers to gain additional experience and skills. Hence the EU is promoting mobility with EU financial support, through the Youth Guarantee initiative agreed at the European Council earlier this week, through the EU-led vacancy/job searchers web based matching system Eures, and through cross-border support for apprenticeship and training.

How did Europe cope with the crisis?

It will come as no surprise that I will argue that the European Social Model played a crucial role in helping European citizens cope with the crisis.

Automatic stabilisers softened the blow of the Great Crisis in Europe. Consider disposable income: of a proportional income shock, approximately 38% would be absorbed by automatic stabilisers in the EU. For the US, we find a slightly lower value of 32%.

In the case of the unemployment shock, the difference between the EU and the US is larger. EU automatic stabilisers now absorb 47% of the shock whereas the stabilisation effect in the US is only 34%.

This difference can be explained by the importance of unemployment benefits, which account for a large part of stabilisation in Europe in this scenario. Benefits alone absorb 19% of the shock in Europe compared to just 7% in the US.

But there are huge differences in automatic stabilisers within Europe. In the case of the income shock, we find the highest stabilisation coefficient for Denmark, where automatic stabilisers cushion 56% of the shock. The lowest values are measured for Estonia (25%), Spain (28%) and Greece (29%). With the exception of France, taxes seem to have a stronger stabilising role than social security contributions.

In the case of the unemployment shock, the highest value emerges for Denmark (82%), followed by Sweden (68%) and Germany (62%). At the other end of the spectrum, there are some countries with values below the US level of 34%. These include Estonia (23%), Italy (31%), Greece (32%), and Poland (33%).

The risk of higher unemployment was also cushioned by the use of Short Term Working Schemes. These played an important role notably in Belgium, Italy and Germany.

Consider those countries that did not implement such schemes. Europe experienced a relatively strong increase in unemployment in countries with housing bubbles. This is in fact quite similar to what the US experienced. The relatively strong reliance on temporary contracts in the construction sector implied relatively low firing costs.

The same however also held true for other sectors: indeed, where the labour market as a whole is highly segmented, this often leads to high labour shedding when output declines. The limited prospects for recovery in the medium term limited voluntary labour hoarding. In general, in these countries there was less adjustment on the front of working hours, while this was more marked in other EU countries and resulted in lower unemployment rates.

Short Term Working Schemes helped employers to keep highly qualified staff, in which they had already heavily invested. And it also helped employees. They would not immediately lose their job, instead, they would stay connected to the labour market and be able to maintain their skills. Besides these direct effects on the labour market, we should also not forget the confidence boost it gave even to employers and employees not making use of it. They knew they had a safety net available in case of emergency. In fact, Dutch data show that the main part of labour hoarding did not come from these short term working arrangements, but from employers themselves keeping hold of their staff, knowing that alternatives were available, in case they were needed.

Looking forward, labour hoarding in large EU countries and the termination of Short Term Working Schemes could mean that unemployment may decline faster in the US than in the EU in the next phase of economic recovery.

What underpins the European Social Model and its relative success during this crisis?

As you all know, the European Union and its 27 Member States are confronted with the complex interplay between their fiscal policy, their growth outlook, the strength of the financial sector and the market assessments of these variables. Fiscal policies need to balance the long term needs of the economy and society as well as market driven concerns about the health of public finances. Developments have also put on trial the concept of a monetary union between national states without a sufficient degree of integration of fiscal and economic policies.

But in times of uncertainty, we should not forget the pillars that do underpin Europe and have continued to do so.

The European Social Model is based on the conviction that social and economic development cannot be separated from one another and that well-functioning and genuine social dialogue – between employers and trade unions – is needed to sustain it.

Social dialogue brings concrete benefits, and not just for the organisations involved. The social partners (that is, representatives of workers and employers) have unrivalled knowledge and experience of the realities of the employment and social situation 'on the ground', and consulting and listening to them can therefore improve governance.

Furthermore, the social partners are uniquely well placed to address work-related issues – such as employment, working conditions, working time, equality, health and safety and training - through the dialogue and negotiation that characterise their relationships. Notably, by reaching agreements they can achieve compromises and balance their interests in a way that legislation often cannot.

Indeed, successful social dialogue has played a crucial role in cushioning the blow of the crisis in Europe.

The Short Term Working Schemes could not have come into existence in Europe without social partners recognising that this would benefit both workers and employers – some pain is better than a lot of pain for individuals and maintaining a satisfied and qualified workforce is beneficial for the employer.

Of course Europe has much left to do. Indeed, we cannot speak of unemployment in Europe without mentioning the young. Unemployment among those aged 15-24 has risen alarmingly: it stands at 22.1% on average in the EU, from a low of 15% in 2008. The lowest rates are in Germany (7.8%) and Austria (8.2%), while the highest are in Spain (48.7%) and Greece (47.2%). I repeat, 48.7% and 47.2%. One out of two young people looking for a job are not finding one in those two countries. So, in Europe we also must learn from each other.

Apprenticeship schemes and education systems that value professional skills have undoubtedly played a role in those countries performing best. Social dialogue here again is key: investing in young workers can come at a cost, but employers can also reap substantial longer-term benefits.

And the topic of skills leads me to another common challenge for the US and the EU: labour market mismatches.

We need to invest to maintain a skilled workforce – not only the public sector, but also firms and individuals need to invest. Re-skilling and up-skilling can only pay off if the beneficiaries are able to put these new skills to productive use in a job. The Beveridge curve, which plots the unemployment rate against vacancies, has been shifting upwards for the past two years, signalling that Europe urgently needs to improve labour market matching. The US has experienced a similar rightward shift in 2010, indicating a worsening of labour market mismatch resulting in higher unemployment rates for the same number of job vacancies.

We must respond with well-targeted and high quality skills investment as well as improved labour mobility. Member States trying to restore fiscal balance are walking a thin line between reducing debt and strangling growth. Public money is in fact a precious commodity, and public investment is vital to enhance capital in the economy. Investment in infrastructure will not be done solely by the private sector and investment in human and social capital is even more the preserve of the public sector.

To conclude,

The challenges in front of us are substantial. We need job rich growth. Jobs can be a key component of growth; they do not simply come from growth, more employment can and should be a driver for growth.

Europe's, but not only Europe's, future prosperity depends on us finding and enacting the right policies to bring down unemployment and restore increasing employment rates.

To maintain sufficient aggregate demand, Europe needs a necessary income base as well as social peace to boost the confidence of investors and consumers. The necessary deleveraging of the banking sector and capital reinforcement must not prevent credit from flowing again to the real economy. Business must have the environment and the incentives to create new jobs, but these cannot only be precarious jobs. Good quality jobs, those that are intimately associated with high levels of productivity, must be these new jobs.

Both the EU and the US experienced rising wage inequalities before and during the Great Crisis: middle income jobs have been disappearing fast, a phenomenon which needs to be addressed. Creating good, quality new jobs is one step in that direction.

We must ensure that the burden of adjustment processes – on the macro-economic level as well as on the labour market – is distributed in a fair and balanced way. Compared to other parts of the world, Europe is a relatively fair place to live. But as we define our policy responses to the crisis and to the economic restructuring of Europe, we need to ensure the sustainability and indeed reinforcement of our social model.

We both face labour market challenges, and the way each of us responds to these challenges will have an impact on the other. US economic prosperity and jobs significantly depend on a strong and growing Europe. The European Union also benefits hugely from an efficient and confident US economy and labour market. We can learn from you in certain aspects of labour market policy and I hope that you can also learn from us. We (actually) do some things well in Europe and, despite its many current challenges, the European project is still an ideal for many.