The Effectiveness of Anti-Crisis Labor Market Measures in the European Union

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Introduction

With the purpose of minimizing the consequences of the economic recession on the labor market, and particularly on workers, EU member states adopted specific anti-crisis labor market measures or adjusted the existing policies. In this respect, this paper aims at analyzing the relation between different labor market policy combinations issued by member states and their social model and employment protection legislation, also considered as a combination of flexibility and security tools, and tries to identify which system and policies seem to provide a higher level of effectiveness in tackling the crisis.

The Effectiveness of Labor Market Measures

It is generally acknowledged that it takes time to evaluate the effectiveness of labor market measures. In fact, and with specific reference to the crisis-related measures, the European Commission itself (2010a: 6) points out that it is too early to draw a final conclusion or to provide an overall assessment.

However, the European Commission and the Employment Committee (in a joint paper) try to provide some evidence on the effectiveness of the main labor market policies adopted and implemented by EU member states during the crisis and, more generally, they review evaluations of the effectiveness of similar measures implemented in the past (Employment Committee, and European Commission 2010). The OECD, on the other hand, gives evidence of the effectiveness, particularly of short-time work schemes, applied during this recession (OECD 2010:11, 56 ff.).

Considering the three different types of labor market policies implemented in the EU member states (measures to create employment or to promote reintegration; measures to maintain employment; and income support for unemployed), measures to maintain employment in the form of short-time working arrangements, wage subsidies, and non-wage cost reductions are deemed to have been successful in limiting the decrease in employment rates (European Commission 2010b:11) and the rise of unemployment, by preventing layoffs.

Among measures of this kind applied by the member states, some of them—particularly short-time work schemes—have been crucial in preserving jobs (OECD 2010a), proving more effective than others (Employment Committee, and European Commission 2010).

Indication of this occurrence is evident by looking at Table 1 (where countries are sorted by increasing unemployment rate growth based on the difference between July 2010 and July 2008; see Table 1 on previous page). Countries with the lowest increase in unemployment rates are those that amended existing short-time work arrangements to better face the crisis or introduced this kind of schemes in their systems.

Nevertheless, commentators point out the most critical issues related to short-time work arrangements, such as the fact that they may artificially maintain employment in declining industries instead of allowing an efficient reallocation of employment. There is agreement about the negative impact associated with the deadweight, substitution, and displacement (OECD 2010). In order to face these distortions, some countermeasures can be taken, in particular short-time work schemes need to be provided for a shorter period and arranged on the basis of more precise criteria, notably eligibility conditions and limited duration of the scheme.

With reference to measures to create employment, job subsidies consisting of hiring incentives or reduction of non-wage labor costs are effective in terms of job creation, but they are costly measures and can

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lead to negative consequences in terms of the deadweight effect. At the same time, public sector job creation is less likely than other policies to provide positive impacts (Kluve 2006).

As regards measures to promote reintegration, training has a little impact on employment, and it is more likely to be associated with times of high unemployment. In general, then, positive training effects become evident in the long run (Kluve 2006).

On the contrary, job search assistance and activation measures have a positive impact on employment and are effective in the short run, but they need an economic context characterized by a growing or stable labor demand. In fact, only if there is labor demand is it possible to support job search and matching and help reintegration into the labor market. For this reason, such measures are adopted mainly in the recovery phase.

