

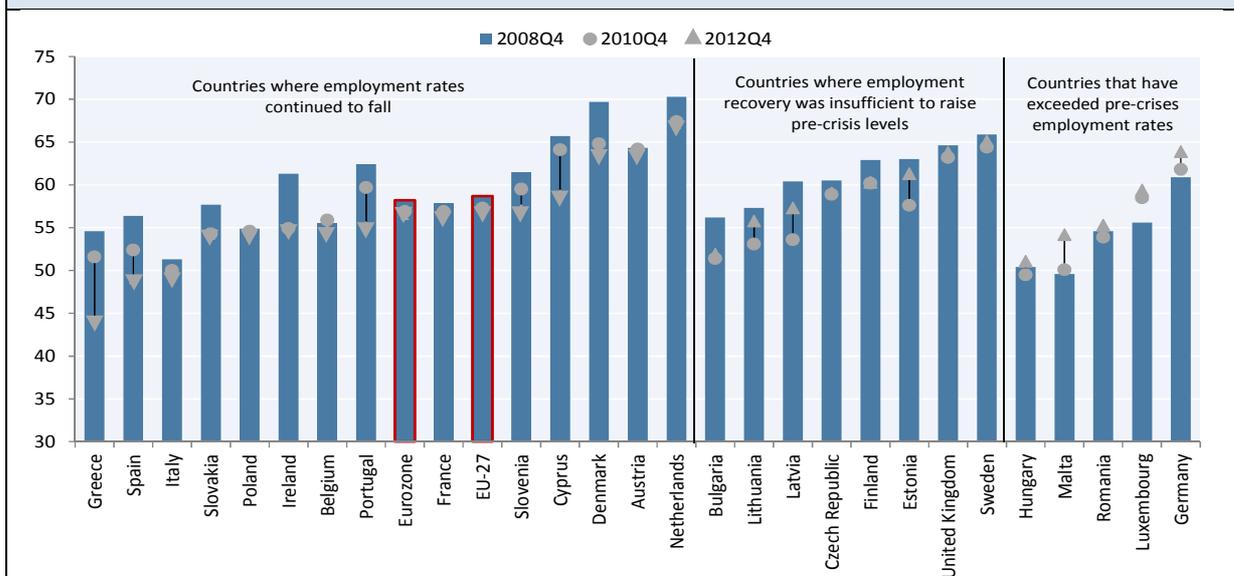


World of Work Report 2013: European Union Snapshot

The EU needs to create 6 million jobs to return to pre-crisis levels but labour market conditions continue to worsen...

- *Employment rates have fallen in the vast majority of countries:* The EU-27 employment rate (15-74)¹, at 57.2% in the fourth quarter of 2012, is 1.4 percentage points below the pre-crisis rate (fourth quarter of 2007). In other words, 5.2 million jobs are needed to restore employment rates to their pre-crisis levels. Only 7 of the 27 countries (Austria, Germany, Hungary, Luxembourg, Malta, Poland and Romania) have surpassed pre-crisis employment rates. The declines have been particularly acute in Cyprus, Greece, Portugal and Spain (more than 3 percentage points in the past 2 years).
- *Unemployment and youth unemployment continues to rise in 2013:* In March 2013, the unemployment rate reached 10.9% and the number of unemployed 26.5 million – the latter up from a month earlier and both considerably higher than March 2008. In fact, compared to 5 years ago, the unemployment rate is 4.3 percentage points higher. Reaching alarming levels, youth unemployment stood at 23.5% in March 2013 – compared to 15.5% in March 2008.
- *Long-term unemployment is increasing and jobseekers are becoming discouraged:* As of the fourth quarter of 2012, there were 11.7 million long-term unemployed in the EU. This is 1.4 million more than the year before and 5.7 million more than in 2008. In most EU countries, more than 40% of the unemployed have been without work for more than one year. Many jobseekers have become discouraged and have stopped looking for work: the number of discouraged workers – those who are “inactive” but would like to work – rose by 29%, on average, between 2008 and 2011.

