European Foundation for the Improvement of Living and Working Conditions

ERM REPORT 2009

Restructuring in recession

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Employment in the European Union declined by 2.5 million persons between the first quarter of 2008 and the first quarter of 2009. The largest relative, and absolute, declines were place in manufacturing and construction: as a result, it is mainly younger men working in manual occupations in manufacturing who have lost their jobs.

Since 2002, Eurofound's European Restructuring Monitor (ERM) has been monitoring the extent of restructuring in Europe and the consequences of this for employment. From the end of the second quarter of 2008, the ERM began to report significantly higher levels of announced job losses, which peaked around the end of 2008. The ERM also found that the proportion of all announced job losses due to bankruptcy increased significantly, while there was a decline in the proportion of jobs offshored.

The impact of the recession has already been significant for most Member States in terms of job loss and rising unemployment. However, experience of previous recessions indicates that that the labour market may continue to deteriorate well into 2010 –particularly when account is taken of the large number of temporary employment maintenance measures that have been implemented across Europe.

Policy context

On 26 November 2008, the European Commission proposed the European Economic Recovery Plan (EERP), which was adopted by the European Council in December 2008. The purpose of the plan was to boost public spending at both Member State and European level and thereby stimulate the economy. According to the Communication for the Spring Economic Council from March 2009, fiscal policy is providing support to the economy in the region of 3.3% of GDP over the period 2009 and 2010. A major strand of EU support is channelled through the European Investment Bank, primarily by means of loans to the cash-strapped European automotive sector but also as credit to SMEs. More money has been made available through the Structural Funds; in addition, the European Globalisation adjustment Fund has been reformed to act as a dedicated recession fund to provide active measures for dismissed workers.

The contribution from Member States called for in the EERP amounts to 1.2% of GDP. The scale of the fiscal expansion varies greatly among Member States: some have very limited fiscal room to manoeuvre, while others have decided that appreciably more stimulus is required. There are two main strands of labour market policy being applied at the level of Member States – public support for various types of short-time working and active labour market policies, such as job matching and retraining.

Key findings

ERM data show extensive job loss in a broad spectrum of sectors. In response, many examples exist of companies throughout Europe taking initiatives to maintain jobs – most prominently, various means of reducing working hours. These include production stops, obligations to take annual leave, shorter working weeks or days, enhanced use of working time accounts, leave rotation and sabbaticals. Even wage levels have been adjusted downwards, with temporary cuts of 10%–20% being not uncommon. Most companies have resorted to different combinations of these measures, and intense bargaining has led to a wide range of trade-offs – for example, lower wages in return for company equity. Severance packages, often in combination with early retirement, are also widespread.

Shorter working weeks have probably been the main response to the crisis. In countries such as Germany, which have extensive public support for these schemes, job loss has so far been minimal.

Generally, workers have been most generously compensated for lost hours in countries with public schemes; however, compensation is even provided in countries where working time reduction is regulated by collective agreement only, such as Sweden. The degree to which training is provided during newly available free time also varies considerably, as does the extent to which social security contributions are maintained.

Most Member States have introduced comprehensive anti-crisis packages. Most of these schemes include the following elements:

- direct support to enterprises, such as loans or guarantees to facilitate access to finance; in addition, public investment has also been undertaken to promote company sales, as have various fiscal measures, such as the lowering of social security contributions;
- instruments to foster consumer demand by supporting purchasing power, such as tax reductions or increases in the minimum wage;
- support of the labour market – for example, creating employment opportunities in the public sector and reducing employment taxes;
- support for workers and citizens – for instance, financial support for families and compensation for income loss.

While the instruments aimed at promoting reintegration into the labour market are often managed and offered by public employment services, in some Member States specific outplacement bodies exist, which take care of persons who have been made redundant. These bodies usually have many stakeholders, including the state, regional authorities, the social partners and other local actors. Their efficiency – a result of specialising in outplacement work – together with the high levels of trust inherent in multi-stakeholder governance make them an interesting instrument for coping with the effects of the current downturn.

Policy pointers

Some degree of consensus exists regarding the orientation of measures that are likely to be successful in combating the recession.

- Emphasis should be placed on pro-growth policies, such as education for future labour market needs, innovation and 'green investment'.
- Employment support should be temporary, apply to the whole economy and, rather than provide unemployment support, focus on keeping workers in employment – for example, by providing financial support for a temporary reduction of working hours, and creating instruments that enable older workers to remain active.
- Temporary support should be in line with long-term strategies (particularly the flexicurity approach).
- One of the key long-term strategies should be ensuring the sustainability of labour supply. This implies, for example, that early retirement not be readily facilitated and that young people be supported in entering the labour market.
- Governments should strengthen measures aimed at maintaining levels of income among the unemployed and disadvantaged or vulnerable people (including, for example, low-skilled workers), not least to stimulate aggregate demand.

- Support for (large) companies in traditional industries, as well as assistance for declining industries and areas, should be conditional on restructuring.
- Young innovative companies and small and medium-sized businesses should be provided with access to finance.

Regarding individual labour-market related measures, the following aspects could be considered. A more general access to support for training is desirable, with a focus on skills and competencies that will be needed in the future. One example of this is ‘green jobs’. Available data have shown that, in spite of the emphasis on the issue at European level, the majority of Member States are engaged in effective ‘green recession measures’ to only a very limited extent.

Such a ‘future skills’ orientation might require occupational change and substantial retraining. Given their advantages, systems such as of the multi-stakeholder outplacement bodies described above could be considered. The costs of these programmes are shared between enterprises, the affected workers and (semi-) public authorities. They offer workers the possibility of an individualised, long-term training programme with a high success rate. Employers avoid notice periods, conflicts with regard to labour law and negative effects upon their image as an employer. Despite these advantages, however, such instruments have had a comparatively limited application so far.

It is important to implement instruments in such a way that their quality is maintained – especially in the current situation, in which service capacity has to be quickly expanded.

In a crisis situation, the effectiveness of wage subsidies for hiring additional workers are generally questionable. Experts have judged them to have considerable ‘dead weight’: in other words, many companies that would have hired additional workers anyway without government support are able to avail of this financial assistance.

Further information

The report *Restructuring in recession – ERM report 2009* is available online at
http://www.eurofound.europa.eu/publications/htmlfiles/ef0973.htm.

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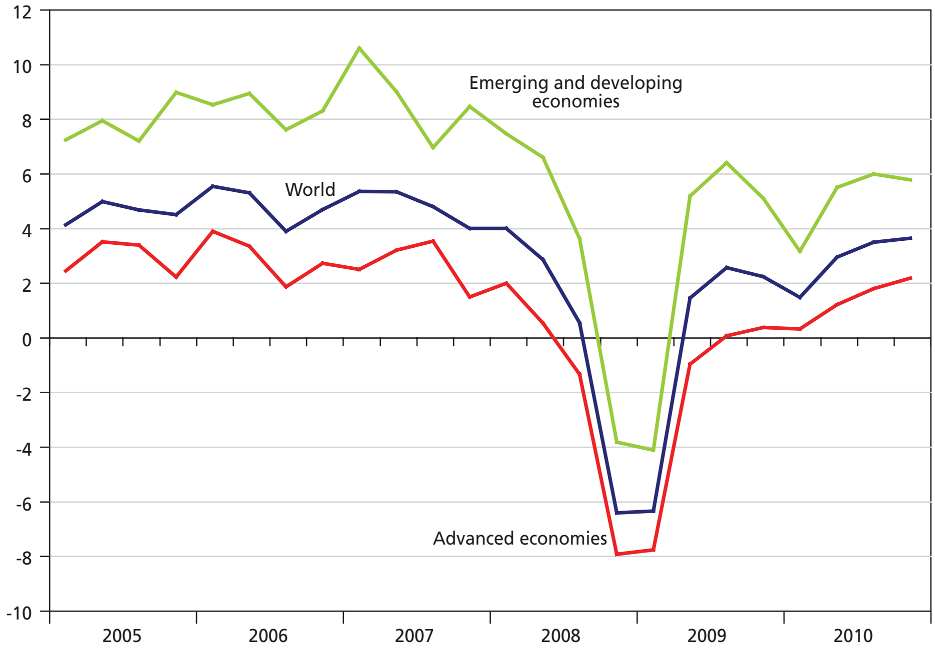
Introduction

Whatever developments in the world economy realistically may be expected up to the end of 2009, there is no doubt that the world economy has already experienced one of the most serious recessions in modern times. The global scope of the recession is totally unprecedented. Due to the entry of India, China and the countries from the former Soviet Union (since the early 1990s) into the global trading and production system, the first truly global recession is now being witnessed. Up to 2008, the world had experienced a remarkably long and strong period of economic growth, at which point it began to dip downwards and, towards the end of 2008, plummeted at an alarming rate (see Figure 1). The development of the recession in the European Union does not differ much from other advanced economies. In the 10 years up to 2008, real annual growth in gross domestic product (GDP) in the EU averaged a very respectable 2.5%. In 2008, it fell sharply to -0.9% and the forecast of the European Commission (at the time of writing) for 2009 is an unprecedented -4.0%.

Figure 1: Global GDP growth, quarter over quarter, annualised (%)



Source: IMF staff estimates

Economic and financial background to the crisis

There is no lack of explanations for the recession, but rather a multitude of competing or complementary factors still not fully understood, and analysis of these remarkable times will surely engage economists for decades. The truly distinguishing characteristic of this recession is a globally synchronised banking crisis, which has led to a remarkably severe global recession. It is highly likely that the preceding equally remarkable boom – a long and strong period of non-inflationary growth, which began in the early 1990s – together with significant shifts in the balance of global trade and capital flows that gained speed in these years, constitute the macroeconomic background to the subsequent bust. Global imbalances, expressed as massive current account deficits in some countries (especially the US) and correspondingly high surpluses in others (particularly China, but also the oil-exporting countries) became an increasingly distinguishing feature of the long global boom. It is also a fair guess that the path to global stability lies in resolving the contradictions of the emerging new global economic and financial order.

Simply expressed, the big exporting counties lent the credit to finance the purchase of their exports by other countries. The influx of credit into the borrowing countries drove down interest rates there. Monetary policy, not least in the US, pushed real interest rates further down into negative territory and fuelled both a remarkable increase in asset prices (most notably property) and unprecedented levels of private and corporate debt, in both the US and some European countries. The availability of cheap money led to a host of financial institutions borrowing at low short-term interest rates to lend over a longer period at higher rates. This risky strategy of borrowing short to lend long became astoundingly profitable: for example, in 2006, profits in the financial sector constituted 23% percent of all profits in the UK. While this risky behaviour can be attributed to irrational exuberance or moral frailty, it is more useful to see it in the light of faulty financial instruments and bad incentive structures.

In recent decades, commercial banks increasingly adopted the strategy of pooling mortgages into financial products, which were then sold on to other financial actors (often investment banks). With the sale of the mortgage obligations for cash, the commercial banks could then continue to issue more mortgages. Not only were investment banks involved in this trade but also, for example, hedge and pension funds. Moreover, not only property mortgages but other forms of debt – such as equipment loans, commercial mortgages, and credit card debt – became securitised in a similar fashion. On top of this, other financial markets developed that were thought to function as insurance. The complexity of these instruments and the involvement of actors not subject to the relatively strict regulation of retail banks made the overall understanding of the real risks practically impenetrable. One obvious problem was that the loan originators (the retail banks) retained no risk on the loans they had made and there was no direct link between the original borrowers (for example, homeowners in the UK) and the final holder of the mortgage (for example, a hedge fund in Germany). Another problem was the feasibility of insurance in highly integrated global financial markets. A basic principle of insurance is independent risks, but if all insurance takers claim at the same time (i.e. their risks turn out to be correlated) any insurance system will collapse.

The most obvious weakness in the incentive structure was the premium paid to individuals based on the short-term performance of the financial firm as approved by the boards of the companies and not sanctioned by the regulatory authorities. As the financial bubble inflates, these rewards may be enormous and sufficient to lead to the individual's disregard of any feasible penalty, such as dismissal, when the bubble finally bursts. Leverage grew to historically unprecedented levels, with even some commercial banks lending up to 30 to 40 times their capital. Often, though, their structural investment vehicles were formally placed in unregulated offshore locations.

The immediate reason behind the financial crash was the collapse of the housing boom in the US, where house prices had increased by 50% between 2000 and 2005, the largest boom in US history. It began to falter by mid-2006, and financial turmoil was then triggered by the rise in defaults by subprime mortgage borrowers, followed by the implosion of the market for securitised assets backed by such loans. The highly leveraged and interrelated house of financial cards then came falling down. In the autumn of 2008, several US banks, and some European banks, failed or would have failed had they not been supported by the monetary authorities. The dramatic fall of the big US investment bank, Lehman Brothers, set the world's financial system into panic.

The effect of this financial turmoil on the already wavering real economy was severe. GDP declined rapidly, not only in the developed world but also globally. The global nature of the recession is also shown by the historical decline in world trade, which some claim has been greater even than during the Great Depression in the 1930s. It certainly is by far the greatest decline in trade in the Organisation for Economic Co-operation and Development (OECD) area since data have been recorded (since the early 1960s). In February 2009, the year-on-year decline in trade was 33%, which compared with the previous low of 14% in October 1982.

Economic and labour market prospects

During the summer of 2009, some signs appeared that the free fall of most economic indicators had ceased and that some, such as business confidence, had turned upward. Similarly, real output data from some countries pointed to recovery. Growth in China and other Asian economies was the most positive, but even in France and Germany it appeared that the worst could be over. Of great symbolic importance was the statement by Jean-Claude Trichet, President of the European Central Bank (ECB), on 3 September 2009 that ‘the latest information supports our view that there are increasing signs of stabilisation in economic activity in the euro area and elsewhere. This is consistent with the expectation that the significant contraction in economic activity has come to an end and is now followed by a period of stabilisation and very gradual recovery’. Similarly, the September Interim Economic Assessment from the OECD revised its growth estimates for the G7 economies for 2009 upwards, from the previously projected estimate of -4.1% to -3.7%. However, both the ECB and the OECD expressed caution, not only with regards to the likelihood of the turnaround in the economy but also to its strength, with the OECD stating that ‘the pace of the recovery is likely to be modest for some time to come’. The view that recovery will be slow is also shared by the European Commission and the International Monetary Fund.

There are many reasons why one may expect a sluggish recovery and the possibility that the economy may dip downwards again should not be ruled out. Previous experiences indicate that recovery from a recession caused by acute financial crisis is slower than otherwise, since it takes time for financial market and business confidence to recover. This is particularly likely to be the case in those countries where the full extent of credit defaults is yet to unfold and the value of the banks’ financial assets is still very uncertain. Moreover, the costs of rescuing the banks, and, to a lesser extent, the financing of the fiscal stimulus, have greatly increased the public debt in many countries and money for new private investment is scarce. On the other hand, one factor that may lead to a quicker recovery than might otherwise be expected is that just as the global nature of the world economy mutually reinforced the downward spiral throughout the world, it may also generate a quick recovery. In the longer term, however, the fundamental global macroeconomic imbalances mentioned above must be addressed as must the failure of corporate governance and financial regulation.

In terms of the future sustainability and speed of the current recovery, it is highly significant that the one indicator that still has yet to turn upwards is the level of consumer confidence, which remains very low. One of the most immediate consequences of the recession was the steep decline in household wealth. This included not only housing but also financial assets, such as shares and expected pension incomes. This, together with the decline in earnings as jobs were lost or working time reduced, has significantly reduced the propensity to consume. In July 2009, 22 million men and women were unemployed throughout Europe, five million more than a year previously; Chapters 1 and 2 of this report present various other data that testify to a very difficult year so far for workers in Europe. However, it is highly likely that the full force of the recession has yet to fully impact on the labour market. GDP declined by 4.7% in the year up to the first quarter of 2009, while employment fell by only 1.3%. As will be shown in Chapter 1, previous recessions suggest that this is a small decrease in employment compared with the big fall in GDP. While much depends upon policies implemented and the sustainability of current tendencies towards recovery, much bad news is to be expected in European labour markets for some time to come.

Through the European Economic Recovery Plan (Chapter 4), the European Union and Member States have agreed upon a significant increase in discretionary public spending, and automatic stabilisers, such as unemployment insurance, provide a further fiscal expansion. While there is some discussion on whether the expansion is sufficient or not, ultimately, the key to a robust recovery lies with consumer confidence. With the ongoing deterioration of the labour market – not only in terms of employment levels but also declining working time and wage income – consumer demand may continue to be low.

Thus, recovery in European labour markets is not only a matter of policy concern for the welfare of those directly affected: it is vital for the generation of profits for businesses and for the economy as a whole. In many countries throughout Europe, short-term working schemes have buttressed the worst employment effects of the recession (Chapter 5). State support of many of these schemes has already been prolonged but it is hardly likely that the state can subsidise short-time working indefinitely. Moreover, companies may be increasingly reluctant to rely merely on short-time working schemes (Chapter 3) and it is highly likely that many more dismissals will occur. A return to the shorter working week debate of the 1980s and 1990s is also highly likely. One important lesson from the previous experiences is that there is no simple answer to the question of whether shortening working time saves jobs: sometimes it does and sometimes it does not. The relevant question is *how* working time reduction can save jobs.

