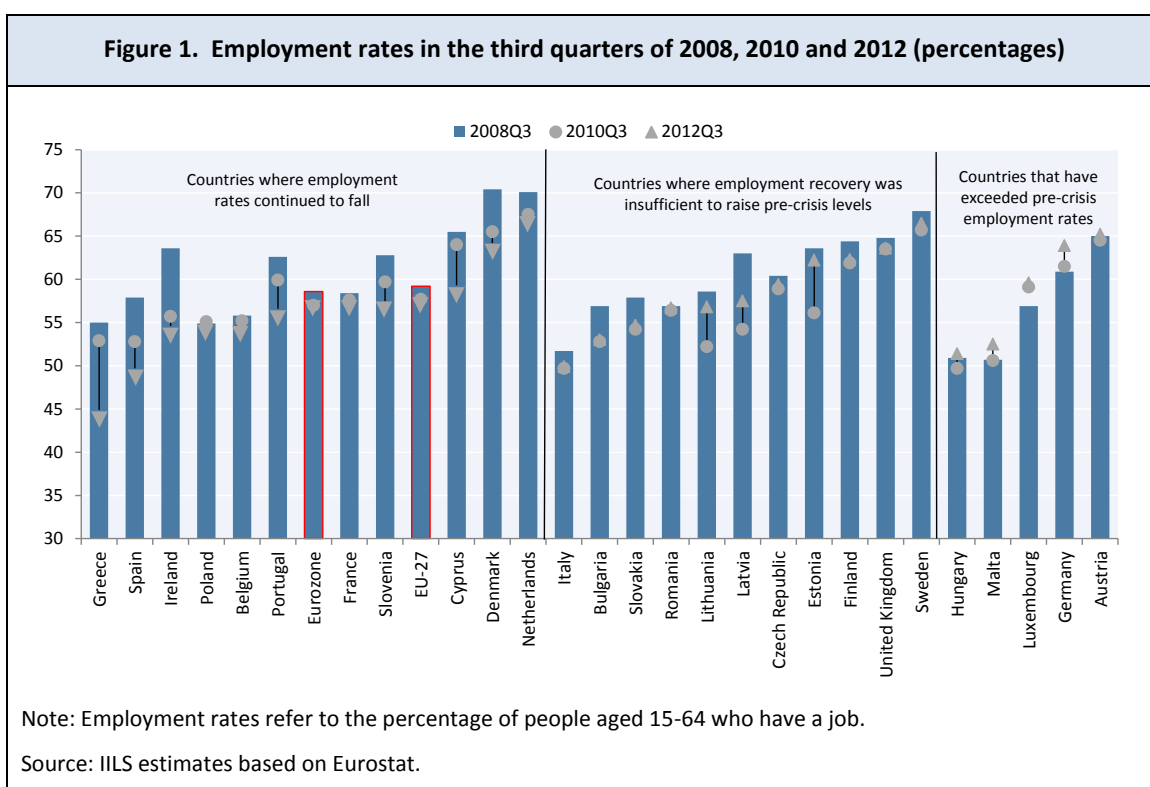




## Nearly 6 million jobs are missing in the EU to return to the pre-crisis employment situation...

- The EU employment rate (15-74)<sup>1</sup>, at 57.6 per cent in the third quarter of 2012, remains 1.6 percentage points below the rate before the third quarter of 2008 when the global crisis erupted. This means that there is still a deficit of 5.9 million jobs to restore employment rates to their pre-crisis levels.
- Despite some encouraging signs of recovery that started to materialize in 2010, only 5 EU countries out of 27 (Austria, Germany, Hungary, Luxembourg and Malta) have witnessed employment rates above pre-crisis levels (Figure 1). In some instances, employment rates have decreased by more than 3 percentage points in the last two years alone, notably in Cyprus, Greece, Portugal and Spain.