Figure 1. Employment rates in the fourth quarters of 2007, 2010 and 2012 (percentages)



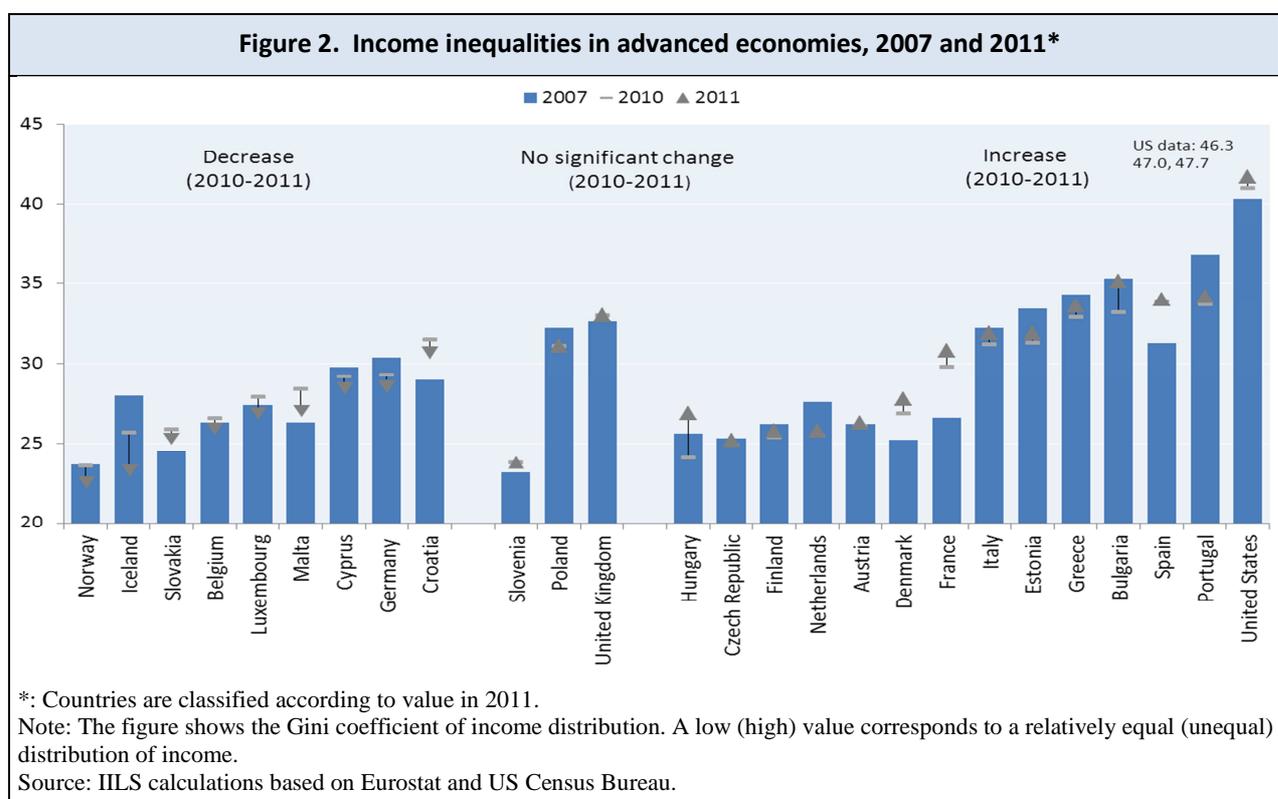
Note: Employment rates refer to the percentage of people aged 15-74 who have a job.

Source: ILS estimates based on Eurostat.

¹ Figure 1 refers to persons aged 15-74 in order to use the same population group as data for monthly unemployment rates, which are only available for this age group. Monthly information is not available for employment rates.

...accompanied by widening inequalities and higher risks of social unrest...

- Income inequalities have tended to widen over the past two years, thereby resuming the trend that had preceded the advent of the global crisis in some economies such as France, Italy, Portugal and Spain. Meanwhile, there is also evidence of increasing polarization of wages in other countries (with Greece as a prominent example) suggesting that there has been a hollowing in the middle of the wage distribution. Consequently, the size of the middle income group has shrunk in the majority of European economies over the past two decades (see figure 2).
- The worsening employment and income situation has intensified the risk of social unrest. The Report shows that the risk of social unrest in the EU was 12 percentage points higher than before the start of the global crisis. EU-27 is a region with a significant aggravation in the risk of social unrest. Between 2010 and 2012, the countries that experienced the sharpest increases in the risk of social unrest are Cyprus, Czech Republic, Greece, Italy, Portugal, Slovenia and Spain.