To some extent, the experiences of this recession so far show that the cyclical pattern of restructuring is, in qualitative terms, not much different from the structural trends: it only speeds up and accentuates these longer-term trends. For example, European manufacturing continues to experience considerable difficulties. This is well illustrated by noting that in the first six months of 2009, China (not the US or Germany) became, for the first time, the world's largest exporter of goods and that the unemployment rate in May 2009 in the European Union was higher for men than for women. While the early stages of the recession have shown a reversal in some other secular trends such as lower levels of offshoring and mergers and acquisitions, there are good reasons to expect these to rise rapidly again when the recovery becomes more pronounced.

The recession will very likely not only cause considerable distress in the labour market but also negatively affect living and working conditions more broadly. As profits margins are squeezed and workers experience less job security, costly measures to improve working conditions may suffer. Moreover, previous experience of major recessions in other countries suggests that upon recovery, the share of temporary work increases rapidly. The public debt has increased significantly in many countries. This will surely have some negative effects on social and other welfare-promoting policies.

The impact of the economic crisis on social partnership is more uncertain. On the one hand, hard times may intensify conflict between the social partners. On the other hand, they may focus attention and mobilise action on common interests and induce compromise where fundamental conflicts of interest have previously impeded progress. This is not unrealistic or naïve. It was the crisis in the Irish economy at the end of the 1980s that galvanised the social partners into deep and successful cooperation. Similarly, it was the difficult times in the 1980s that induced a wide range of interests in the Netherlands to come together around the consensus-based Polder Model upon which subsequent success was built. Currently, Sweden and Finland are held up as models of how to deal with a deep recession. Again, social partnership was instrumental in implementing the measures necessary for the recovery in the latter half of the 1990s. This crisis is widespread across Europe and all parties call for a coordinated policy responses. Crisis does provide opportunity for, not least, the European social partners.

The effect of the recession on employment

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The current recession has already had a dramatic effect on both output and employment in many parts of Europe. While – at the time of writing – there are signs that the economy is about to recover, there are also concerns about the sustainability of this recovery, the labour market being expected to continue to deteriorate for some time to come.

Inevitably, the statistics available lag behind the situation that they aim to describe, because of delays in the collection of data, their processing and eventual publication. This is a particular problem when the situation is changing as rapidly as it is at present. At the time of writing, therefore, the latest data that are published relate in most countries to the first three months of 2009, during which some countries (those affected first, such as Ireland and Spain) were already well into the economic downturn but others were only entering the initial phases of the recession; in yet other countries, the downturn had yet to begin.

Moreover, there is not only a time lag in the statistics becoming available, but also a time lag between a downturn in economic activity and its giving rise to a reduction in employment. The length of this delay depends on a number of factors, not least on the prevailing financial situation and the extent to which companies are able or willing to borrow and – related to this – their expectations about how long the recession will last and the strength of the subsequent recovery. The delay also depends on the policies in place to support employment through subsidies or measures, such as the short-time working allowance in Germany or partial unemployment benefits in a number of countries (discussed in greater detail in Chapter 5), which enable the volume of work to be reduced without cutting jobs as such. For these reasons, the duration of this time lag tends to vary across countries. Accordingly, the timing of the reduction in jobs and increase in unemployment resulting from the recession, and therefore the scale of these observed at any point in time, is also unlikely to be uniform.

In addition to these statistics, however, insights into the differential effects of the recession can potentially be obtained by examining events from past economic downturns. Experience of the downturns in the early 1980s and early 1990s (and in the early years of the present decade, for some countries) arguably provides important lessons as to the sectors of activity, the jobs and the social groups that are likely to be most affected.

Another problematic data issue is that a recent revision of the Statistical Classification of Economic Activities in the European Community (NACE), the sector classification codes, makes it simply impossible to present a consistent time series of employment by economic sector before and after the first quarter of 2008 in the European Labour Force Survey (ELFS).[1] Other sector data (Short Term Business Statistics) used in this and subsequent chapters cannot provide breakdowns by – for instance – age, occupation, etc. The sector coverage is patchy and is not available at all in some Member States.

It is widely argued in this regard that the present recession is different not only in scale but also in nature from those that have occurred in recent history, since it is unique in originating from bad debts incurred in the housing market. The first casualties, therefore, were banks and other mortgage lenders rather than industrial companies as in the case of earlier downturns. Accordingly, large-scale job losses in the financial sector were the first signs of the effect of the recession on employment, accompanied by similar cutbacks in the construction industry as the collapse of the housing market led to a scaling down of new building and to the postponement of new developments.

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[1] The limited sector data available since 2008 were not available at the time of the analysis performed in this chapter.

The counter-argument to this is that there tends to be a financial dimension to all economic downturns and that what matters ultimately is the end result, rather than its initial cause and where the first effects were felt. In this respect, evidence from the data currently available suggests that while the jobs initially affected were in the financial sector and the construction industry in those countries to first experience recession, very soon after, effects of the downturn were evident in much the same industrial sectors as in previous downturns. These, moreover, seem to have been the sectors most affected as the recession spread across Europe.

Part of the concern here is to demonstrate, from the data so far available, that close similarities exist between the present recession and earlier downturns in terms of the sectors that have been hit hardest, the incidence of job losses and the reduced rate of new job creation on particular groups in the labour market.

Outline of analysis

The first part of the analysis examines the relevant features of the downturns in the early 1980s and, more pertinently, in the early 1990s (for which more data are available and which, being more recent, is likely to be more relevant as a guide to what can be expected during this current recession). It also examines developments in the downturn in the early 2000s, though this was generally more modest in terms of its effect on GDP and on employment and less widespread across Europe. It, therefore, had very little discernible impact on employment in many countries, including most of those that joined the EU from 2004 onwards (as well as a number of countries in the EU15).

Thus, the focus of this part of the chapter is on developments in the EU15: although most of the new Member States (NMS) experienced a severe downturn in the early 1990s, this was different in kind from that in the EU15. Moreover, it occurred at a time when the structure of their economies – and the composition of the labour force – was very different to what it has since become. The lessons to be drawn from the experience are, therefore, limited.

The second part of the analysis examines developments during the present recession, or at least in its initial phases. It focuses again on both the sectors and jobs affected and the people employed in these (as well as on others in the workforce), for the EU27.

Employment developments in earlier economic downturns

Sectoral effects

Across the EU15 as a whole, the downturn in the early 1980s (insofar as it can be identified from the sectoral data available, given that data for the EU as a whole exist only from 1980 onwards), resulted in a decline in value added, or net output, in the economy in real terms of just over 2% in 1981. This had the effect of causing a reduction in total employment of around 1%, which implies that value added per person employed fell over the year instead of increasing as it did during more normal periods (because of productivity growth). Table 1 displays the annual average change during the three periods of economic downturn considered, together with, for comparison, the 'trend' change, which relates to the change over the second half of the 1990s – a relatively stable period of growth.

More detailed examination reveals that in reality there was only a small decline in productivity in terms of value added per hour worked and that much of the decline was due to a reduction in average hours worked by those employed (by around 1%, twice the rate of the trend decline). Accordingly, there is evidence of hours of work being reduced beyond normal and employment being consequently at a higher level than it would otherwise have been – perhaps because of an expectation that the downturn would be relatively short, or because of deliberate attempts to maintain jobs.

Table 1: Annual average change in value added and employment in past economic downturns, by sector, EU15 (%)

	Value added				Employment			
	1980s	1990s	2000s	Trend	1980s	1990s	2000s	Trend
Agriculture	-0.4	0.5	-1.7	1.1	-3.0	-5.0	-2.6	-1.3
Food, drink, tobacco	0.2	-0.5	0.5	0.6	-2.2	-1.4	0.4	0.6
Clothing and textiles	-3.9	-3.1	-4.4	-0.7	-6.3	-6.5	-4.9	-2.4
Leather and footwear	1.8	-5.5	-6.6	-2.2	-5.1	-5.0	-3.4	-2.4
Wood and wood products	-6.0	-2.7	1.3	2.9	-3.6	-2.2	-1.6	-0.3
Paper, pulp, printing	-3.1	0.1	0.2	2.1	-2.0	-1.7	-1.6	-0.6
Chemicals and pharmaceuticals	0.0	1.5	3.6	4.3	-3.4	-4.1	-0.8	-0.5
Rubber and plastics	-1.8	0.7	2.2	4.4	-3.9	-2.3	-1.7	1.3
Glass and non-metallic mineral products	-7.3	-3.1	-1.2	2.1	-4.1	-4.0	-2.1	0.0
Metal manufacture	-6.7	-2.4	-0.7	2.6	-4.4	-3.9	-1.1	0.4
Machinery and equipment	-4.0	-5.0	-1.0	1.5	-2.8	-5.1	-1.6	0.3
Electrical and electronic equipment	1.1	-1.1	12.1	10.2	-3.3	-5.4	-4.6	0.6
Motor vehicles and transport equipment	1.6	-5.2	3.1	5.2	-4.7	-5.1	-1.4	1.4
Furniture and other manufacture	-3.1	-2.5	-3.7	2.3	-3.7	-2.2	-2.5	0.6
Electricity, gas, water	0.5	1.5	0.6	0.9	1.0	-1.9	-1.5	-1.9
Construction	-4.3	-1.9	0.0	0.9	-2.7	-1.8	0.3	1.4
Retail and wholesale distribution	-1.2	1.4	1.5	3.0	0.0	-0.1	0.6	1.3
Hotels and restaurants	1.3	-0.9	-0.9	3.0	1.5	1.1	2.1	2.6
Transport	1.9	1.0	2.1	4.6	-0.6	-0.6	0.1	1.5
Financial services	1.3	1.4	3.3	2.9	1.9	0.1	-0.2	0.7
Business services	3.3	2.3	1.0	3.0	1.7	2.5	1.8	5.1
Public administration	3.8	1.1	0.8	0.5	1.8	0.3	0.0	0.0
Education	2.3	1.2	1.4	0.8	1.7	0.7	2.4	1.2
Health and social services	2.4	1.6	2.2	1.8	2.6	2.2	2.5	1.7
Personal and community services	1.0	1.8	0.4	1.7	1.5	1.5	1.6	2.4
Total	-2.2	0.5	1.4	2.6	-0.9	-0.8	0.6	1.4

Source: EU-KLEMS data set

The overall decline in value added was concentrated in particular sectors of activity, specifically in industry and more especially in some areas of manufacturing (in wood and wood products, glass and non-metallic mineral products, metal manufacture and machinery and equipment) as well as in construction. These to a large extent are either industries that manufacture producer goods (which are themselves inputs into other industries and so are hit by a contraction of sales elsewhere) or – as is the case in construction – activities that produce something that can typically be postponed. At the same time, construction is especially vulnerable to developments in the housing market and so was affected by the cutback in new orders that occurred.

In this downturn in the early 1980s, employment declined in all manufacturing industries, including those in which value added rose over the period (even if it rose at a lower rate than the trend). In these industries, therefore, the continuation of relatively high productivity growth resulted in cutbacks in jobs; in contrast, a reduction in productivity in industries that experienced a decline in value added failed to prevent job loss. In both cases, a significant reduction in average hours worked, in many cases by over 1% over the year, moderated the decline in numbers employed.

At the same time, value added in service sectors (with the exception of retailing and wholesaling) expanded over the period, most especially in business services and public administration; together with the continued growth of education and healthcare, this helped to offset the decline in manufacturing. This growth of value added was associated with a growth of employment in all sectors apart from transport, in which growth – as a consequence of the reduced output of goods – was well below the trend.

In the subsequent downturn in the early 1990s, value added in the EU15 as a whole grew relatively slowly in the period 1990–1992 and fell slightly in 1993. In these three years, therefore, growth averaged only 0.5% a year. The differential effect of this on different sectors was similar to that in 1981. In this case, however, the motor vehicle industry did not escape a marked decline in value added and there was a similarly large fall in machinery and equipment and in electrical and electronic equipment (relative to the trend rate of growth). Accordingly, the downturn in this period was very much concentrated in the engineering industries (these predominantly manufacture investment goods for other industries, the purchase of which can be deferred in periods of falling sales).

In this period, there was a smaller decline in construction, perhaps reflecting the more modest scale of the downturn; equally, there was a smaller increase in service sectors (with the exception of retailing and wholesaling, and personal and community services).

The decline of employment in manufacturing followed a similar pattern as in 1981, with a smaller increase, or even a decline, in value added per person employed in those industries in which value added fell and a larger rise in those where it did not. Overall, however, productivity did not diminish as in the previous downturn and, accordingly, had less of an effect in maintaining jobs – perhaps because of lower expectations of any quick recovery.

In the same vein, there was also a smaller reduction in average hours worked (no larger than the trend decline), so that with the lower growth of value added in services, the numbers employed in the economy as a whole fell at virtually the same rate as in 1981 (by just less than 1% a year). The comparison between the two periods clearly illustrates the significant effect of productivity and working time on jobs and employment in periods of economic downturn as well as what happens to value added, or output. As indicated below, these two factors can not only vary between downturns, according to the circumstances prevailing at the time or expectations about future developments, but may also vary between countries for similar reasons.

The downturn in the early part of the present decade was much more modest than earlier downturns, at least in the EU15, reflecting the fact that not all countries were affected. Nevertheless, the growth of value added was below the trend in most manufacturing industries and in some there were declines – especially in machinery equipment and furniture and other manufacturing. With productivity growing (except in furniture production), the number employed fell in all manufacturing industries, with the exception of food and drink. It also fell slightly in financial services, reflecting in this case the advent of technology rather than a decline in value added. Overall, however, thanks to the growth of employment in other service sectors (public administration being the only exception), the number employed overall increased by 0.6% a year over this period – well below the trend rate for the second half of the 1990s, but still significant.

The pattern of differential changes in value added and employment is repeated in most individual Member States over these periods, if to varying extents. To give some examples, in Germany, the economic downturn in the early 1990s was very much concentrated in the investment goods industries:

in particular, in motor vehicles and machinery and equipment, value added in real terms declined by between 9% and 11% a year over the period 1991–1993; meanwhile, in electrical and electronic equipment, value added declined by only slightly less relative to the trend (Table 2). In these two sectors, therefore, the numbers employed fell by around 10% a year, while in motor vehicles, the decline in employment was less dramatic (around 6% a year), as value added per person employed fell appreciably, so softening the effect of the decline in output on jobs. The fall in employment was even greater in clothing and textiles, and in leather and footwear (around 16%), though these together accounted for only a small proportion of total employment (only around 1.5%) as opposed to the 11% employed in the three engineering industries.

Table 2: Annual average change in value added and employment in past economic downturns in Germany (%)

	Value added				Employment			
	1980s	1990s	2000s	Trend	1980s	1990s	2000s	Trend
Agriculture	6.9	-2.4	-3.0	2.6	-2.2	-11.3	-2.0	-2.8
Food, drink, tobacco	-2.6	-5.7	-2.3	0.9	-1.7	-3.3	0.8	0.9
Clothing and textiles	-5.8	-7.9	-4.2	-2.3	-7.0	-15.7	-7.3	-5.9
Leather and footwear	-3.9	-5.8	-3.7	-3.6	-7.1	-19.6	-6.3	-4.6
Wood and wood products	-7.1	6.3	-4.2	0.2	-3.1	-1.2	-5.7	-3.3
Paper, pulp, printing	-0.8	-1.5	-5.0	1.4	-1.0	-3.3	-2.3	-2.5
Chemicals and pharmaceuticals	-0.9	-0.5	2.8	2.1	-0.1	-7.6	-0.9	-2.2
Rubber and plastics	-1.5	-1.7	0.3	2.0	-1.9	-4.0	-1.3	0.4
Glass and non-metallic mineral products	-5.5	2.3	-3.1	-0.5	-3.5	-4.9	-5.2	-2.5
Metal manufacture	-3.5	-4.2	-0.6	2.1	-2.1	-6.0	-1.4	-1.0
Machinery and equipment	-2.6	-9.0	-0.8	0.4	-1.1	-10.1	-0.6	-0.7
Electrical and electronic equipment	0.7	-4.2	-0.7	4.3	-2.8	-10.4	-1.7	-1.1
Motor vehicles and transport equipment	2.8	-10.9	6.8	1.7	-0.2	-6.3	0.0	3.4
Furniture and other manufacture	-6.7	-4.0	-7.1	-0.5	-3.8	-4.6	-5.2	-2.4
Electricity, gas, water	-5.8	-0.7	0.5	3.3	0.7	-3.3	-0.7	-4.1
Construction	-4.3	2.5	-4.7	-2.9	-2.5	4.0	-5.7	-3.1
Retail and wholesale distribution	-2.7	0.5	0.5	2.5	-0.2	0.4	-0.9	1.1
Hotels and restaurants	-1.9	-1.9	-2.2	1.8	2.9	2.8	1.3	3.6
Transport	1.1	2.2	2.1	3.6	0.1	-2.1	-0.2	-0.4
Financial services	0.3	5.0	-4.0	1.9	1.5	2.6	-0.4	0.3
Business services	3.5	4.3	2.6	3.4	2.6	5.5	2.4	7.2
Public administration	4.4	0.8	-0.3	0.1	1.1	-1.8	-1.2	-1.1
Education	2.7	3.1	-0.4	1.2	1.5	3.0	1.1	1.5
Health and social services	0.8	6.0	3.8	4.3	3.3	3.1	2.1	2.6
Personal and community services	2.5	2.9	-1.2	1.1	1.8	2.0	0.9	2.6
Total	-0.2	0.4	0.5	2.0	-0.3	-1.4	-0.4	0.8

Source: EU-KLEMS data set

Value added grew in most services sectors, so preventing a decline in GDP and giving rise to an increase in employment in these sectors (though not in transport, where the decline in the output of goods led to a fall in employment of some 2% a year). However, the numbers employed in the economy overall fell by around 1.5% a year over the period. To a significant extent, this decline was attributable to the average hours worked remaining largely unchanged instead of diminishing as in the earlier period.