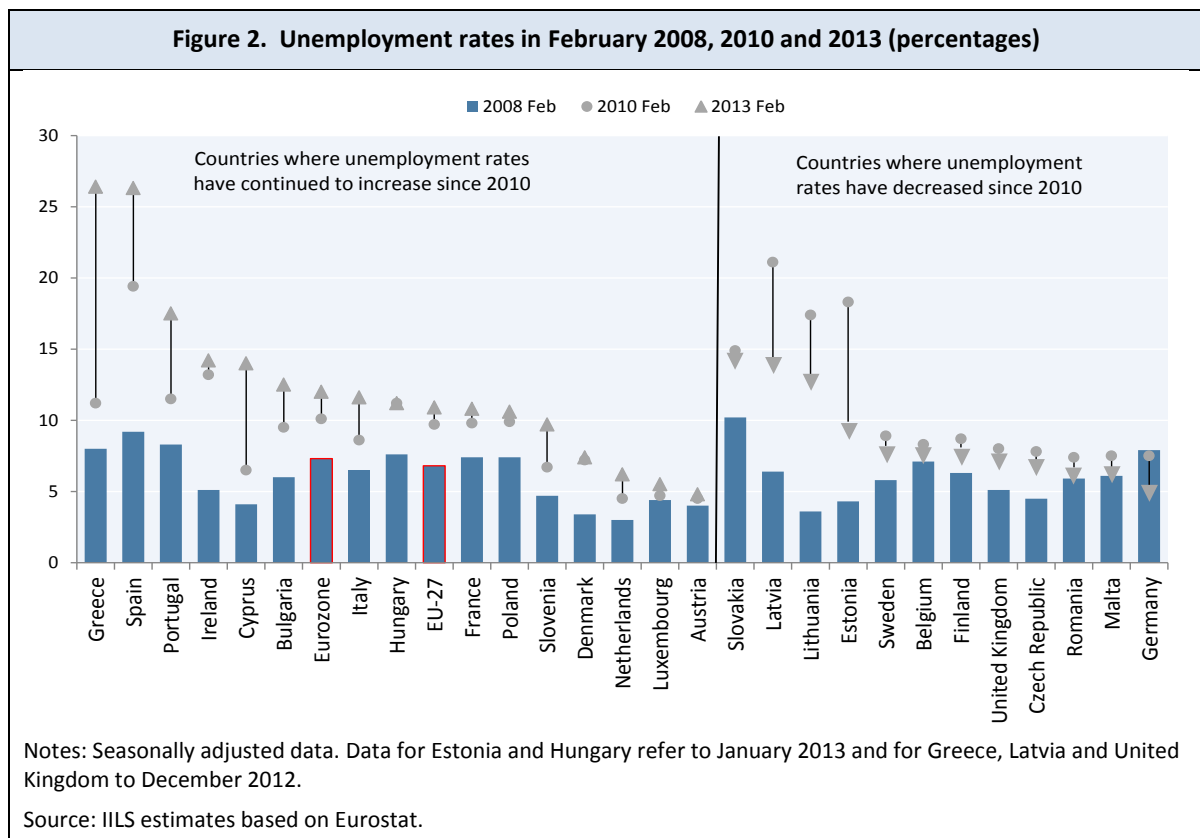


## ... and in 2013 unemployment continues to deteriorate in a majority of countries...

- Over 26.3 million Europeans were unemployed in February 2013, or 10.2 million more than in 2008. Importantly, while the deterioration of employment paused during 2010-2011, it has gained momentum over the past year.

<sup>1</sup> Figure 1 refers to persons aged 15-74 in order to use the same population group as Figure 2, which presents monthly unemployment rates and is available for this age group only. Monthly information is not available for employment rates.