...worsened by subdued investment and uncertain demand prospects.

- *Investment remains weak as uncertainty prevails and financial markets remain dysfunctional:* Investment as a share of GDP remains 3.6 percentage points below pre-crisis levels, with the trend decline in investment having accelerated during the crisis. The EU accounted for only 13.6 % of global investment in 2012, compared to 23.4% in 2000. Firms are also confronted with considerable economic uncertainty, unrepaired financial system and continued weak aggregate demand which is affecting their investment and employment decisions. In particular, smaller firms that rely on intermediaries such as banks for financing continue to be confronted by credit constraints. For instance, in January 2013, 14% of SMEs in the Eurozone reported a tightening of credit standards (up from 11% in October 2012).

The challenge is to shift towards a more job-friendly approach.

- The Report shows the importance of a job-friendly strategy that serves both macroeconomic and employment goals. This means addressing the structural vulnerabilities behind the crisis, such as the systemic issues in the financial sector. Unlocking the credit flow to productive enterprises so that they can stimulate growth, take advantage of new markets and create decent work opportunities is a particular challenge. One way to address this is through measures such as tax breaks or specific credit programmes for SMEs, including for example credit guarantees where governments guarantee all or part of the loan provided by financial institutions.
- Second, well-designed labour market programmes, could play an instrumental role in promoting a jobs recovery. This has been shown by a number of national measures, some of them supported by the EU, that have been successful in mitigating the labour market downturn during this and past economic crisis, such as:
 - Fostering employment creation through subsidized wages and tax breaks and keeping workers tied to the labour market. A widely known example of this is the German short-time work programme (*Kurzarbeit*) that allows the adjustment of working hours with government support. Another successful example is the Belgian partial unemployment scheme, which enables the temporary suspension of employment contracts or the introduction of part-time work for economic reasons. This scheme was reinforced in 2009 to assist enterprises and reduce layoffs during the crisis.
 - Active labour market policies aimed to improve the employability of individuals are especially important to foster the recovery. This includes measures preventing education drop out, training opportunities targeted specifically to people in inactivity, participation in work programmes or intensified job-search support. For young people youth guarantees schemes constitute a major plus. Sweden has one of these successful programmes. The “Job guarantee for young people” offers all young people the possibility to participate in youth specific activities following a period of unsuccessful job search. The programme aims to provide special measures and activities for the participants to enable them to find a job or return to education as soon as possible after falling into unemployment. The EU has adopted in 2013 a Recommendation on youth guarantees and will support its implementation by most affected Member States and regions.
- Third, in some instances an injection of public resources may be considered at the European level. The reality is that strategies based solely on the combination of fiscal consolidation and internal devaluations (i.e. improving competitiveness through a decrease in real wages) have not been fruitful. In order to undertake some of these proposed initiatives, countries could move to a smoother fiscal consolidation path that allows achieving both, employment and fiscal goals. This could be done through: (i) a more realistic timeline for reducing fiscal deficits, and (ii) a change in the mix of recovery measures, away from the wage and real investment cuts that have been dampening aggregate demand conditions since 2009 and targeting a better linkage between macroeconomic and employment policies through addressing structural issues in the financial sector, supporting SMEs and launching well-designed labour market programmes including youth guarantees. Some of this has recently been taken up in the EC recommendations to a number of EU Member States, which indeed provide additional time to meet fiscal deficit targets. However, recommendations also include additional fiscal consolidation efforts for 2014, which if put forward could damage the incipient recovery of some countries (e.g. Belgium and the Netherlands).

- Finally, social dialogue and increased coordination is an important component for i) improving the design of the different policy instruments, ii) gathering a constituency for pro-employment reforms, and iii) ensuring that the strategy focuses on the social and economic concerns of all parties. For instance, increased cooperation among public employment services of the EU Member States would contribute to improve mobility and reduce labour market mismatches as well as labour shortages in low-unemployment countries.

World of Work Report 2013: Repairing the economic and social fabric is available at (www.ilo.org/INST). For further comments, journalists are invited to contact Miguel Ángel Malo (tel +41 22 799 6418; email: malo@ilo.org) or Raymond Torres (tel: +41 22 799 7908; email: torresr@ilo.org), Director of the ILO's International Institute for Labour Studies.