During the downturn of the early 2000s, in the period 2000–2003, the growth rate of GDP, or total value added, was similar. In this case, however, the engineering industries were much less affected, in large part because of continued economic growth in other parts of the EU and internationally, which helped to shore up exports. Instead, the downturn was spread more evenly across the economy and value added declined in a number of service sectors – most notably in financial services and hotels and restaurants but also in public administration and education, if only slightly. Job losses were also more evenly spread across the economy, but were still greatest in manufacturing (more so in basic industries such as clothing, footwear, wood and furniture than in engineering industries).

Despite the fact that the rate of GDP growth over the period was similar to that in the earlier downturn, employment declined by much less. This again is attributable to the average hours worked, which declined by almost 1% a year over the period, in marked contrast to what happened in the early 1990s; this fall in hours worked softened the effect upon employment of the slow rate of GDP growth. Unlike the earlier period, therefore, there seems to have been greater willingness to maintain numbers in employment, perhaps because of a greater degree of confidence about a prospective upturn.

Table 3: Annual average change in value added and employment in past economic downturns in Italy (%)

	Value added				Employment			
	1980s	1990s	2000s	Trend	1980s	1990s	2000s	Trend
Agriculture	2.7	3.7	0.0	-1.6	-4.8	-4.8	-2.6	-0.1
Food, drink, tobacco	0.6	3.8	-2.0	-0.1	-2.3	0.6	1.4	-1.6
Clothing and textiles	-1.9	-0.3	-6.7	0.9	-2.7	-3.8	-2.4	-0.4
Leather and footwear	1.7	-1.6	-5.5	3.2	-2.9	-2.4	-3.9	-1.3
Wood and wood products	-0.8	-0.4	-3.9	3.8	-3.9	-2.6	-1.9	0.1
Paper, pulp, printing	-0.5	1.2	-1.3	1.1	-2.8	-1.6	-0.1	-0.7
Chemicals and pharmaceuticals	8.5	-0.6	0.3	-2.7	-3.6	-3.7	-0.7	-0.8
Rubber and plastics	0.5	0.9	-0.3	-1.6	-2.2	-0.6	-1.4	0.0
Glass and non-metallic mineral products	-3.7	-2.9	0.0	2.7	-1.5	-4.3	-0.8	1.2
Metal manufacture	-0.4	-0.7	0.2	1.3	-0.6	-2.9	0.7	0.1
Machinery and equipment	-7.4	-3.3	0.3	1.7	-1.1	-2.0	1.5	0.7
Electrical and electronic equipment	2.0	-1.6	-1.1	2.1	-2.0	-3.4	0.4	0.2
Motor vehicles and transport equipment	0.7	-12.0	-4.5	-1.3	-3.4	-4.0	-0.9	-1.3
Furniture and other manufacture	-4.3	-0.5	0.3	-0.9	-1.9	-0.2	0.0	-0.5
Electricity, gas, water	1.2	-1.3	2.6	-1.4	0.4	-1.0	-2.3	-1.6
Construction	1.6	-1.4	1.7	3.9	0.0	1.0	2.9	3.2
Retail and wholesale distribution	0.7	0.2	0.1	2.4	3.3	-0.8	0.4	1.1
Hotels and restaurants	1.4	0.1	-1.1	2.5	1.6	1.4	2.2	4.6
Transport	1.9	2.4	2.3	4.4	1.1	-1.3	-0.1	0.8
Financial services	-3.0	4.9	-0.2	2.8	4.6	1.1	0.3	0.5
Business services	4.9	0.3	1.1	2.2	8.9	2.1	3.7	4.9
Public administration	-0.5	2.5	1.7	1.4	1.2	0.1	-1.2	0.1
Education	2.9	0.1	1.1	0.5	2.0	-0.7	0.2	0.7
Health and social services	2.6	1.4	1.4	3.3	0.1	1.7	1.5	1.8
Personal and community services	0.6	-1.2	-1.9	-1.3	1.2	0.8	1.3	2.1
Total	1.0	0.5	0.4	1.8	0.1	-0.5	1.0	1.3

Source: EU-KLEMS data set

The experience in Italy is similar to that in Germany in terms of the downturn having a smaller effect on employment in the early 2000s than previously; in this case, however, it is as a result of productivity actually falling slightly across the economy in the later period. Hence, while the growth in overall value added was much the same as in Germany over this period (which, in the case of Italy, ran from 2001–2005) the numbers employed increased by 1% a year as productivity fell and average hours worked increased (Table 3). The decline in productivity was experienced in the majority of sectors (both in services and in manufacturing – including in the engineering industries), which raises questions about both the sustainability of such a decline and the effect on competitiveness in industries that need to survive in global markets. In the earlier downturn of the early 1990s, employment declined in all manufacturing industries (except food and drink) as productivity continued to grow; in the later downturn, however, employment expanded in both the machinery and equipment and electrical and electronic equipment industries as well as in food and remained virtually unchanged in paper and pulp and furniture.

The differential impact of an economic downturn on manufacturing, and on producer goods industries in particular, is less evident in Finland, where the scale of the recession in the early 1990s was much greater than anywhere else in the EU15, with the exception of Sweden. (Sweden shows a similar pattern to Finland, though the data available are less disaggregated for this period). Overall value added declined by some 3.5% a year over the three years 1990–1993 (an aggregated reduction of some 10%), largely as a result of the collapse of trade with the former Soviet Union (Table 4).

Table 4: Annual average change in value added and employment in past economic downturns in Finland (%)

	Value added			Employment		
	1990s	2000s	Trend	1990s	2000s	Trend
Agriculture	-2.8	-7.2	1.8	-6.4	-1.8	-3.4
Food, drink, tobacco	2.9	5.7	4.0	-6.6	1.0	-1.7
Clothing and textiles	-10.1	-9.6	-0.6	-17.9	-8.1	-1.3
Leather and footwear	-9.2	-8.4	-1.5	-16.8	-3.6	-4.3
Wood and wood products	0.0	-4.0	7.9	-10.3	-1.6	0.9
Paper, pulp, printing	1.2	0.5	3.7	-5.5	-2.2	-0.1
Chemicals and pharmaceuticals	0.5	-8.7	5.8	-3.7	0.5	0.3
Rubber and plastics	-0.9	-6.1	3.7	-7.6	-7.7	4.7
Glass and non-metallic mineral products	-11.4	-0.4	4.1	-14.8	-0.6	3.1
Metal manufacture	-0.4	4.7	5.6	-8.0	-0.2	5.3
Machinery and equipment	-12.0	1.5	1.2	-8.6	-1.1	2.3
Electrical and electronic equipment	9.5	11.9	24.2	-4.1	-5.1	5.5
Motor vehicles and transport equipment	-4.8	-6.4	1.9	-7.7	-4.9	0.5
Furniture and other manufacture	-9.9	-0.2	4.0	-9.4	-3.2	2.3
Electricity, gas, water	3.6	-0.5	3.6	-5.3	-5.4	-2.2
Construction	-8.0	2.6	4.6	-14.2	0.5	4.3
Retail and wholesale distribution	-12.4	3.1	4.8	-8.6	0.0	2.7
Hotels and restaurants	-7.7	-5.2	3.0	-8.2	-0.7	3.9
Transport	-0.4	1.3	6.7	-5.0	-1.1	1.3
Financial services	-8.4	-5.0	-0.6	-7.2	-1.8	-2.8
Business services	-0.8	0.3	3.9	-4.9	2.3	6.7
Public administration	-2.4	0.6	1.1	-1.3	1.0	1.4
Education	-1.4	0.2	1.3	-1.5	1.6	2.1
Health and social services	-3.3	-0.4	1.0	-3.0	2.0	2.3
Personal and community services	-3.8	-0.4	3.3	-2.3	2.3	3.2
Total	-3.5	1.3	4.6	-6.2	0.1	2.1

Source: EU-KLEMS data set

Some of the largest falls in output over the period occurred in manufacturing, especially in machinery and equipment and glass and non-metallic mineral products. However, there was an equally large fall in retailing and wholesaling, reflecting the substantial reduction in consumer expenditure as incomes fell. There were also large declines in hotels and restaurants and financial services for similar reasons.

In Finland at this time, productivity – in terms of value added per hour worked – grew in all manufacturing industries (significantly, in many) with the exception of machinery and equipment; productivity also grew in a number of service sectors, especially in business services and transport. At the same time, there was only a small reduction in average hours worked, so that job losses were considerable. The numbers employed, therefore, fell by around 6% a year over these three years, or by almost 18% in total (and by much more in some of the industries where output declined most). Job losses were by no means confined to manufacturing but affected all service sectors as well, though not as much.

The experience of Finland in this period demonstrates that if a recession is deep enough and gives rise to a sharp fall in consumer spending then it can cause jobs losses throughout the whole economy. Nevertheless, the job losses still tend to be greater in manufacturing, as in the later economic downturn of 2003 (which was on a far smaller scale), when output growth slowed but was still significantly positive. In this period, employment declined in transport and financial services, if by much less than in the earlier recession. However, the main falls were in manufacturing, every industry experiencing a reduction except food and drink, and chemicals.

The lesson from the recessions of the early 1980s and early 1990 is, therefore, that economic downturns tend to hit manufacturing much more than services; and within manufacturing, some industries are affected more than others, especially the engineering industries and others that manufacture producer goods. The latter, however, were hit less hard in the downturn in the early 2000s, partly because of the more modest scale of the fall in output and the continued growth of world markets, which boosted exports. This of course is far from the case as regards the present recession, which is global in scale and – as indicated below – much deeper than anything experienced over the past three decades.

The effect on occupations

Unfortunately, no comparable set of data on occupations exists at the EU level for the early 1990s, so it is not possible to examine developments in the structure of occupations within sectors during the period. The only data available come from the European Labour Force Survey (EFLS) and do not go back to before 1995 on a consistent basis. What emerges from an examination of the data since then is that there has been a fairly uniform shift in most sectors of activity from lower-level occupations (in the sense of those not requiring high levels of education, though perhaps needing extended vocational training), to higher-level occupations for which educational attainment is of increasing importance. The question here, however, concerns the tendency, if any, for the structure of occupations to change over the economic cycle – whether, for example, the relative number of people employed in higher-level occupations tends to increase or decline as economic activity falls.

This question is particularly relevant with respect to manufacturing, which, as indicated above, is more susceptible to being affected by economic downturns than services. Manufacturing can be roughly divided into three groups of industries, according to their technical characteristics and, related to this, the structure of occupations within them. The three groups in question are as follows:

- basic industries – industries such as food and drink, textiles and clothing, metal manufacture, wood and furniture – in which skilled and semi-skilled manual workers tend to account for 60%–70% of employment, and managers and professionals for around 20%;

- processing industries – chemicals and pharmaceuticals and pulp and paper (together with electrical and electronic equipment in which the occupational structure is similar) – in which skilled and semi-skilled workers represent 30%–40% of the workforce and managers and professionals represent 40%–50%;
- engineering industries – machinery and equipment and motor vehicles and other transport equipment – in which skilled and semi-skilled manual workers represent around 50% of employment and managers and professionals around 35%.

In the case of the basic industry group in the EU15 as a whole, there are signs that the proportion of managers and professionals (engineers, accountants, marketing managers and so on) has increased as total employment declined from 2001 onwards, matched by a reduction in the proportion of both skilled workers (such as toolmakers or mechanics) and semi-skilled workers (plant and machine operators and assemblers). A similar situation applies in the processing industries, where the share of skilled and semi-skilled manual workers in employment also declined as the share of managers and professionals rose.

In the engineering industries, the decline in employment after 2001 was less marked than in other parts of manufacturing, but a similar increase in the proportion of managers and professionals is evident. In this case, the countervailing decline is largely concentrated among skilled manual workers. In all three industries, however, it is difficult to disentangle the effect of the downturn from long-term trends. It is worth noting that there is much less evidence of the downturn (or indeed the long-term trend of a rising concentration of higher-level occupations) having any effect on the proportion of unskilled manual workers (labourers, cleaners and so on): in all three groups, this proportion changed relatively little over the period. It seems, therefore, that to the extent that the downturn affected the occupational structure of the workforce in manufacturing, it was the more skilled manual workers who lost out, rather than the least skilled.

The effect on employment of men and women in different age groups

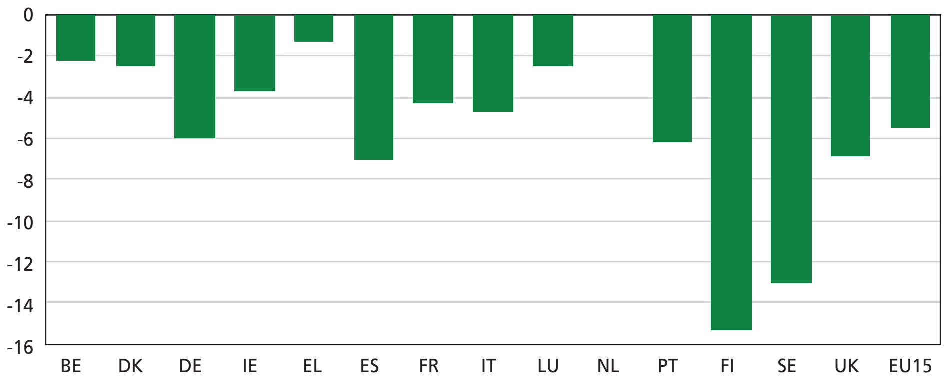
While it is not possible to examine shifts in the occupational structure of employment during the economic downturn in the early 1990s on the basis of the EU-level data available, it is possible to examine the changing composition of employment by sex and age. A number of trends emerge from this.

- The downturn affected men much more than women. This is only to be expected given the disproportionate effect of the downturn on manufacturing – the producer goods industries, in particular – and on construction, sectors in which men account for well over 80% of employment across the EU.
- Young people aged under 25 years (and, again, disproportionately men), were affected much more than people in other age groups. This reflects a reduction in the creation of new jobs, rather than these younger workers being disproportionately targeted when cutbacks in employment were made (although there might be an element of this as well). The decline in employment of young people during this period, therefore, was characterised by a significant reduction in their participation in the labour market as much as by a rise in unemployment because of a lack of job opportunities.
- Older workers aged 55 and over, and in particular older men, were affected to a similar extent as those under 55: hence, there is no strong evidence of job cuts being effected through early retirement, at least at the aggregate level. This may be because early retirement was an important

means of reducing employment and freeing up jobs for younger people in earlier years following the two oil-price shocks of the mid-1970s and early 1980s. By 1990, therefore, the employment rate of older workers was already low in most EU15 countries: among men, just over half (52%) of those aged between 55 and 64 years were in work.

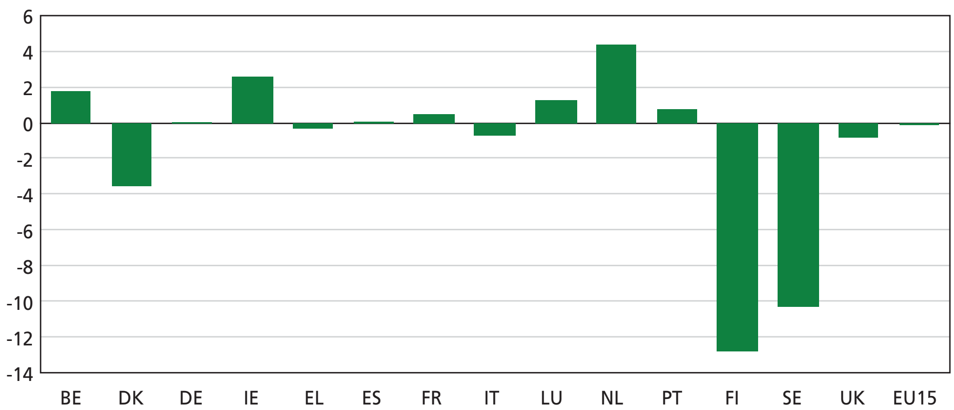
In the EU15 as a whole, therefore, the employment rate of men (the proportion of those of working age – between 15 and 64 years – in employment) declined from 75.4% in 1990 to 70% in 1994, a reduction of 5.4 percentage points.[2] Although it varied in scale, the fall was common to all Member States, amounting to between 13 and 15 percentage points in Finland and Sweden (where the recession was especially severe) and between six and seven percentage points in Germany, Spain, the UK and Portugal (where it was less severe) (see Figure 2). By contrast, the employment rate of women declined only marginally over the period and either remained unchanged or increased in the majority of Member States (Figure 3).