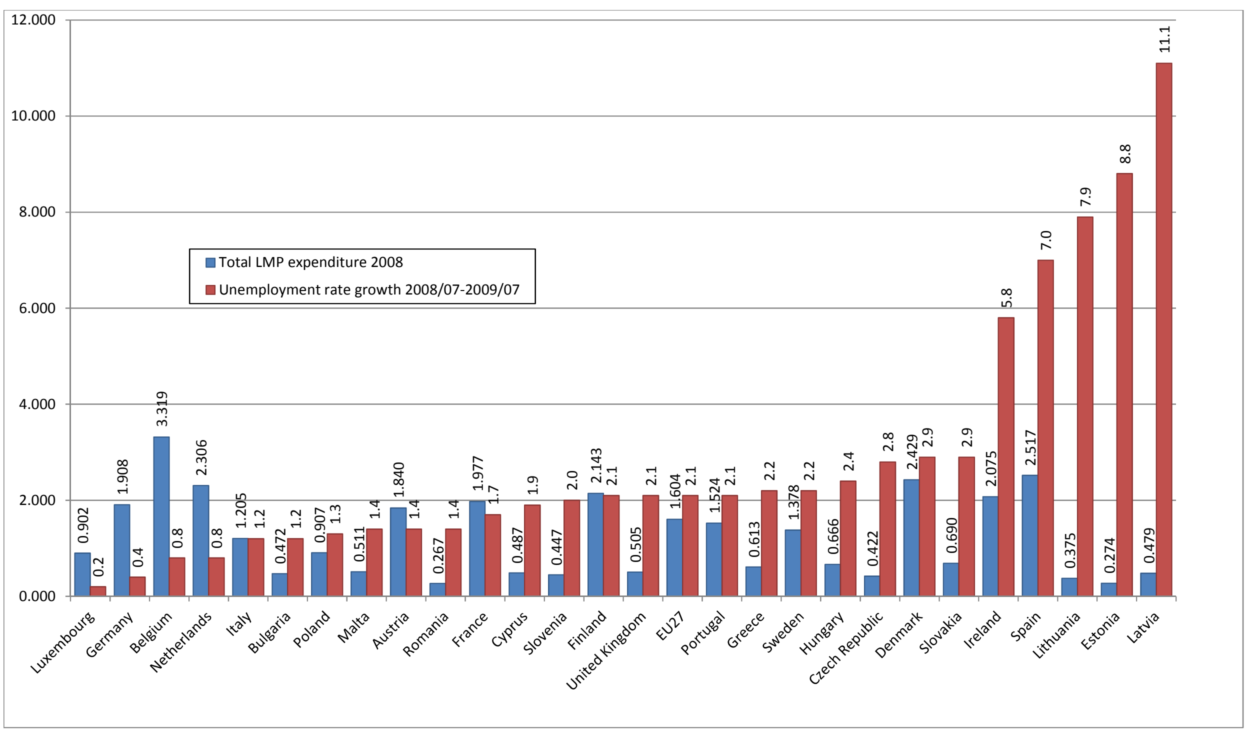
Generally speaking, income support for the unemployed has a negative effect on unemployment, since it discourages job search and reintegration into the labor market. In order to reduce the negative effects in terms of efficiency, some adjustments can be made, such as decreasing the amount of benefits and reducing the period through which such support is provided. In addition, unemployment benefits can be linked to policies that require active job searching by jobseekers, and sanctions can be applied in case of refusal to actively search for work and to accept suitable job offers.

Public Expenditure on Labor Market Policies

The question of effectiveness of labor market policies is fundamental not only with reference to crisis-related measures, but also for EU member states during a time of increasing budgetary constraints.

In 2009 (and most likely even in 2010), the European Commission has reported that EU countries increased their expenditure on labor market interventions and income support by 0.7 % of annual GDP, while before the crisis, public expenditure on labor market policies experienced a decline. In fact, in 2008, public expenditure on labor market policies in the European Union amounted to just 1.6% of total EU-27 GDP, though there was considerable variation among member states (Figure 1).

FIGURE 1
Labor Market Policy Expenditure and Unemployment Growth, 2008 to 2009



Source: Author's elaboration on Eurostat data.

For this reason, EU governments need to be aware of the most effective policy mix in order to direct public expenditure.

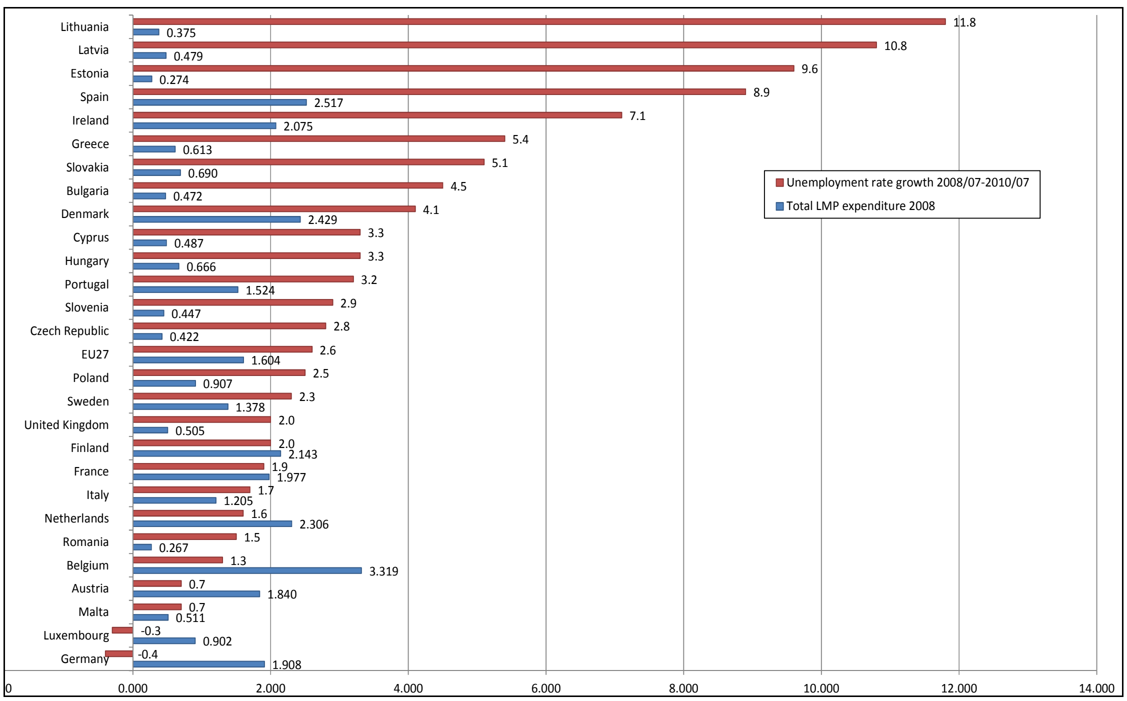
It seems interesting to compare data on the labor market policies expenditure and trends in the unemployment rate during the crisis. The data on public expenditure for all countries are not available until 18–20 months after the reference period, and, as a result, Eurostat currently provides data for 2008 but not 2009 or later.