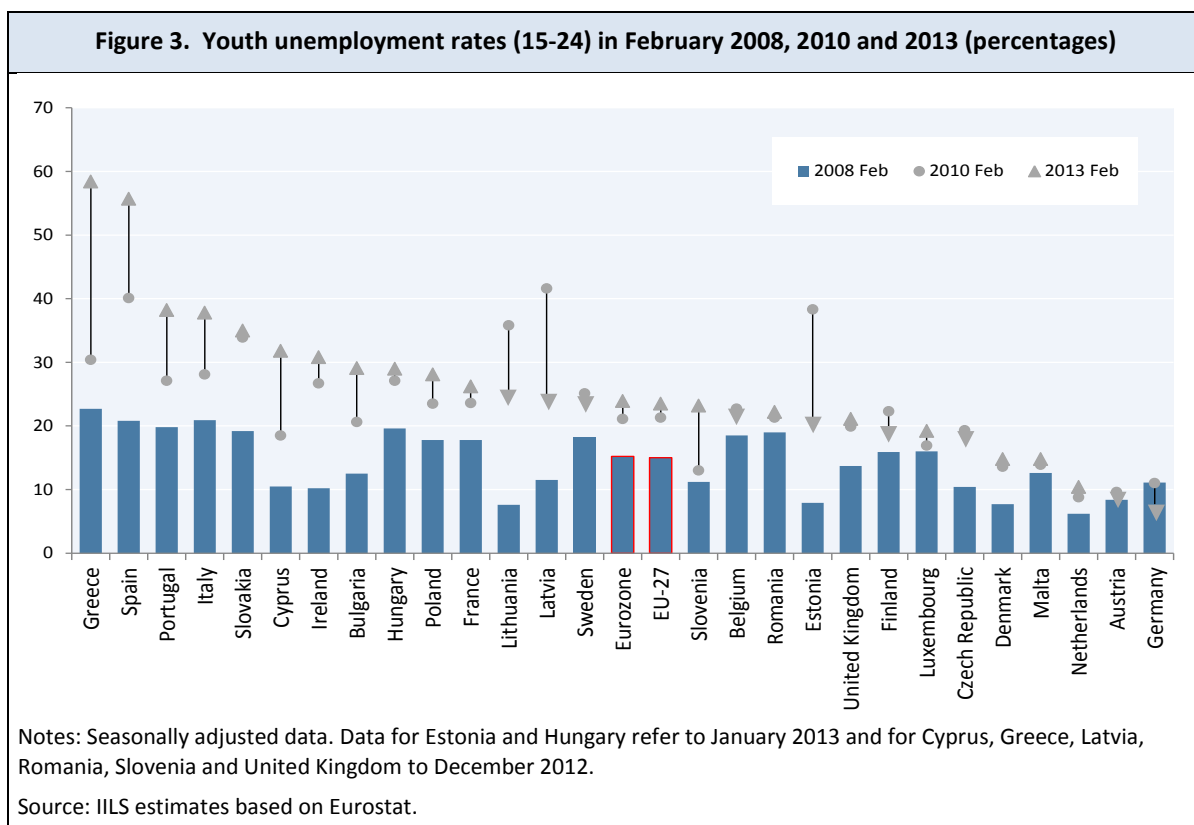
- As of February 2013, the EU unemployment rate stood at 10.9 per cent (Figure 2). This means that it remains 4.1 percentage points above the pre-crisis rate (February 2008). The unemployment rate in the Eurozone increased even faster, reaching a historical high of 12 per cent in February 2013.
- Given the limited number of jobs created in the present context, jobseekers find it increasingly difficult to obtain employment. As a result, long-term unemployment (jobseekers without work for more than one year) is on the rise. As of the third quarter of 2012, there were 11 million long-term unemployed in the EU. This is 1.3 million more than the year before and 5.2 million more than in 2008. In most EU countries, more than 40 per cent of the unemployed are without work for more than one year. Since 2008, Estonia, Ireland, Lithuania and Spain recorded the largest increases in long-term unemployment.
- As a result, many jobseekers have become discouraged and have stopped looking for work. In EU countries with available information, the number of discouraged workers – those who are “inactive” but would like to work – rose by 29 per cent, on average, between 2008 and 2011.



**...with youth and low-skilled workers being worse hit.**

- Youth unemployment has reached alarming levels. As of February 2013, the youth unemployment rate in the EU stood at 23.5 per cent – with rates as high as 58.4 and 55.7 per cent in Greece and Spain, respectively. Only in Germany has youth unemployment declined since 2008 (Figure 3). Worryingly, almost 30 per cent of youth in the EU were at risk of poverty or social exclusion in 2011.
- Low-skilled workers too are disproportionately affected by unemployment. The unemployment rate among workers with primary or low-secondary education is three times as high as in the case of workers with tertiary education. Employment among workers with tertiary education grew by

12.6 per cent between 2008 and 2012, while employment among workers with primary and low-secondary education fell by close to 17 per cent during the same period.



***Atypical forms of employment are on the rise, probably reflecting business uncertainty regarding demand prospects...***