Figure 2: Change in employment rate of men aged 15–64 years in the EU15, 1990–1994 (%)



Note: Figures for BE, LU, NL are for 1991–1994; figures for the UK are for 1990–1993.

Figure 3: Change in employment rate of women aged 15–64 years in the EU15, 1990–1994 (%)



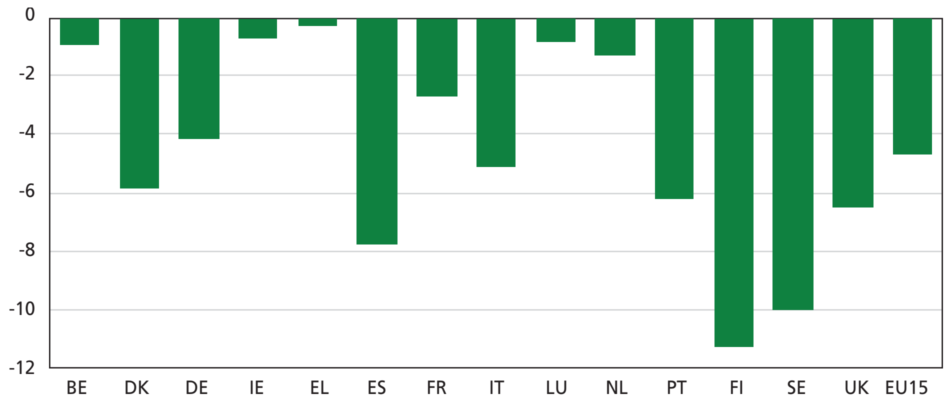
The decline in the employment rate of young people aged between 15 and 24 years was even larger than that of men. Between 1990 and 1994, it fell by over nine percentage points (the rate for men falling

[2] The EU15 here excludes Austria for which there is a lack of consistent data. The figures are adjusted approximately for the unification of Germany, which affects the published data from 1991 onwards.

by 10.5 percentage points, the rate for women by eight points), from almost 47% to less than 38%. Moreover, it continued to fall for a further two years, reaching 36% in 1996, despite the growth in total employment. As indicated above, this decline was accompanied by more young people withdrawing from the labour market, or not entering it. While this in itself need not be an unfavourable development if it is associated with more young people remaining in education or training for longer, there is little evidence that this was in fact the case.

Employment among men aged between 55 and 64 years declined broadly in line with the fall in employment among men aged under 55 years over the period, the rate falling across the EU15 as a whole by almost five percentage points (from just over 52% to 47.5%). Again, all countries experienced a decline, if to varying extents (Figure 4). At the same time, the employment rate of women in this age group remained virtually unchanged over the period.

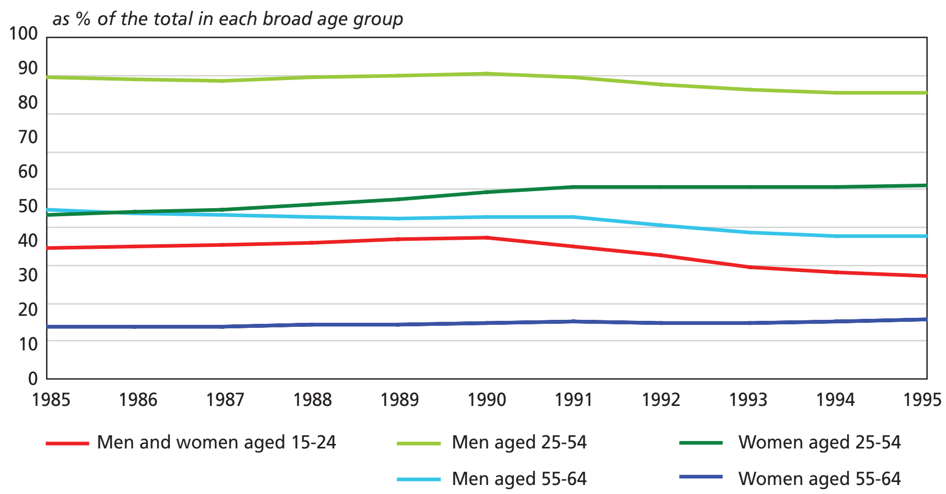
Figure 4: Change in employment rate of men aged 55–64 in the EU15, 1990–1994 (%)



Note: Figures for BE, LU, NL are for 1991–1994; figures for the UK are for 1990–1993.

The decline in employment in the early 1990s, therefore, affected young people under 25 years of age and men aged between 25 and 64 years most (Figure 5).

Figure 5: Employment rates of men and women in different age groups in the EU15, 1985–95 (%)



Temporary jobs and part-time working

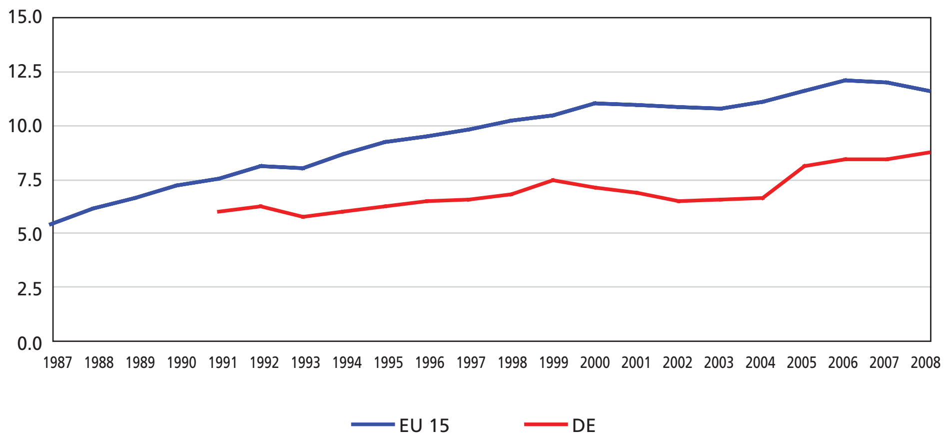
Two other aspects of the effect of economic downturns on employment are also relevant to consider – the relative number of people employed in temporary jobs (or with fixed-term contracts of employment) and the extent of part-time working.

Because, in many countries, the non-renewal of short-term contracts represents a relatively easy way of reducing employment, it is often argued that the people on such contracts tend to be disproportionately hit by a downturn in economic activity, and so the proportion of employees working in temporary jobs will fall in an economic downturn. As opposed to this, it can equally be argued that in times of uncertainty, employers might opt for recruiting people on fixed-term contracts should they wish to increase their work force, which would then presuppose that the proportion of employees working in temporary jobs would increase in a downturn.

The evidence of the years 1990 to 1994 shows some sign of a reduction in the proportion of people employed on fixed-term contracts over the downturn, though to only a limited extent. In the EU15, the proportion of employees aged 25 years and over employed on such contracts increased by just under two percentage points – a significant rise given the small numbers involved, but less than the rate of increase over the preceding three years (Figure 6).

Nevertheless, the relative numbers of people working in such jobs increased in most Member States over the course of the downturn, the two major exceptions being Greece and Portugal, where it declined markedly (by between five and six percentage points in both). It is only in these two countries, therefore, that the evidence is consistent with the supposition that those in temporary jobs will be hit disproportionately by a downturn.

Figure 6: Proportion of employees aged 25 and over in temporary jobs (%)



Note: Germany is shown separately due to the effect of reunification. EU15 excludes Austria, Finland and Sweden.

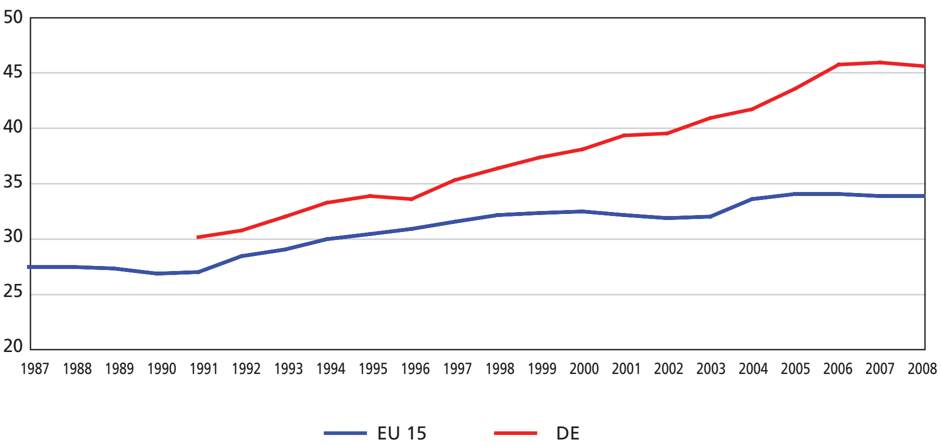
There was a more widespread decline in the proportion of workers employed in temporary jobs in the downturn in the early part of the present decade; this, however, was very small in most countries, the main exception being France (where it fell by around two percentage points between 2000 and 2004).

Temporary working, however, is far more prevalent among those aged under 25 years than among older workers, the proportion of young employees with fixed-term contracts being around four times greater. There is, however, only limited evidence of the downturn of the early 1990s impacting on these workers: in the EU15 between 1990 and 1994 they increased, as a proportion of the total workforce, by around 2.5 percentage points, again less than the rate of increase over the preceding three years. Over the period in question there was an increase in this proportion in most Member States; in stark contrast, however, the proportion of these workers (and of those aged 25 years and over) declined considerably in Greece and Portugal, where it fell by 11 and 16 percentage points respectively. In the later downturn, there is much more evidence of a decline in the relative number of workers employed in temporary jobs, or at least of the upward trend coming to an end. In practice, the proportion declined in most Member States between 2000 and 2004, especially in those in which overall employment fell.

During the earlier economic downturns, there are clearer signs of an increase in part-time working than of temporary employment – especially among women, who in any case constitute the majority of those employed in part-time jobs. The proportion of working women who were employed part time in the EU15, therefore, tended to increase during the economic downturn in the early 1990s, whereas it had fallen slightly in the preceding years (Figure 7). There was also some growth in part-time employment in 2002 and 2003 in the countries in which overall employment declined or rose only a little.

While the employment of women was maintained or even increased during earlier periods of economic downturn, there was a shift during these periods towards greater female employment in part-time jobs, implying that the change in the employment rate as such tends to overstate the additional amount of work performed by women.

Figure 7: Proportion of working women employed part time in the EU15, 1987–2008 (%)



Note: Germany shown separately due to the effect of reunification. EU15 excludes Austria, Finland and Sweden.

Temporary work in turbulent times – Nordic experience from the 1990s

In the early 1990s, Sweden experienced a macroeconomic downturn unparalleled in the post-war period. GDP fell by 6% from its cyclical peak in the first quarter of 1990 to its trough in the first quarter of 1993. The unemployment rate stood at around 1.5% in 1989–1990 and had risen to 8.2% by 1993. The employment rate fell over the same period by 10 percentage points. Signs of a sustained labour market recovery did not appear until the end of the 1990s. The period from 1997 onwards saw a large decline in unemployment as well as rising employment, a rebound triggered by a marked increase in GDP growth. By the end of 2000, the unemployment rate had fallen to 4% of the labour force.

An intriguing aspect of the Swedish experience is that the entire decline in employment during the downturn was the result of net job losses among workers with 'standard' open-ended contracts, i.e. those covered by more stringent employment protection provisions. In contrast, the numbers of temporary employment contracts increased substantially over most of the 1990s. By the end of the decade, fixed-term contracts accounted for 16% of total employment, compared with 10% in the early 1990s. Holmlund and Storrie (2002) explain this largely in terms of how depressed product and labour market conditions impact on firms' incentives to offer temporary and permanent contracts as well as workers' incentives to accept these offers. Although this 'business cycle explanation' may not be the whole story, it is most likely an important part of it.

Moreover, the evolution of labour market conditions and temporary work in the other Nordic countries at this time add further support to this claim. During the 1990s, unemployment remained relatively stable in Denmark and Norway while in Finland it skyrocketed from 3% in 1990 to 17% in 1994. What happened, then, to temporary work in these countries? The proportion of temporary workers remained relatively stable in Denmark and Norway. In Finland, by contrast, the proportion of temporary workers increased sharply from 12% in 1989 to 18% in 1997. The outcomes of these large-scale 'natural experiments' can be taken as additional evidence supporting the argument that adverse labour market conditions can trigger a rise in temporary employment.

Employment developments during the present recession

The present recession started in some parts of Europe well before others. In the year up to the first quarter of 2008, GDP grew at over 2% in the EU as a whole; in some countries, especially in some of the new Member States, it grew by much more than this. At this point, however, recession had already hit Ireland, where GDP fell by over 1% during this period; in contrast, in Denmark it remained virtually unchanged (Table 5). In all countries, even in these two, employment increased significantly, illustrating the lagged effect of any downturn in economic activity on jobs.

Over the following year, in the 12 months up to the first quarter of 2009, the recession was well underway in most countries. GDP declined by around 5% in the EU15 over this period and by slightly less in the new Member States as a group, largely because of continued GDP growth in Poland. (This was one of only three countries in which GDP grew, the others being Greece and Cyprus.) The decline in GDP was especially pronounced in the three Baltic States (ranging from just under 12% in Lithuania to almost 19% in Latvia), though it was also relatively large in Slovenia (9%), Ireland (over 8%) and Germany (almost 7%).

The decline in GDP was only partly reflected in employment, which fell by just under 1.5% in the EU as a whole, again reflecting the lagged effect of the downturn on jobs and implying a marked reduction in value added per person employed. This reduction was evident in most countries; indeed, in a few, employment increased over these 12 months. This was most notably the case in Slovenia, where GDP fell substantially, but was also visible in Germany and Luxembourg, where GDP also declined by more than the EU average. In these countries in particular, therefore, there seems to have been a considerable fall in productivity; alternatively – or additionally – a large reduction in the average hours worked seems to have occurred.

Table 5: Changes in GDP and employment, 2007–2009 (%)

	GDP (at constant prices)			Employment		
	Quarter 1		Quarter 2	Quarter 1		Quarter 2
	2007–2008	2008–2009	2008–2009	2007–2008	2008–2009	2008–2009
Belgium	1.9	-3.1	-3.8	1.9	0.1	
Czech Republic	3.8	-3.4		2.6	-0.5	
Denmark	-0.1	-4.3		1.5	-1.8	
Estonia	0.8	-14.7		1.9	-7.0	
Ireland	-1.3	-8.4		2.2	-7.5	
France	1.9	-3.4	-2.6	1.1	-0.7	-1.1
Germany	2.9	-6.7	-5.9	1.6	0.4	-0.1
Greece	3.2	0.3	-0.2	1.5	-0.9	
Italy	0.4	-6.0	-6.0	1.2	-0.9	
Cyprus	4.2	0.8	-0.7			
Latvia	2.8	-18.6	-18.2	5.9	-8.5	
Lithuania	7.0	-11.6	-22.6	0.6	-5.6	
Luxembourg	1.0	-5.4		5.2	2.6	
Hungary	1.8	-5.6	-7.4			
Malta	3.9	-2.3				
Netherlands	4.0	-4.2	-4.9	2.0	0.3	
Austria	2.9	-3.5	-4.4	2.2	-0.3	-1.0
Poland	6.4	1.9				
Portugal	0.9	-3.7		0.9	-1.6	
Slovakia	8.2	-5.7	-5.4	3.2	0.0	-0.9
Slovenia	5.9	-9.0		3.2	0.5	
Spain	2.7	-3.0		1.7	-6.3	
Finland	3.3	-6.0		2.7	-0.9	
Sweden	2.2	-6.3	-6.3			
UK	2.5	-4.9	-5.6	1.5	-1.0	-1.9
EU15	2.1	-4.9	-4.9	1.5	-1.3	
EU25	2.3	-4.7	-4.8	1.8	-1.4	
EU27	2.4	-4.7	-4.8	1.8	-1.3	

Source: Eurostat, national accounts

In marked contrast, in Spain, the decline in GDP (which was less than the EU average) seems to have fed through almost immediately into employment, which fell by over 6%. This fall in employment was greater than in any other country apart from Ireland, where the downturn began earlier, and Estonia and Latvia, where the fall in GDP was much larger than anywhere else.

Although data for the second quarter of 2009 are at the time of writing available for only five Member States, they indicate that the effect of the fall in GDP on employment has still largely to manifest. In each country, the decline in employment was much smaller than the decline in GDP, implying that jobs have, to a significant extent, been maintained despite the reduction in output. This again is especially evident in Germany, where the decline in employment in the year up to the second quarter of 2009 was only marginal, even though GDP fell by 6%.

The latest data only indicate that in three of the five countries, Germany, France and Slovakia, there was an apparent slowdown in the rate of decline in GDP, and a slight increase between the first and second quarters of the year.[3]

Sectoral effects

The differential effects on different sectors of activity of the present recession – or at least its initial stages – are, in terms of output at least, very similar to those of earlier downturns. However, the scale is much greater in most countries than experienced either in the early 1980s or early 1990s. The decline in output has been concentrated for the most part on the producer goods industries, with engineering, in particular, being hit especially hard: in the EU15 as a whole, production in the electrical equipment, machinery and equipment and motor vehicles industries fell by between 27% and 33% in the year up to the second quarter of 2009 and in basic metals by 35% (Table 6).