In any case, considering that the labor market policies' impact on the labor market is not immediate but requires a period of time to become evident, it seems reasonable to compare data on public expenditure for 2008 and unemployment rate growth over last two years.

Member states that had the lowest increase in unemployment rate in 2009 compared to 2008 were the same that in 2008 had considerable high labor market policies expenditure, notably Belgium, Germany, the Netherlands, and Austria with more than 1.8% of their GDP.

This trend is confirmed even if we compare the growth in unemployment rate between 2008 and 2010 and the labor market policies expenditure for 2008 (Figure 2).

FIGURE 2
LMP Expenditure and Unemployment Growth, 2008 to 2010



Source: Author's elaboration on Eurostat data.

The Effectiveness of Social Model

However, these figures provide the opportunity for further observations and remarks. In Denmark, total public expenditure on labor market policies in 2008 was quite high (as traditionally is the case). It was, in fact, the third highest spending country. Nevertheless, the rise in unemployment rate was high. This situation prompts a look at the types of policies implemented and at the social model adopted in Denmark.

Denmark has been and still is in fact an interesting case with reference to the performance of the labor market during the crisis. It is regarded as role model of flexicurity (see above), which is characterized by non-restrictive dismissal protection legislation, generous unemployment benefits, high levels of active labor market policies, and efficient public employment services. Before the crisis, this system ensured a low unemployment rate and a quick reintegration of jobseekers into the labor market. During the crisis, however, this system proved to have some shortcomings—in fact, the level of unemployment in Denmark doubled from 3.2% in July 2008 to 6.5% in September 2009 (the highest level was reached in April 2010: 7.4%).

The aim of the Danish system is not to prevent dismissal but rather to support a quick job-to-job transition and reintegration into the labor market. Nevertheless, if the labor demand is low, the reintegration is not possible or is very difficult.

In addition, Denmark does not envisage a "real" short-time work compensation system, even though companies may use short-time work arrangements and employees involved are eligible for part-time unemployment benefits. They must fulfill the contributory requirements of eligibility for total unemployment benefits and have to be available for a new working activity, even if the employment contract with the original employer is still in force. In practice, it seems that this provision is not strictly applied if the employee has the opportunity to stay with the company.

Looking at the labor market performance of the EU member states (Table 2), and by taking into consideration the two different social models adopted in Europe, some interesting remarks and comments are possible.

TABLE 2
Labor Market Performance of EU Member States

Systems	Employment protection legislation	Unemployment benefit	STW compensations	Effective in the crisis
New welfare	Stringent dismissal protection legislation	Non-generous: • Short duration • Low replacement rate	Yes	More effective (Germany, Austria Belgium, Italy)
Flexicurity	Non-restrictive dismissal protection legislation	Generous: • Long duration • High replacement rate	No or very limited as partial unemployment benefit	Less effective (mainly Denmark, Finland, Sweden, the Netherlands)

As regards the growth of unemployment rate during the crisis, Germany, Belgium, Austria and, to some extent, Italy, are regarded as countries with the lowest increase; the social model of all these EU member states can be classified as a new welfare system. On the contrary, as mentioned, Denmark, which is the reference model for flexicurity, experienced a high increase in unemployment.

Also Finland, Sweden, and The Netherlands (plus Norway, which is not an EU member) are considered as countries adopting the flexicurity system, but they had a better labor market performance than Denmark during the recession, even if they had an increase in the unemployment rate amounting to more than 2%. Actually, there is an important variation factor between Denmark and the other flexicurity countries. It is the employment protection legislation (Table 3). In fact, Denmark has a liberally oriented employment protection system, while the other countries have more stringent ones.