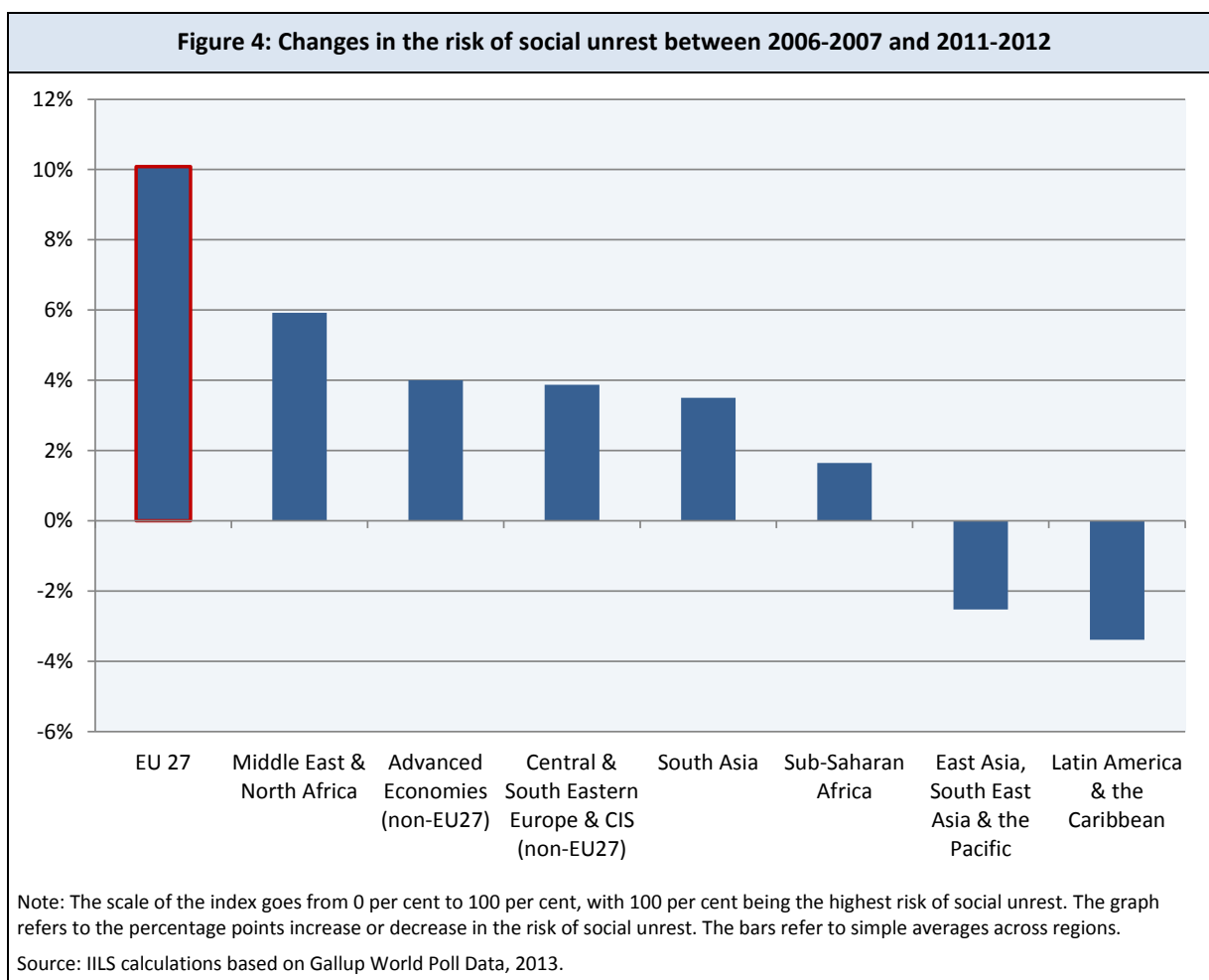
- Since 2008, the incidence of temporary and part-time employment has increased in 19 and 22 EU countries, respectively. This is despite the fact that, when the crisis erupted, job losses tended to concentrate on those forms of employment.
- The increase in the incidence of involuntary temporary employment may reflect uncertainty among enterprises regarding future growth prospects –so employers may be reluctant to provide stable employment contracts given the prevailing uncertainty regarding future sales and production. The increase in the incidence of part-time work may be the result of flexible working time arrangements concluded between employers and workers in order to prevent layoffs. Women and young people are disproportionately represented among involuntary temporary and part-time workers.

***... and there are growing risks of social unrest.***

- The worsening employment situation has intensified the risk of social unrest. According to the latest estimates prepared for the purposes of the European Regional Meeting, the risk of social

unrest in the EU was 12 percentage points higher than before the start of the global crisis.<sup>2</sup> Compared with other major regions, the EU has registered the most significant aggravation in the risk of social unrest (Figure 4).

- 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. The risk of social unrest declined in Belgium, Germany, Finland, Slovak Republic and Sweden.