As in the early 1990s, production fell in nearly all parts of manufacturing, though less in food than in other parts. The only industries in this period showing any growth were chemicals and tobacco.

Unlike in the early 1990s, however, output – or in these cases turnover – also fell in all the service sectors that it is possible to distinguish, with the sole exceptions of telecommunications and computing.[4] This is a reflection of the scale of the downturn, which is much more similar to that in Finland or Sweden in the early 1990s than in the EU15 as a whole. As seen above, output also declined in services in Finland in the earlier period, though – as in the present recession – on a smaller scale than in manufacturing.

The effect of the decline in output on employment, on the other hand, was (up to the early part of 2009 at least) very much smaller than in the earlier downturn in all sectors. Up to the first quarter of 2009, the falls in production in the engineering industries, in particular, had – given their size – led to only relatively small-scale job losses, though it should be emphasised that much of the fall was concentrated in 2009 and therefore very recent. In machinery and equipment, the fall in production of well over 20% in the first quarter of 2009 compared with levels a year earlier was associated with hardly any reduction in employment at all; the fall in production in motor vehicles of over 40% led to a decline in employment of less than 6%. While the scale of jobs losses in other industries was larger – in textiles, over 10% and in construction, 8% – it was still the case that it was much smaller than the decline in production. The implication is that employment in the first quarter of 2009 was considerably higher than warranted by the level of output. While it might be possible to maintain jobs for a time, how far the output losses that have occurred up to mid-2009 eventually feed through into employment is likely to depend critically on what happens over the rest of the year and on what is expected to happen after then.

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3 It should be noted that these figures remain subject to revision; moreover, it is hazardous to place too much weight on changes between quarters, which could well be the result of unusual seasonal factors.

4 Data are not available for financial services or the public sector services (public administration, education and healthcare).

Job losses had also occurred up to the first quarter of 2009 in services, if in most cases on a slightly smaller scale than in manufacturing. The only sector that showed any growth in employment was computing (though it may be that employment increased in the largely non-market sectors for which there are as yet no data available at EU level).

Table 6: Changes in production and employment by sector in the EU15, 2007–2009 (%)

	Production			Employment	
	Quarter 1		Quarter 2	Quarter 1	
	2007–2008	2008–2009	2008–2009	2007–2008	2008–2009
Manufacturing	2.9	-16.7	-17.8	1.0	-4.0
Food products	1.2	-1.9	-0.2	1.4	-1.3
Drink products	0.1	-9.0	-4.6	3.2	-7.6
Tobacco products	-9.5	-3.7	2.6	-7.3	-4.9
Textiles	-3.9	-23.0	-22.3	-3.6	-10.4
Clothing	-0.2	-12.4	-9.3	-2.8	-8.1
Leather, footwear	-2.4	-17.4	-16.3	-0.3	-9.9
Wood, wood products	-3.1	-22.6	-19.0	-0.5	-7.7
Paper, paper products	1.5	-15.2	-13.0	-1.3	-2.1
Printing	0.1	-6.6	-7.9	-2.1	-4.2
Chemicals	1.8	-19.0	-15.3	-0.2	-3.8
Pharmaceuticals	0.4	3.4	4.0	1.0	-4.0
Rubber, plastic products	1.4	-20.8	-19.4	0.8	-5.1
Non-metallic mineral products	-1.2	-25.9	-21.2	-0.3	-7.1
Basic metals	1.9	-33.4	-35.2	1.4	-3.9
Metal products	3.9	-26.1	-26.0	2.8	-4.2
Computer, electronic products	8.2	-17.3	-18.2	-0.3	-5.0
Electrical equipment	3.9	-22.2	-27.1	1.5	-3.9
Machinery and equipment	5.3	-22.1	-29.3	4.2	-0.5
Motor vehicles	5.7	-41.4	-32.6	0.1	-5.6
Other transport equipment	4.4	-10.2	-10.5	3.1	-2.6
Furniture	0.4	-19.4	-21.4	0.8	-7.5
Other manufacturing	1.0	-6.1	-5.9	-0.3	-0.5
Electricity, gas	3.2	-5.1	-9.5	0.5	1.1
Construction	0.1	-11.4		1.8	-8.0
Retailing and wholesaling	8.7	-9.8		2.0	-1.5
Land transport	12.9	-7.4		2.3	-2.4
Water transport	12.8	-11.0		1.9	-2.0
Air transport	11.3	-8.6		1.2	-6.7
Postal services	3.3	-3.9		-0.2	-2.0
Hotels and restaurants	3.9	-4.5		2.7	-1.9
Publishing activities	4.1	-3.5		-0.8	-1.2
Telecommunications	-0.4	0.8		-2.1	-2.7
Computing	6.4	2.2		4.7	2.6

Note: The change in production for service sectors relates to turnover. Note also that the sectors of activity here are defined on the basis of the new NACE rev 2 classification and, accordingly, differ from those included in earlier tables. However, this is unlikely to make much of a difference to the changes in output and employment that they show.
Source: Eurostat, Short-term business statistics

A similar pattern of change in output and employment up to the first part of 2009 is evident in most countries, even if the overall scale of decline differs markedly. In Germany, there was a similarly large disproportionate fall in production in the engineering industries, of between 27% and 29% over the year up to the second quarter of 2009. As in the EU15 as a whole, however, the reduction in employment was very modest in comparison in both electrical equipment and motor vehicles (4% and 2.5%, respectively), while in machinery and equipment, the number employed was actually higher in the first quarter of 2009 than it had been a year earlier (Table 7). There were also increases in employment in both metal products and furniture, where production was down substantially as well, while in basic metals, a decline in output of over 30% was accompanied by employment remaining unchanged. Equally, despite significant reductions in turnover in most cases, the number employed in services sectors either fell relatively modestly or rose.

Table 7: Changes in production and employment by sector in Germany, 2007–2009 (%)

	Production			Employment	
	Quarter 1		Quarter 2	Quarter 1	
	2007–2008	2008–2009	2008–2009	2007–2008	2008–2009
Manufacturing	5.3	-21.6	-21.2	2.6	-0.4
Food products	1.8	-0.1	1.4	0.9	1.5
Drink products	0.1	-7.8	-5.0	-0.8	-3.3
Tobacco products	-31.2	-2.3	1.1	-1.9	-1.9
Textiles	0.8	-28.2	-23.6	-1.9	-5.7
Clothing	-10.4	-24.9	-11.5	-5.2	-8.2
Leather, footwear	1.0	-10.4	1.7	4.5	-1.3
Wood, wood products	1.0	-18.9	-13.7	1.0	-5.3
Paper, paper products	2.1	-11.7	-9.9	0.3	-0.6
Printing	2.4	-4.2	-7.5	0.3	-1.1
Chemicals	0.7	-26.1	-19.3	-0.4	-0.8
Pharmaceuticals	7.7	-0.7	-2.6	0.3	-2.1
Rubber, plastic products	1.5	-21.2	-16.8	2.8	-1.5
Non-metallic mineral products	-2.9	-18.9	-16.1	0.3	-2.3
Basic metals	1.8	-34.1	-36.6	3.4	0.0
Metal products	7.2	-28.0	-27.5	5.3	1.4
Computer, electronic products	15.6	-18.5	-22.2	2.8	-5.9
Electrical equipment	5.0	-26.0	-29.0	3.2	-4.2
Machinery and equipment	8.3	-20.5	-28.4	5.4	2.5
Motor vehicles	4.3	-36.6	-26.9	1.6	-2.5
Other transport equipment	7.5	-21.4	-22.9	3.8	2.4
Furniture	0.9	-17.2	-15.8	0.6	3.7
Other manufacturing	6.0	-6.3	-7.4	3.1	7.0
Electricity, gas	2.7	-5.6	-15.6	-0.2	-1.2
Construction	2.2	-9.5		-1.5	-2.2
Retailing and wholesaling	7.9	-8.9		0.8	-0.7
Land transport	3.7	-7.2		1.0	-1.4
Water transport	10.9	-17.0		1.2	1.5
Air transport	-5.2	-17.2		3.2	1.4
Postal services	3.7	-5.2		1.7	-1.5
Hotels and restaurants	-0.2	-3.7		0.2	-0.7
Publishing activities	5.4	7.6		0.1	3.5
Telecommunications	-7.6	-1.4		0.1	-2.1
Computing	6.6	-4.6		5.9	4.5

Note: Change in production for service sectors relates to turnover.
Source: Eurostat, Short-term Business Statistics

The pattern of change is very similar in France up to the first part of 2009. Again, the decline in output affected the engineering industries more than others and though employment fell in these sectors in the year up to the first quarter of 2009, the extent of the fall was considerably less than the decline in output (around 4%–5% in electrical equipment and motor vehicles and machinery and equipment). The reduction in employment was also relatively modest in services (below 2% in all sectors).

Table 8: Changes in production and employment by sector in Spain, 2007–2009 (%)

	Production			Employment	
	Quarter 1		Quarter 2	Quarter 1	
	2007–2008	2008–2009	2008–2009	2007–2008	2008–2009
Manufacturing	-0.2	-23.6	-19.2	3.2	-13.5
Food products	2.3	-3.1	1.3	8.8	-6.6
Drink products	3.3	-9.4	-3.8	21.3	-32.5
Tobacco products	-2.0	-5.7	-9.3	-18.7	-23.6
Textiles	-7.5	-32.0	-27.2	-2.0	-27.6
Clothing	1.6	-23.4	-14.7	-12.8	-21.5
Leather, footwear	0.4	-25.4	-22.0	-9.8	-32.6
Wood, wood products	-15.3	-33.1	-24.4	-6.0	-12.2
Paper, paper products	4.6	-14.5	-10.5	3.6	17.4
Printing	0.7	-17.4	-14.3	-6.3	-9.7
Chemicals	0.0	-12.2	-4.6	7.4	-12.9
Pharmaceuticals	6.5	-1.2	-0.3	10.6	-18.2
Rubber, plastic products	-0.7	-29.3	-24.9	5.5	-5.0
Non-metallic mineral products	-10.2	-38.9	-28.8	1.7	-15.8
Basic metals	1.0	-35.4	-32.5	0.8	-23.0
Metal products	-2.8	-30.1	-25.0	2.9	-19.5
Computer, electronic products	6.8	-26.1	-29.1	1.1	-23.9
Electrical equipment	-5.4	-23.3	-31.2	-5.3	-7.0
Machinery and equipment	-3.9	-20.9	-28.6	14.0	-8.7
Motor vehicles	5.6	-49.7	-41.3	-0.9	-10.6
Other transport equipment	2.7	-6.3	-7.0	5.2	-7.5
Furniture	-8.1	-35.0	-34.4	9.8	-21.9
Other manufacturing	0.4	-28.6	-23.4	4.3	-10.6
Electricity, gas	6.4	-10.5	-7.6	-3.6	13.7
Construction	-11.6	-13.7		-0.2	-25.1
Retailing and wholesaling	4.2	-20.2		1.2	-4.7
Land transport	4.0	-17.4		2.0	-5.8
Water transport	3.8	-8.3		2.3	-5.5
Air transport	3.0	-16.6		0.3	-5.8
Postal services	9.5	-8.8		-0.3	-3.2
Hotels and restaurants	1.9	-9.4		0.6	-6.6
Publishing activities	-1.4	-8.9		2.0	-3.5
Telecommunications	2.8	-4.3		-2.9	-2.2
Computing	10.9	-1.1		5.1	1.4

Note: Change in production for service sectors relates to turnover.
Source: Eurostat, Short-term Business Statistics

Spain presents a strikingly different picture. While both the scale and the pattern of decline of production was again similar to that in Germany and the rest of the EU15, the reduction in employment was on a far bigger scale, reflecting the slightly earlier onset of the downturn, which was already evident from mid-2008. in the first quarter of 2009, therefore, employment was substantially more than 20% below what it had been a year earlier in many manufacturing industries, including computers and electronics, basic metals, textiles and clothing and furniture. There was also a decline of a similar size in construction (over 25%). In this case, it was much larger than the fall in output over the same period, though output had also fallen markedly in the preceding year without resulting in significant job losses over the period. The decline in employment in the year up to the first quarter 2009 in this sector, therefore, reflects the fall in output over a two-year period.

The numbers employed also fell by much more than in the rest of the EU15 in services: for each sector for which data are available, a marked fall was recorded over the period, even if in each case it was smaller than the decline in turnover.

The experience of other EU15 countries in the first part of the recession seems to lie somewhere between that of Spain, on the one hand, and that of Germany and France, on the other. (It should be noted, however, that there are no employment data by sector available for Italy or Sweden, or for Ireland, which experienced the largest fall in GDP and employment up to the first quarter of 2009.) This is exemplified by the UK, where – up until the second quarter of 2009 – there was a similar pattern of output decline as in the other EU15 countries examined above; there was a substantial fall in the engineering industries (of around 40% in motor vehicles), but a larger reduction in employment in manufacturing took place than that experienced in Germany, France or by the EU15 as a whole in the year up to the first quarter of 2009. (However, the fall in employment was smaller in the UK than that in Spain, again reflecting in some degree the slightly earlier onset of the downturn in Spain). Employment also fell in services in the UK over this period by more than the EU15 average but again by less than in Spain. Unlike in most of the other countries, however (and Spain in particular), the number employed in construction increased slightly despite a significant fall in output.

In the NMS, the decline in output and employment has generally been smaller than in the EU15. The biggest exception are the three Baltic States which, in overall terms, experienced the largest reduction in output and jobs up to the first quarter of 2009; in these countries, the recession also started earlier than other countries in the region. This was especially true of Latvia, where, as noted above, GDP and employment fell by more than in any other country up to the first quarter of 2009 and where the downturn was already evident in the first half of 2008. Here, the sectoral pattern of output decline was again similar to that in the EU15: in the year up to the middle of 2009, production in machinery and equipment, motor vehicles and other transport equipment fell by well over 50% (and by almost 65% in transport equipment) (Table 9).

Except for the sector of other transport equipment, the numbers employed in Latvia fell considerably in these industries (by as much as 36% in machinery and equipment and 26% in motor vehicles), while there were also large-scale job losses in other sectors (of between 32% and 33% in both textiles and pharmaceuticals) and in construction (as with Spain and Ireland, construction in Latvia had expanded markedly in the preceding years). As in Spain, employment also declined substantially in services, especially in retailing and wholesaling, hotels and restaurants and transport.

Table 9: Changes in production and employment by sector in Latvia, 2007–2009 (%)

	Production			Employment	
	Quarter 1		Quarter 2	Quarter 1	
	2007–2008	2008–2009	2008–2009	2007–2008	2008–2009
Manufacturing	-0.5	-25.2	-20.7	-4.7	-18.4
Food products	-0.8	-11.7	-12.2	-7.0	-13.9
Drink products	1.3	-24.7	-18.0	-7.5	-12.6
Textiles	-4.3	-55.9	-57.2	-10.0	-32.3
Clothing	-7.7	-31.9	-26.6	-12.6	-19.1
Leather, footwear	-42.7			-14.7	-9.3
Wood, wood products	-1.3	-23.5	-3.8	-8.2	-24.7
Paper, paper products	2.2	-23.9	-11.6	2.9	-9.2
Printing	13.8	-28.0	-25.3	-0.7	-18.2
Chemicals	-11.7	-27.1	-18.5	-19.7	-3.0
Pharmaceuticals	4.3	-16.7	-5.3	4.7	-33.0
Rubber, plastic products	-5.5	-34.5	-35.8	-4.7	-27.8
Non-metallic mineral products	-3.4	-20.3	-30.4	-2.5	-28.8
Basic metals	-7.9	-8.3	-18.5	-0.1	-2.6
Metal products	15.7	-35.8	-38.1	14.3	-20.2
Computer, electronic products	7.2	-20.4	-33.5	-7.3	-14.8
Electrical equipment	-27.3	-24.9	-37.7	3.2	-25.8
Machinery and equipment	15.4	-45.7	-52.8	-8.9	-35.6
Motor vehicles	0.8	-52.5	-59.5	12.7	-26.3
Other transport equipment	16.5	-35.4	-64.3	-10.8	-6.3
Furniture	-29.8	-24.2	-17.2	-18.7	-24.9
Other manufacturing	-2.4	-25.6	-14.4	-15.6	-15.8
Electricity, gas	4.5	-12.6	-8.6	-0.1	-1.6
Construction	4.4	-19.9		9.5	-22.6
Retailing and wholesaling	12.0	-34.7		-1.3	-10.3
Land transport	16.0	-22.2		-17.6	-9.2
Water transport	9.1	26.3		2.5	-0.6
Air transport	25.0	-8.6		-16.2	-9.0
Hotels and restaurants	7.5	-23.0		3.5	-12.7
Publishing activities	20.5	-43.7		2.2	-9.1
Telecommunications	8.7	-2.9		0.3	-3.9
Computing	28.8	-14.9		8.6	-1.3

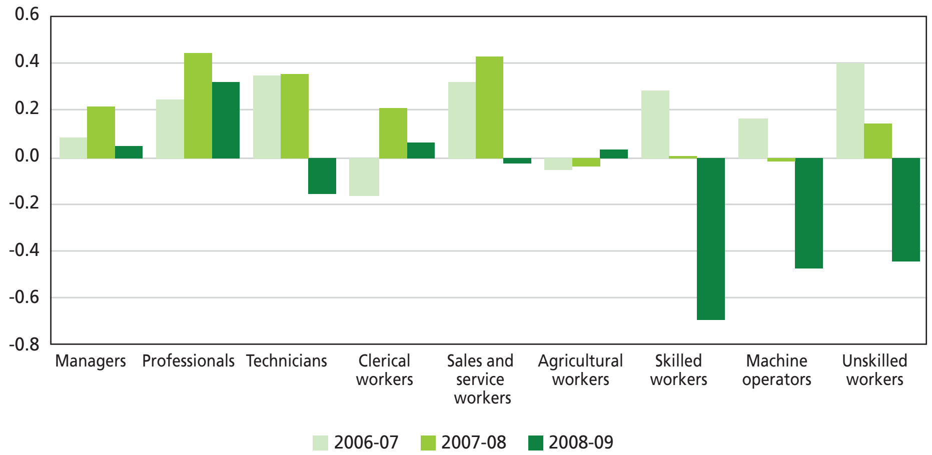
Note: Change in production for service sectors relates to turnover.
Source: Eurostat, Short-term Business Statistics

The two key lessons to be drawn from examining developments at sectoral level over the initial phases of the present recession are, firstly, that the despite the specific origins of this downturn, the pattern of decline is similar to that evident in earlier downturns. Secondly, to significantly varying extents across countries, the effect on jobs of the fall in output by the first part of 2009 at least was very modest in relation to the scale of that fall. This is largely because the fall in output was mainly concentrated in this period and was evident only to a limited extent in the latter part of 2008. How far this fall will eventually feed through into employment is likely to depend critically on events during the rest of 2009 and expectations about what will happen subsequently.