The new welfare system model seems to provide a better response to the crisis, while the flexicurity model has difficulty controlling the increase in unemployment. Among flexicurity countries, The Netherlands is the only country characterized by a lower rise in its unemployment rate. In this case, it is worth pointing out that The Netherlands introduced short-time work compensation of a temporary nature, while Finland has a system similar to the Danish one and Sweden does not envisage any.

TABLE 3
Employment Protection Legislation (EPL) in Europe

Country	OECD EPL index	Country	OECD EPL index
Germany	2.63	Czech Republic	2.32
Luxembourg	3.39	Portugal	2.84
Malta	–	Slovenia	2.76
Austria	2.41	Hungary	2.11
Romania	–	Cyprus	–
Belgium	2.61	**Denmark**	**1.91**
Netherlands	**2.23**	Bulgaria	–
Italy	2.58	Greece	2.97
Finland	**2.29**	Slovakia	2.13
United Kingdom	1.09	Ireland	1.39
France	2.90	Spain	3.11
Sweden	**2.06**	Lithuania	–
Poland	2.41	Latvia	–
European Union	2.41	Estonia	2.39

Active and Passive Labor Market Policies Between Flexibility and Security

Over the last two decades, with reference to labor market policies implemented by countries, international institutions (OECD and the European Commission) mainly put emphasis on active labor market policies rather than passive ones, therefore focusing public interventions mainly on active measures.

Looking from this standpoint at policies applied by EU member states, at the beginning of the crisis there was a critical approach toward short-time work arrangements. In fact, observers and commentators constantly pointed out the labor market distortions and limitations associated with these schemes. A reason for that, since they are income support measures, could be the passive nature of labor market policy.

But, recently and perhaps thanks to the effectiveness in tackling the crisis, it seems that authors look at these schemes in a different way. Indeed, a recent report of the Eurofound (Mandl, Hurley, Mascherini, and Storrie 2010), describing the effectiveness of short-time work schemes, tries to link these measure to the flexicurity principles by stressing how they serve the implementation of flexicurity.

Considering the functioning of short-time work schemes, it easy to see them as a tool for flexicurity, combining internal flexibility with job and income security. In fact, the possibility of reducing working hours (to zero) allows internal flexibility for employers (based exactly on flexible working time arrangements). At the same time, this provision prevents dismissals and helps employees to stay in their current position, enhancing job security. Moreover, wage compensations linked to short-time work arrangements ensure income security for the employees, thanks to the continuity of income, granted through either a wage or unemployment benefits.

In considering now the other types of labor market policy measures mentioned above in terms of flexicurity, measures to promote reintegration and to create employment are fundamental resources for guaranteeing employment security—that is, the continuity of employment, although not necessarily within the same employer.

On the other hand, income support for unemployed people has the obvious purpose to provide income security in case of dismissal and can be seen as complementary to external flexibility.

Concluding Remarks

The economic crisis created a sort of laboratory in which it is somehow possible to conduct experiments on the effectiveness of different policy combinations and the functioning of alternative national systems.

Before the crisis, European and international institutions took into great consideration flexicurity principles dominated by external flexibility and employment security based on non- or low-restrictive employment protection legislation (and dismissal protection legislation), supported by a generous unemployment benefit system, efficient public employment services, and high level of active labor market policies. From this point of view, prevailing measures had to be aimed at creating employment or, better to say, promoting reintegration, giving momentum to job-to-job transition. In fact, by launching the EU flexicurity strategy, the European Union promoted internal and external flexicurity "accompanied by secure transition from job to job." (European Commission 2007)

Before the crisis, the review of the old model moving toward the flexicurity one became a matter of urgency. However, the economic downturn raised awareness of the fact that this formulation of the flexicurity strategy was suitable for a period of economic growth and to face structural unemployment, which in particular need measures to support (re-)integration by addressing job mismatch, supporting job matching by means of counseling, career guidance, search assistance, activation measures, and by increasing occupability through training.

Indeed, a flexicurity strategy based on external flexibility and employment security, as described above, was not able to stand the impact of the recession. In such a situation, in fact, in order to limit the related socio-economic consequences, policy measures to maintain employment and keep employees at work turned out to be indispensable.

These results could be useful when considering possible changes of social models (regarded as a combination of the social security system, the employment protection legislation, the public employment services system and labor market policies) with the purpose of combining in a suitable way flexibility and security. In this circumstance, it is necessary to balance the above-mentioned elements and to bear in mind that measures and tools should be put into place both in a period of economic growth and in recession.

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