### Need for a job-friendly strategy

- The above trends suggest that it is necessary to move to a job-friendly strategy. Much of the emphasis so far has been on reducing budget deficits and restoring external competitiveness

<sup>2</sup> The risk of social unrest is a composite indicator estimated by the Institute on the basis of survey data covering several dimensions of people's perception of their lives. These dimensions include, in particular, confidence in government, perceptions regarding whether living standards are improving or not, and people's assessment regarding the state of the labour market (see ILO, *World of Work Report 2012*, [www.ilo.org/inst](http://www.ilo.org/inst)). The estimated risk of social unrest is therefore qualitative in nature. Importantly, evidence suggests that changes in the risk of social unrest –as estimated– are strongly associated with changes in unemployment rates and in income inequality (as measured by the Gini coefficient). By contrast, changes in the risk of social unrest are weakly associated with fluctuations in economic growth.

through “internal devaluations”. While fiscal and competitiveness goals are important, it is crucial not to tackle them through ill-conceived austerity measures and structural reforms that do not address the root causes of the crisis. Indeed the above trends show that such an approach has failed so far. Instead, moving to a job-friendly strategy could serve both macroeconomic and employment goals.

- This requires, first, addressing the structural vulnerabilities that really lie behind the crisis. One of these stems from the systemic issues in the financial sector, which were at the epicentre of the financial crisis, but have not been resolved yet. The percentage of small firms which face constraints to obtain credit from banks is growing alarmingly, according to a survey conducted by the European Central Bank. In January 2013, the volume of credit to all non-financial corporations (large and small) dropped by 1.5 per cent compared to a year earlier.
- Second, the renewed employment weaknesses in the EU mirror depressed aggregate demand conditions. More and more countries face downward pressures on wages and employment, thereby affecting domestic consumption and investment and eroding intra-EU trade. So it is increasingly difficult to count on faster exports in order to compensate for the loss of domestic demand. This highlights failure of strategies based solely on the combination of fiscal austerity and internal devaluations (i.e. improving competitiveness through decreasing real wages). Evidence presented in earlier issues of the *World of Work Report*, also supported by recent IMF research, shows that there is scope for smoother fiscal path, which would help achieve both employment and fiscal goals. This includes i) a more realistic path for reducing fiscal deficits, and ii) a different mix of fiscal measures. This includes a stronger emphasis on pro-employment programmes like well-designed active labour market programmes, a commitment to effective welfare entitlements, combined with an effort to reduce wasteful spending, to fight tax evasion and avoidance, and to raise new sources of government revenue that do not overly weigh on activity, work and business investment.
- The successful experience of Sweden’s response to its financial crisis in the 1990s shows that such a job-friendly package is both effective and feasible. Yet, given the depth of the crisis, there is a strong case for a coordinated, international response. The more the number of countries that adopt a job-friendly strategy, the greater the positive effects on jobs, incomes and investment in the EU.
- Third, the above structural and macroeconomic shifts may take some time to operate. Meanwhile, the situation continues to deteriorate, thereby justifying the adoption of emergency measures. The following are especially relevant:
  - Basic employment guarantees for young people would be a major plus. This includes education placement, training opportunities targeted specifically to people in inactivity, participation in work programmes or intensified job-search support. In the case of individuals with low educational attainment (either employed or unemployed), initiatives that provide them with adequate life-long learning are essential. However, preventive measures should be at the centre of efforts – e.g. tackling drop out from secondary education. A recent ILO study shows that these youth employment measures would cost around Euro 21 billion for Eurozone countries as a whole –which compares favourably with the costs of other interventions, especially given the likely longer-term benefits.
  - Further articulation of passive and active labour market policies across the Eurozone countries would improve employability and provide income support and social protection to the unemployed. To achieve this, existing European funds could be mobilized.

- Increased coordination among public employment services of Eurozone countries would contribute to improve mobility and reduce labour market mismatches as well as labour shortages in low-unemployment countries.
- Finally, social dialogue is instrumental 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 what is really important for people.
- The ILO can play a key role in accelerating the shift towards a job-friendly approach, including through the identification and exchange of good practices. It can provide technical support but also a new policy making perspective that places the promotion of employment and decent work at the centre of the political agenda. Many European countries have implemented labour market reforms during the current recession, affecting employment protection legislation, social protection and collective bargaining. However, these reforms were implemented, in general, without the joint agreement of trade unions and employers' organizations. As a tripartite institution, the ILO can therefore serve as a platform for effective dialogue on well-designed crisis responses.