Shifts in the occupational structure of employment

The differential pattern across sectors of the decline in employment up to the first quarter of 2009 is mirrored in the specific jobs – or occupations – that have been most affected. The reduction in the number employed in the EU15 between the first quarter of 2008 and the first quarter of 2009 was very much concentrated among skilled, semi-skilled and lower-skilled manual workers: taken together, this was responsible for almost the entire decline in employment that occurred over this period (Figure 8).

Figure 8: Contribution of occupations to the overall change in employment in the EU15, 2006–2009 (%)



Note: Figures for France and Luxembourg are excluded. Data indicate change as a percentage of the total number employed in base quarter.

At the same time, there was continuing growth in employment among managers and, above all, among professionals, as well as a small increase in the number of clerical and office workers and sales and service staff in employment. This is very much line, it should be noted, with the pattern of occupational shifts in employment during the downturn in the first part of the present decade (reviewed above).

A similar pattern is evident in most Member States. In Ireland, where the decline in overall employment was larger than elsewhere in the EU15, there was a fall in the number employed in all occupational groups; however, this was still much larger among manual workers of varying skills levels, particularly the highest skilled, than among higher-level occupations.

A decline in the number of skilled manual workers employed also contributed considerably to the reduction in employment in the year up to the first quarter 2009 in Latvia, where as seen above, job losses were on a larger scale than anywhere else in the EU. Here, the decline in skilled manual employment was responsible for a decline in the total number employed of 4%, while a reduction in both semi-skilled and lower-skilled workers together contributed almost the same amount. This reduction, however, was offset to some extent by an increase in professionals and sales and service workers in employment. An additional point to note is that, unlike in previous periods, there was only a marginal decline in employment among agricultural workers. This in part reflects the lack of jobs elsewhere in the economy for those working in agriculture to move into, as well as the fact that some of those concerned are in practice in subsistence farming and producing little for sale.

The brunt of the recession in the EU, therefore, up to the first quarter of 2009 at least, has been borne by manual workers and especially skilled manual workers, reflecting the relative concentration of job losses in manufacturing, though also in construction.

Gender and age-related employment effects

Not surprisingly, given the occupational pattern of the decline in employment, men have been hit much harder than women by the recession. The employment rate of men of working age fell by almost 2% in the EU between the first quarter of 2008 and the first quarter of 2009 (Figure 9). The decline in employment among men was especially large in the three Baltic States, and in Ireland and Spain, male employment declining by over eight percentage points in Ireland and over seven percentage points in Spain. This again is in line with the experience in the earlier downturns, as is the fact that female employment declined only slightly (Figure 10). Although there were relatively large falls in Ireland, Spain and Latvia, in each case these were much smaller than for men.

Figure 9: Changes in the employment rates of men aged 15–64, first quarter 2008 to first quarter 2009 (percentage points)

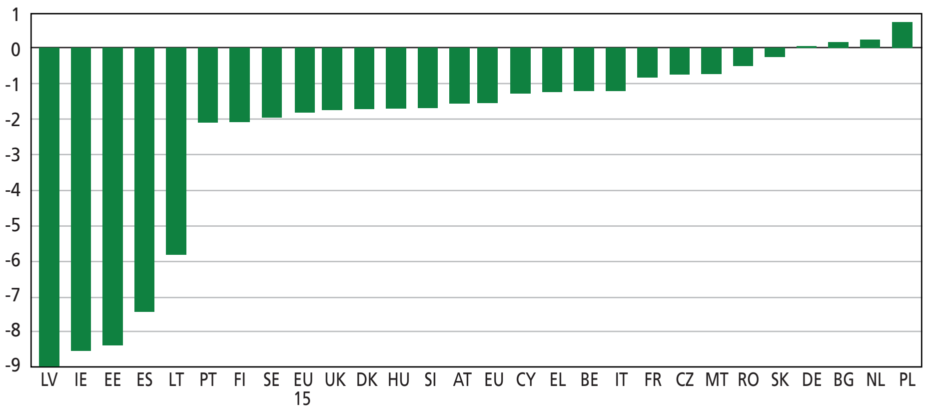
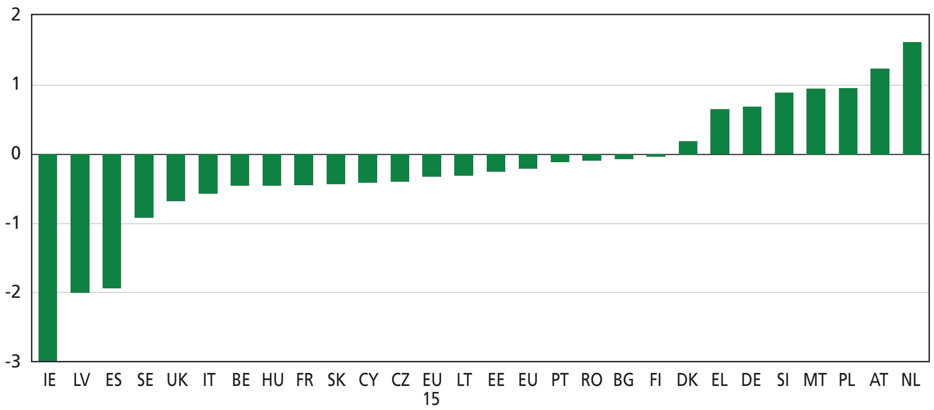
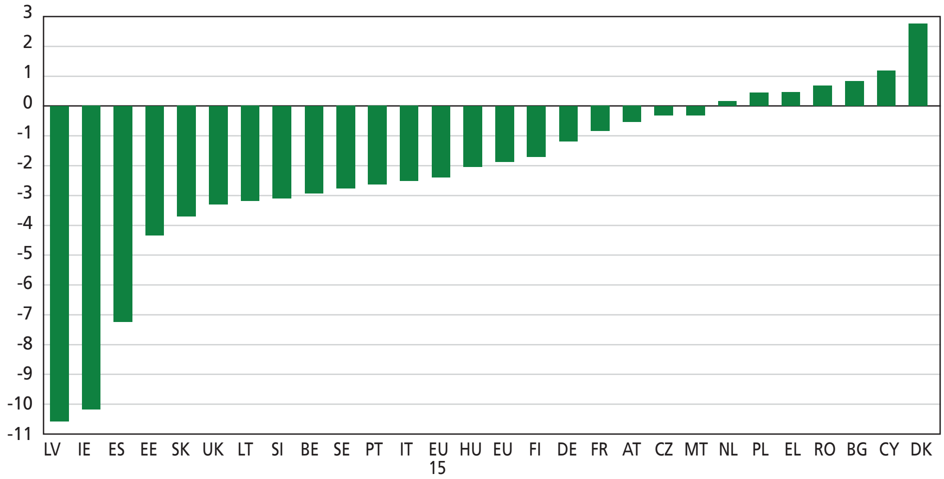


Figure 10: Changes in the employment rates of women aged 15–64, first quarter 2008 to first quarter 2009 (percentage points)



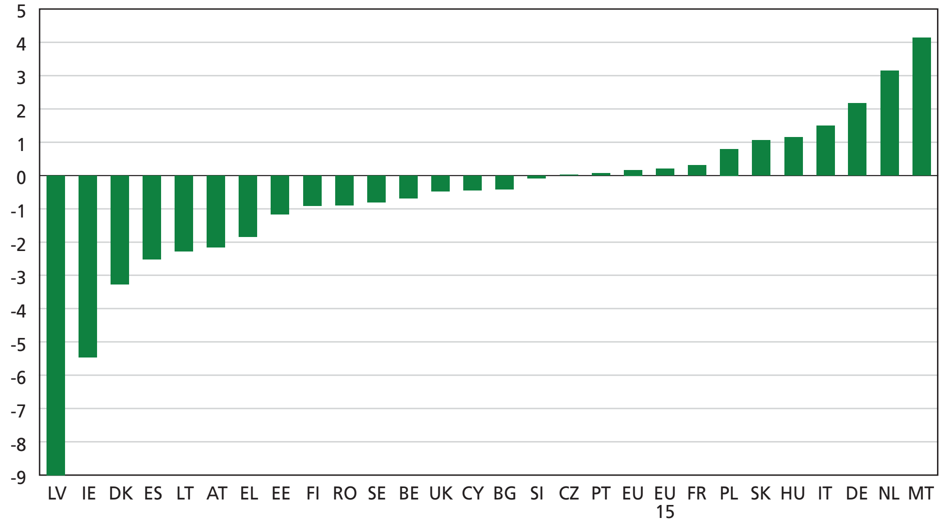
It is also the case that the decline in employment in the early phases of the present recession affected young people aged under the age 25 more than it did older people. The extent of the difference up to the first quarter of 2009, however, was very much smaller than in the early 1990s, though this could change as the recession continues and young people find it increasingly difficult to find a job against a background of declining employment. Between the first quarter of 2008 and the corresponding quarter in 2009, the employment rate of those aged between 15 and 24 years fell by over two percentage points in the EU15, and by slightly less in the NMS (though it fell by over 10 percentage points in Ireland and Latvia) (Figure 11).

Figure 11: Changes in the employment rates of persons aged 15–24, first quarter 2008 to first quarter 2009 (percentage points)



Unlike in the early 1990s, employment among men aged between 55 and 64 years (according to the data up to the first quarter of 2009 at least) has not fallen on average across the EU; however, this is influenced to a large extent by increases in employment in Germany and Italy. In the majority of Member States, the employment rate of men aged 55–64 declined over the year up to the first quarter 2009 (Figure 12).

Figure 12: Changes in the employment rates of men aged 55–64, first quarter 2008 to first quarter 2009 (percentage points)

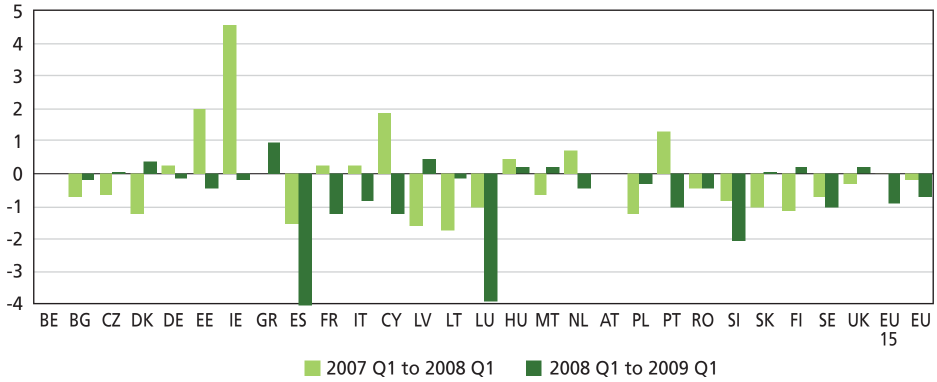


As in the earlier downturn, the employment rate of women aged between 55 and 64 years continued its upward trend over this period.

Temporary jobs

There is some evidence that those employed in temporary jobs have been more affected by the recession than other workers, at least up to the early part of 2009. The proportion of those aged 25 and over in jobs with fixed-term contracts was almost one percentage point lower in the EU15 than it had been a year earlier, though it was down by slightly less in the NMS (Figure 13). This is significant given that such workers accounted for only around 11% of all employees in the EU in 2008. In Spain, the decline was especially large – four percentage points.

Figure 13: Proportion of employees aged 25 and over in temporary jobs, 2007–2009 (percentage point change)



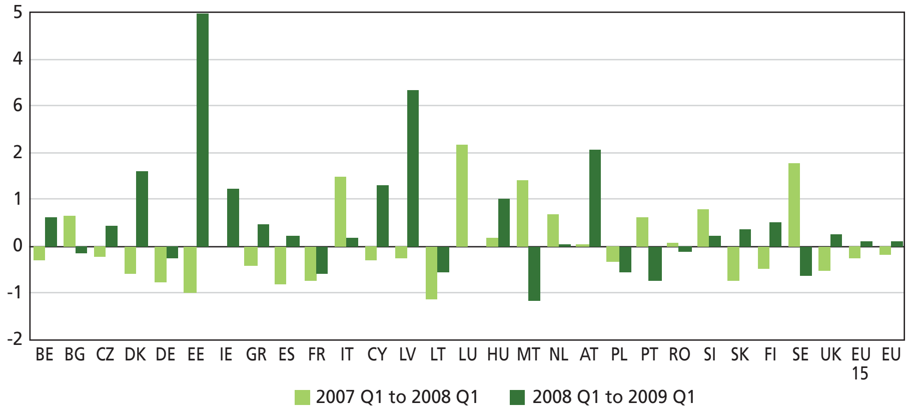
Note: Change for BE is zero in both periods.

Employment in temporary jobs is on a much larger scale among those aged under 25 years in all Member States. Such employment, however, showed less of a tendency to decline and the proportion employed in such jobs increased over the period in almost half the countries, which might reflect the countervailing pressure on employers when recruiting for jobs with fixed-term contracts to take on young people.

Part-time working

As in earlier downturns, there is some evidence that there was a relative increase in the proportion of women in work employed in part-time jobs over the year up to the first quarter of 2009. This was the case in particular in Latvia and Estonia (Figure 14).

Figure 14: Proportion of women in work employed part-time, first quarter 2007 to first quarter 2009 (percentage point change)



The recession so far and labour market prospects

Comparisons with other recessions show that, so far, the current recession is deeper in terms of the decrease in GDP that has taken place. This is reflected in the wider range of both countries and sectors affected. As in previous recessions, the drop in output is most notable in manufacturing and particularly in the producer goods industries, with engineering being hit particularly hard. However, in those service sectors for which data is available, turnover has also declined. In many respects, the scale and the sectoral scope of this recession is similar to the deep recessions experienced in Finland and Sweden in the 1990s, but it extends to most countries in Europe with few exceptions (most notably Poland).

Compared with the fall in EU-wide GDP, the decrease in employment – compared with previous recessions – is so far rather small. This is especially evident in Germany, where the decline in employment in the year up to the second quarter of 2009 was only marginal, even though GDP fell by 6%. If Germany represents one distinctive type of limited employment adjustment to a significant decline in output, Spain represents the other. While output in Spain has declined in line with declines in other EU15 countries, employment has fallen dramatically. There may be many institutional reasons for this, such as the ease with which employers can adjust staffing levels by simply not renewing the many temporary contracts in Spain. However, it may also reflect the fact that the recession hit Spain earlier than it did many other countries, and thus may only serve to illustrate what is yet to come elsewhere.

In the NMS, the decline in output and employment has generally been smaller than in the EU15. The most notable exceptions are the three Baltic States which, in overall terms, experienced a very large reduction in both output and jobs up to the first quarter of 2009. This was especially true of Latvia where the downturn was already evident in the first half of 2008.

Two general lessons can be drawn from an examination of developments at sectoral level over the first phases of the present recession. Firstly, the pattern of output decline is similar to that evident in earlier downturns. Secondly, to significantly varying extents across countries, the effect on jobs of the fall in output by the first part of 2009 at least was rather modest in relation to the scale of that fall. How far the fall in output ultimately feeds through into employment is likely to depend critically on events in the rest of 2009 and expectations about what will happen subsequently. However, without a rapid and robust recovery, the labour market is likely to continue to deteriorate.

Those most affected by the recession (at least up until the first quarter of 2009) have been manual workers, especially skilled manual workers; this reflects the relative concentration of job losses in manufacturing and in construction. As in previous recessions, the employment rate of men has so far fallen more than that of women. It is interesting to note that in May 2009, Eurostat data showed for the first time that the unemployment rate for men was higher than that for women.[5] However, while the employment of women was maintained or even increased during earlier periods of economic downturn, there was a shift during these periods towards more women working in part-time jobs, implying that the change in the employment rate as such tends to overstate the additional amount of work performed by women. However, the increase in the proportion of women in part-time jobs has increased only very marginally over the year up to the first quarter of 2009. Nevertheless, in some countries such as Estonia and Latvia, the increase in part-time working for women has been very significant.

As in previous recessions, the employment rate for young people (those aged between 15 and 24 years) has fallen appreciably more than for those aged over 24 years, but the difference is less than

[5] The small gap remained when the July 2009 figures were published with male unemployment at 9.1% and female unemployment at 9%.

in the 1990s. As the recession proceeds, this might change: young people may experience increasing difficulties in getting a job, particularly from the third quarter of 2009, when a new cohort leaves school. Unlike in the early 1990s, the employment rate among older men (aged between 55 and 64 years) has so far held steady. However, most Member States have seen declines with the average employment rate being held up by increases in Germany, Italy and the Netherlands. As in earlier recessions, the employment rate of older women has continued to increase. However, it should be underlined that in the Member States most affected by the recession, such as Ireland, Spain and the Baltic States, there has been a very significant deterioration in the labour market situation for all demographic groups – young and old, male and female.

While there are some data in the European Restructuring Monitor (ERM) showing that many employees on temporary contracts have lost their jobs, the proportion of these jobs in the labour market has declined only marginally. Evidence from previous serious recessions – not least from Sweden and Finland – shows that at the first signs of a rebound in the labour market, the proportion of temporary workers increases again, as depressed product and labour market conditions impact on firms' incentives to offer temporary contracts and on workers' incentives to accept these offers.

Hard times for the already disadvantaged?

Based on an analysis of the General Household Survey in the UK, Berthoud (2009) examines the differential impact of previous recessions, from the 1980s and 1990s, on non-employment for various groups of people. The main finding is that while some already disadvantaged groups fare worse than average, others do not.

- People with poor educational qualifications, and members of minority ethnic groups, are both exceptionally sensitive to a recession.
- Women, older people and disabled people are less affected by a recession than others. Evidence from this chapter also suggests that this is the case for women and older workers in the EU27.
- There is no consistent pattern suggesting that people living in already disadvantaged regions are either more or less sensitive to a recession than those in more prosperous regions.

Of course this study only examines employment status; a recession may impact on other dimensions of human welfare in a differential manner.

Recent restructuring trends in Europe 2

The European Labour Force Survey (ELFS), the Short-term Business Statistics (STBS) and the European Restructuring Monitor (ERM) are three EU-wide data sources that permit the development of an evidence-based portrait of restructuring in the European labour market during the current economic downturn.

While the ELFS is the principal source of comparable data on labour market outcomes in the EU and has been used extensively as a source in previous editions of the ERM annual report, this account of sector-level employment changes from the ELFS is supplemented with data from the STBS. Availability of detailed 2-digit sector data at the national level in the ELFS has been affected by the transition from the NACE rev 1.1 to the NACE rev 2.0 classification. Although the new classification became operational on 1 January 2008, some countries continue to provide data to Eurostat using NACE rev 1.1, others have adopted NACE rev 2.0, while still others are doublecoding; in addition, some other transition issues exist. Until such time as there is a generalised adoption of NACE rev 2.0 by Member States, it will not be possible to present up-to-date comparative data on employment levels by sector, at a usefully detailed level, using the ELFS as a source.

It should be noted that the available STBS data for the first quarter of 2008 to the first quarter of 2009 is partial both in terms of country coverage (five Member States are missing, including Italy) and in terms of sector coverage (many service sectors are excluded, as are agriculture, health, education and public administration). The STBS data does however provide indicative coverage of many of the sectors where employment has been most impacted by the downturn (e.g. construction, retail, auto manufacture). More importantly, they offer a breakdown at NACE 2-digit level and allow, in particular, the differentiating of employment trends within the large manufacturing sector.

Neither the ELFS nor the STBS report job loss due to restructuring. For this reason, the ERM is a valuable source of data as the ERM factsheets capture both quantitative data (principally announced job losses or gains) and qualitative data (short-case narratives, information about the type of restructuring etc.) on cases of large-scale restructuring. In order to benefit from the most up-to-date information, ERM data cited relate to the period from the first quarter of 2008 to the end of the second quarter of 2009. It should also be noted that the ELFS/STBS data cited use the NACE rev 2.0 sector codes while the ERM data relies on the older rev 1.1 codes; for the principal sectors covered, the differences are generally marginal.

In this section, the above data sources are used to throw some empirical light on the extent of structural change in terms of employment by sector. The objective of this descriptive analysis is first to provide an outline of the impacts of the economic downturn during 2008–2009, to illustrate how these trends are manifesting themselves among the different EU regions and Member States; it then seeks to use ERM data and case examples to draw out some suggestive associations between what is happening in terms of restructuring at the firm or organisation level and what the ELFS/STBS data show to be happening at the macro level.

Recent developments in sector-level employment in Europe

Employment data by sector

According to ELFS data, net employment levels in the EU27 declined by 2.5 million between the first quarter of 2008 and the first quarter of 2009, a decrease of just over 1%. Due to the revisions of NACE mentioned above, it is not possible to trace employment change by sectors before and after 2008. The revision has also caused some delays in the delivery of data since 2008. Shortly before going to press, Eurostat made some preliminary ELFS figures available for 22 Member States – at a high level of sector aggregation, and with the exclusion of a few, very small, sectors – that permit the drawing of a rough but reliable picture of employment change in sectors between the first quarters of 2008 and 2009.

Table 10: Absolute and relative employment change in 24 Member States between first quarter 2008 and second quarter 2009 by sector (NACE 2.0 classification), preliminary figures

	Absolute change (thousands)	Relative change (%)
Agriculture, forestry and fishing	-314.1	-3.0
Mining and quarrying	-29.6	-3.6
Manufacturing	-1,794.4	-5.3
Electricity, gas, steam and air-conditioning supply	110.3	8.3
Water supply; sewerage, waste management and remediation activities	9.6	0.7
Construction	-839.1	-5.2
Wholesale and retail trade; repair of motor vehicles and motorcycles	-395.1	-1.4
Transportation and storage	-95.4	-1.0
Accommodation and food service activities	-127.2	-1.6
Information and communication	-97.5	-1.8
Financial and insurance activities	38.6	0.7
Real estate activities	53.9	4.2
Professional, scientific and technical activities	227.1	2.5
Administrative and support service activities	296.8	4.3
Public administration and defence; compulsory social security	53.5	0.4
Education	245.5	1.8
Human health and social work activities	585.1	3.3
Arts, entertainment and recreation	12.8	0.4
Other service activities	-93.2	-2.0
Total	-1,937.4	-1.0

Source: ELFS

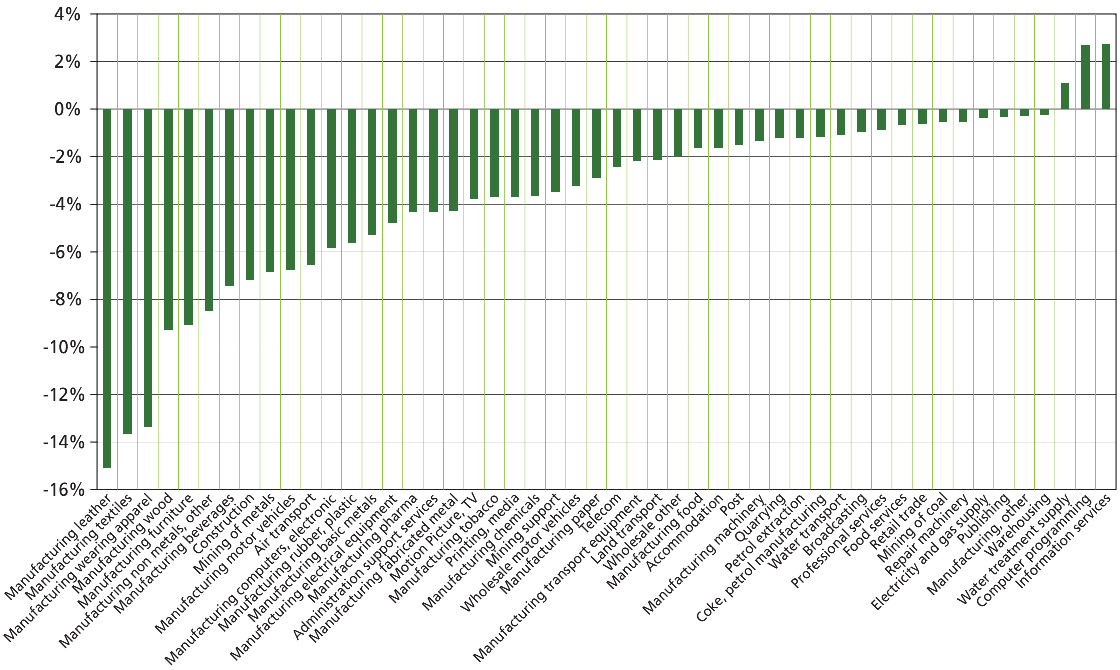
Note: The figures are preliminary; some very small sectors have been excluded and the data does not include France, Ireland and Luxembourg. Data cover all persons in employment aged 15 years and over.

Table 10 confirms many of the sector trends predicted in the analysis in Chapter 1. Between the first quarters of 2008 and 2009, most net decline in employment – in both absolute and relative terms – was in manufacturing and construction. However, employment has even fallen in some service sectors such as accommodation and food services and wholesale and retail. Employment is still growing in professional, scientific and technical activities, and sectors that are predominantly public, such as health and education.

With no finer sector aggregation possible using the ELFS, the STBS gives more detail – in particular, in relation to subsectors within manufacturing. Despite its more limited coverage, the STBS estimates even larger net job losses, of 3.3 million between the first quarter of 2008 and the first quarter of 2009 for those 22 Member States for which data are available. Apart from differences in survey instruments or unit of observation, other likely reasons for discrepancies are that the sectors covered by the STBS (notably manufacturing, transports, retail and certain service sectors) are those that suffered the greatest proportion of job loss, and that countervailing job gains in some service sectors may not have been captured.[6]

Net employment losses tend to be greater in relative terms in those sectors that have experienced a long structural decline dating back to the 1970s. At the top of the list of the sectors most affected in relative terms are manufacturing of leather, textiles and wearing apparel. Each of these sectors suffered net employment decreases of 13% or greater. Given their small proportion of overall employment, however, the impact of these sectors on the aggregate figure is less significant. Net employment levels have declined by less than 300,000 in these three sectors throughout Europe since the beginning of 2008. This compares to the 900,000 decrease in employment in construction alone. Only water treatment supply, computer programming and information services have generated positive employment change during the period.

Figure 15: Percentage change in employment in the EU from first quarter 2008 to first quarter 2009, by sector



Source: Eurostat, Short-term Business Statistics.

Together, the 20 sectors with the greatest net employment loss in absolute terms account for almost 2.95 million job losses and represent over 90% of total net employment decline in the sectors and countries covered in the STBS between the first quarter of 2008 and the first quarter of 2009 (Table 11).

Even though administration and support services constitute a large sector (it represents 9% of all employment in the STBS sectors, and is third in importance after construction and retail trade) and aggregates a range of activities (including employment agencies, advertising, travel agencies and call-centre activities), the level of reduction of employment in this sector is very significant. In six of the

[6] Italy, Estonia, Ireland, Malta and Latvia are not included in the STBS data.

22 countries in Table 11 (Austria, Belgium, the Czech Republic, Finland, Germany and the UK), this sector accounts for the greatest number of absolute job losses and is in second position of top job loss sectors in four more countries (Denmark, Hungary, Slovakia and Spain).

Table 11: Total net employment loss in top 20 sectors for employment decline in the EU

NACE rev 2	Sector	Total job losses (thousands)	(% of total)
F	Construction	-912	28.0%
N	Administration and support services	-381	11.7%
G46	Wholesale: other	-179	5.5%
C29	Manufacture: auto	-146	4.5%
C14	Manufacture: wearing apparel	-135	4.1%
C25	Manufacture: fabricated metal products	-134	4.1%
C23	Manufacture: non metals, other	-105	3.2%
G45	Wholesale: auto	-103	3.2%
G47	Retail trade	-93	2.8%
C31	Manufacture: furniture	-86	2.6%
C16	Manufacture: wood	-85	2.6%
H49	Land transport	-83	2.6%
C22	Manufacture: rubber, plastic	-82	2.5%
C13	Manufacture: textiles	-80	2.5%
M	Professional services	-69	2.1%
C26	Manufacture: computers, electronic	-64	2.0%
C27	Manufacture: electrical equipment	-62	1.9%
C10	Manufacture: food	-58	1.8%
C24	Manufacture: basic metals	-49	1.5%
C15	Manufacture: leather	-48	1.5%

Source: Eurostat, Short-term Business Statistics
Note: Italy, Estonia, Ireland, Malta, Latvia are not included. STBS data does not cover all sectors (among others, agriculture, health, education, financial intermediation, other service sectors and public administration are excluded).

Construction is by some margin the sector with the greatest absolute job loss across Europe – a total loss of 912,000 jobs, representing over 7% of sector employment in the countries covered. The collapse of the Spanish construction boom is a major contributory factor. Sectoral employment levels declined by over 818,000 in Spain. Three other countries in which construction is at the top of the list of the most affected sectors are Hungary, Lithuania and Portugal.

Employment levels decreased by 146,000 in the manufacture of motor vehicles, which represents 6.8% of sector employment accounted for in the STBS. This figure would undoubtedly have been higher without public policy interventions such as national car scrappage schemes and subsidised short-time work.

The sector that featured most commonly (12 times) in the lists of top net employment loss by country was the combined sector of administration and support services.

Short-term adjustments in working-time and employment

Adjustment in employment is not the only means of coping with the adverse effects of a recession. Throughout Europe, many companies have reduced their working time in order to retain as much as possible of the productive core of staff in anticipation of resumed demand. Some part of the working time reductions is paid for by the firm and its workers or, in some Member States, with some public support. Chapters 3 and 5 provide numerous examples of short-time working schemes. The STBS data also measure the number of hours worked in each manufacturing sector.[7]

Figure 16: Percentage change in total working hours and in employment, from first quarter 2008 to first quarter 2009, in manufacturing sector of selected Member States by country

Notes: Working time is measured as the total number of hours worked in each sector in each country and the employment figures are headcounts. Bars represent the percentage change in total hours worked and employment for the manufacturing sector (NACE sectors C10–C35), from Q1 2008 to Q1 2009.
Source: Eurostat, Short term business statistics; last updated in August 2009

During the recession, as consumer demand has dropped, companies have reduced output. This in turn has necessitated adjustments to the main inputs to production, which include – on the labour side – employee numbers, working time and wages. Figure 16 compares the decline in overall hours worked between the first quarter of 2008 and the first quarter of 2009 with the decline in employment, in the manufacturing sector of selected Member States. Assuming no change in average hours worked, the size of the two bars representing overall hours and employment should be the same.

As can be seen, there are significant differences between countries. In Denmark, France, Spain and the UK, the reduction in employment has been higher than the reduction in hours worked. All other countries have a more pronounced reduction in working time than in employment. The case of Germany – where virtually all adjustment to the end of the first quarter of 2009 had taken place via working hours reductions – reflects the developed framework of negotiated working time flexibility in that Member State as well as the heavy reliance on state-supported short-time working schemes (*Kurzarbeit*), especially at the height of the crisis. In March 2009, around 1.1 million German workers were working subsidised reduced working hours. By some estimates, without this policy measure, over 350,000 German workers would have been laid off (Zeit Online, 2009a and 2009b). Similar

7 Figures for working hours are only available for manufacturing and construction. Neither the wholesale trade nor services are covered. Figures are available only for the following countries: Austria, Bulgaria, Cyprus, the Czech Republic, Denmark, Finland, France, Germany, Greece, Lithuania, Luxembourg, Portugal, Slovakia, Spain, Romania and the United Kingdom (Luxembourg and Cyprus have only very few sectors covered).

interventions, such as partial unemployment (*chômage partiel*) in France, have helped to safeguard jobs in other countries – in particular in the automotive industry.

The same holds true for Austria where working time decreased by over 6% while the manufacturing workforce only declined by 1.3%. The biggest adjustments were made in Lithuania (with respective decreases of 19.6% and 15.2% in total working time and employment), Spain, Romania, Czech Republic and Bulgaria. Of these countries, in Spain alone was the impact on employment greater than on total working hours.

The preference for working time reductions – largely in the form of temporary lay-offs – over redundancies appears particularly marked in the case of Finland. As early as January 2009, the Finnish Ministry of Employment and the Economy estimated that 46,000 people in 4,100 companies had been put on temporary layoff (Miettinen, 2009).

Restructuring in Europe: evidence from the ERM

The ERM dataset is based on news and media reports of individual cases of restructuring identified by a network of national correspondents in the EU27 and Norway. [8] This section reports on ERM cases recorded during the 18-month period between 1 January 2008 and 30 June 2009, looking at the specific patterns of restructuring that emerged during the period and comparing the period as a whole with earlier ERM data from 2002–2007. One specific objective is to ascertain to what extent restructuring activity during the current downturn differs from that in the previous period of expansion. Just under 3,000 cases of restructuring were added to the dataset during this period, around 70% of which were cases of job loss.

Though caution is always urged regarding the representativeness of the ERM data, it is important to also acknowledge the value of the dataset. It provides a large number of identifiable cases of restructuring – involving named companies and organisations – which have been collected, edited and published in a consistent fashion. It includes basic quantitative data on individual cases (announced job losses and job creation, total employed in a business or geographical unit) as well as qualitative information regarding the type of restructuring involved (offshoring, outsourcing, or internal restructuring). It also provides a basic narrative of each case including the stated reasons for the restructuring, the type of jobs affected, positions of the social partners and other relevant contextual information. Given the rapid onset of the economic crisis in the second half of 2008, ERM data can provide an interesting complement to standard labour market data and can show the contours of the crisis through the prism of major restructuring events.

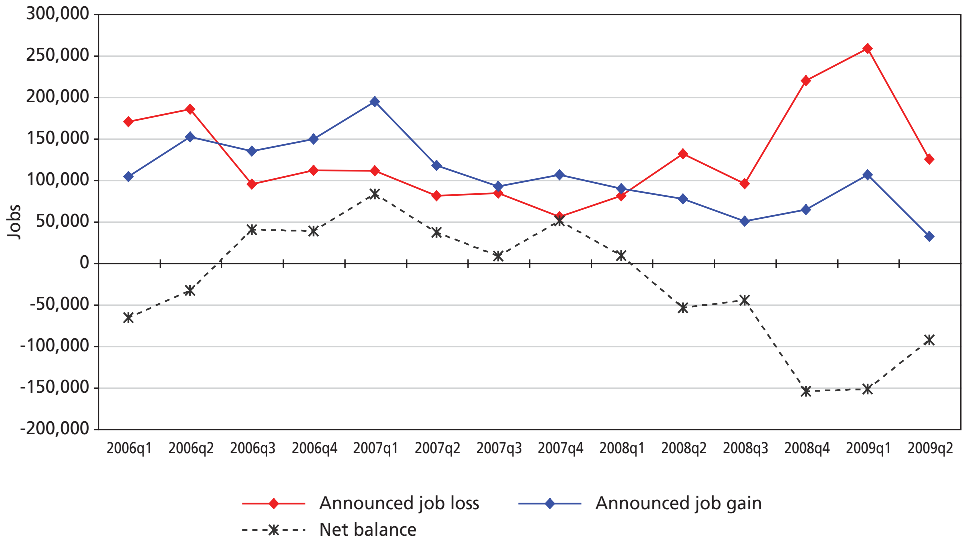
What follows is a descriptive portrait of recent restructuring activity in Europe outlining the incidence of restructuring job loss and job creation by country, region, sector and by type of restructuring. It also draws on the mini-narratives of individual cases to illustrate emerging restructuring themes (e.g. creative destruction in the retail sector) or to highlight interesting or representative cases (serial restructuring in banks affected by the subprime crisis). The approach is selective and somewhat impressionistic but uses the ERM to 'colour in' the portrait of labour market changes outlined earlier on the basis of ELFS/STBS data; the same sectors feature prominently in all three data sources – construction, automotive and retail.

[8] While this is an innovative approach to capturing data on EU-wide restructuring activity, it is also inherently open to certain biases that are set out in more detail in the Annex.

Overview

After recording more announced job gains than losses in 2007, ERM data for the most recent 18-month period registers very clearly the impacts of the economic crisis. Excluding cases of international restructuring (those marked 'World' and 'EU' in the dataset), total job losses from restructuring captured by the ERM amounted to over 900,000 jobs. Just over 400,000 new jobs were announced in the same period. The impacts of the crisis were most obvious in the last quarter of 2008 and the first quarter of 2009, in both of which over 200,000 job losses were announced. However, as Figure 17 illustrates, the trend of rising job losses began in the last quarter of 2007, while the recent period of net employment losses on ERM coincides with the advent of the recession in the second quarter of 2008.

Figure 17: Summary of ERM announced job loss and gain by quarter (first quarter 2006 to second quarter 2009)

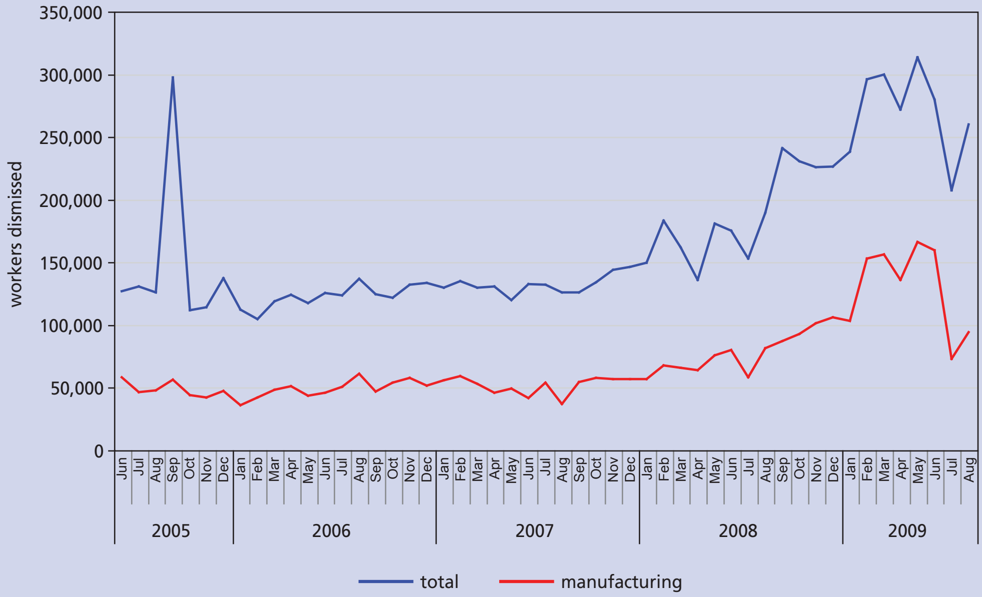


Source: European restructuring monitor

Job loss in the United States

The chart below plots the number of workers laid off per month up to July 2009 in the United States. It underlines that the downturn in the US economy preceded the full onslaught of the financial crisis of the early autumn of 2008. Recent levels of job loss are historically high. During the 20 months from December 2007 through to July 2009 (i.e. since the US was officially defined to be in recession) the total number of mass layoff events was 41,979, and the number of workers affected was 4,297,329. While the data from the most recent month of July 2009 may appear somewhat encouraging, the number of weekly layoff events reached its highest July level in the history of the Mass Layoff Statistics (data are available back to 1995).

Monthly layoffs in the United States



Source: Mass Layoff Statistics, the US Bureau of Labour Statistics
Note: The source of this data is the Mass Layoff Statistics. It is based on administrative data on layoff events involving 50 or more workers. See the US Bureau of Labour Statistics website for details and the ERM annual report for 2006 (Restructuring and employment in the EU: Concepts, measurement and evidence)*, for a commentary. The very short sharp peak in summer of 2005 was due to the impact of Hurricane Katrina on New Orleans.*

So far in 2009, the number of workers affected increased over the year in all four major regions, with the West experiencing the largest increase. Since the onset of the recession, practically all sectors of the economy have seen historically high levels of job loss. In July 2009, nine of the 19 major industry sectors reported programme highs for the month of July: construction; wholesale trade; retail trade; finance and insurance; professional and technical services; management of companies and enterprises; administrative and waste services; health care and social assistance; and accommodation and food services.

The unemployment rate in August was 9.7%. Since the recession began in December 2007, the number of unemployed persons has risen by 7.4 million, and the unemployment rate has grown by 4.8 percentage points.

Job loss in ERM restructuring cases

The country with the largest restructuring activity recorded by the ERM in 2008–2009 was the UK, where over 200,000 job losses were announced over the period. An indication of the sharp increase in restructuring activity during the economic downturn is that total job losses were less than one third of this level for the two highest ranking countries (France and UK) in 2007.[9] The UK was also the country with the largest number of individual job loss cases (388).

[9] Though obviously over a shorter timeframe

Table 12: Member States experiencing the greatest job loss, 2008–2009

Country	Cases	Total job loss announced
UK	388	205,156
France	148	136,987
Germany	117	104,839
Poland	172	78,187
Italy	88	46,366
Sweden	156	40,576
Czech Republic	102	40,374
Romania	67	37,916

Source: ERM

The larger Member States figure prominently on the list of announced job losses. In 2008–2009, Sweden and the Czech Republic also recorded very substantial job losses, in both cases centred on manufacturing and in particular auto manufacturing and related activities. For reasons of size bias outlined in the Annex, auto manufacturing cases are more likely to be captured by the ERM.

Table 13: Regions with greatest announced job losses, 2008–2009

Country	NUTS-2 region	Region name	Cases	Job loss
Poland	PL22	Slaskie	27	11,911
Ireland	IE02	Southern and Eastern	45	11,172
Poland	PL32	Podkarpackie	21	8,672
Italy	ITC1	Piemonte	22	6,520
Czech Republic	CZ08	Moravskoslezsko	16	6274
Sweden	SE23	Vastsverige	22	5,386
Poland	PL12	Mazowieckie	15	4,999
Czech Republic	CZ02	Stredni Cechy	6	4,995
Belgium	BE21	Prov. Antwerpen	16	4,941
Spain	ES51	Cataluña	23	4,910

Source: ERM

The traditional industrial Polish region of Slaskie (Upper Silesia) heads the list of announced job destruction – and also of job gains – in 2008–2009. Over half of job losses in this region took place in two heavy manufacturing sectors: basic metals and machinery/equipment.

The dominant form of restructuring in 2008-2009 – as in previous years – was 'internal restructuring', the standard catch-all description for all forms of restructuring that do not fall into the other more specific categories of restructuring job loss (mergers and acquisitions, bankruptcy/closure, outsourcing, relocation or offshoring). Internal restructuring accounted for half of all cases in 2008–2009 (up from 36% in 2002–2007). The second most common form of restructuring was 'business expansion' (constituting 25% of cases in 2008–2009), the only ERM restructuring category that captures announced job creation. Reflecting the onset of the crisis, however, the proportion of cases in this category was in sharp decline from 2007, when it accounted for over half of all ERM cases.

In the smaller restructuring categories, there were also significant shifts with a sharp rise in cases of bankruptcy or closure and a decline in cases of offshoring, outsourcing and relocation. This again is consistent with expected patterns of behaviour during an economic downturn – higher levels of business failure and retrenchment and less emphasis on expansion or diversification via offshoring and relocation.

Bankruptcy: two case studies

The proportion of job loss attributed to bankruptcy and/or closure rose sharply in 2008–2009 compared with previous years (rising from 14% to 21% of all ERM job losses). It seems reasonable to believe that this is one direct impact of the current recession, especially given its financial nature. Cases of bankruptcy peaked in the period between November 2008 and January 2009. They have reduced subsequently but still remain above trend and national administrative data sources confirm the rising level of insolvencies.[10]

The factors leading to this increased incidence of restructuring resulting from business failure are not difficult to identify. Reduced demand, difficulties in accessing credit and receiving payment are all customary features of a recession that make trading difficult even for stronger companies. In the most recent period, a combination of low interest rates, easy credit and excessive debt or leverage may also have weakened the financial foundations of many companies by encouraging them to overextend themselves. Firms that have already over-borrowed or are structurally weak may not have the commercial resilience to withstand a more challenging commercial environment during a recession.

ERM cases of bankruptcy/closure 2008–2009, by month

Source: ERM

Clearly, the ERM restructuring category of 'bankruptcy/closure' differs in some vital respects from other more positive or developmental forms of restructuring. Cases of bankruptcy can be expected to have more serious consequences for the workers losing their jobs since a company going out of business may have limited possibilities of providing financial compensation or practical support. Bankruptcy may also be more

[10] See, for example, 2009 first quarter data from the UK Insolvency Service http://www.insolvency.gov.uk/otherinformation/statistics/200905/index.htm

traumatic because it is more sudden and unplanned. In some cases, such as the example of XL Leisure (a package holiday operator in the UK) described here, events proceed at such a pace that standard information and consultation requirements are bypassed and employees or their representatives left with no voice or role in shaping unfolding events. Finally, unless administrators are successful at selling off a business as a going concern, job loss is likely to be swift, definitive and may affect a company's entire workforce.

The different national legal codes make extensive legal provision for businesses that fail through bankruptcy, with the emphasis primarily on securing the rights of creditors (which may be achieved by maintaining the business as a going concern). However, focus is also placed on ensuring that workers in failing businesses receive pay and redundancy entitlements. State agencies such as FOGASA (Spain) and the Insolvency Service (UK) fulfil this latter responsibility, in particular in situations where bankrupt companies no longer have the means to deal with employee pay or redundancy compensation claims. It is rarely the case, however, that employees succeed in availing of more than limited, statutory entitlements in such situations; they may also suffer other penalties (e.g. loss of positive working time account balances).

Recent large-scale restructuring cases at XL Leisure Group and Martinsa-Fadesa,[11] one of the largest Spanish construction companies, illustrate contrasting approaches to managing the consequences of business failure within distinctive national legal frameworks.

XL leisure Group, UK

Eleven companies within the XL Leisure Group were placed in administration at 01.00 on 12 September 2008 and ceased commercial operations, leaving thousands of UK holidaymakers stranded in airports across Europe and hundreds of employees redundant. The company had been under financial strain since 2007, when a management buy-out led by Philip Wyatt, the group's CEO, left the group highly leveraged with a significant amount of debt on its balance sheet. The company then expanded further via the acquisition of French and German subsidiaries. Though the CEO emphasised the devastating impact of fuel prices on the company's profitability, the most obvious reason for the company's collapse was that it had generated a debt load of approximately GBP 400 million that became unsustainable in a context of the credit crunch and nervous creditors.

In principle, the primary objective of the administration process in the UK is to rescue a company as a going concern. Because of XL Leisure's large debt, unwilling lenders and the absence of any alternative investor, the company's administrators pursued instead the secondary objective of maximising returns to preferential creditors through the sale of the company's brands and assets. Given the scale of the company's debt, employees have not so far benefited from these disposals and have had to rely instead on modest, capped, statutory pay-outs from the Insolvency Service.

Though the group's difficult financial situation had been common knowledge throughout 2008, at no stage did company management inform or consult with the two staff unions –

[11] This section is based on forthcoming EMCC case studies, *The impact of bankruptcy on restructuring in the UK tourism sector: XL Leisure* and *Insolvency and restructuring in the Spanish real estate and construction sector: Martinsa-Fadesa*.

the British Air Line Pilots' Association (BALPA) and Unite – about possible restructurings. According to legislation, the duty to inform and to consult employees prior to dismissal applies in insolvency cases unless there are special circumstances. Insolvency itself is not such a circumstance, given that employers are aware of the financial difficulties of their businesses. However, the sanctions for failure to comply with notification requirements (up to GBP 5,000 in the UK) are unlikely to serve as much deterrence to companies in such situations.

Unions were informed of the job losses in the early hours of 12 September 2008 and employees were advised that they had been made redundant with immediate effect on arriving for work. In theory, XL Leisure employees could have taken proceedings for unfair dismissal or sought protective award for lack of consultation in relation to their dismissal but given the company's financial situation pay-outs would have been limited to statutory levels in any case.

Administrators in the XL Leisure case pointed to a potential mismatch between the consultation requirements and insolvency legislation and noted that in situations of financial distress, redundancy notification and consultation with employee representatives in advance is considered to be difficult if not impossible. They also reported that such bad restructuring practices are more likely to prevail in the travel industry because of competitive pressures in an oversupplied market and because of the seasonality of cash-flows.

In total, the collapse of XL Leisure led to 1,525 immediate dismissals. This number rose to 1,698 by the end of 2008 as a skeleton staff was retained to ensure the orderly winding down of the company.

Martinsa-Fadesa, Spain

A more orderly example of insolvency-led restructuring is the case of Spanish construction group Martinsa-Fadesa, which filed for voluntary administration in July 2008. As in the case of XL Leisure, corporate activity and increased debt levels played an important role. The company's collapse came only nine months after the debt-financed takeover of Fadesa by the smaller group Martinsa. Extensive debts arising from the acquisition (group debt was over €5 billion) combined with more restrictive lending by banks meant that the company could not address cash-flow problems arising from the abrupt collapse in demand for Spanish property. The company's asset base – a Spanish land and property empire notionally valued at over €10 billion – offered limited reassurance to banks or potential investors.

The company has however remained operational and has used the provisions of Spanish insolvency law to undertake restructuring while temporarily protected from creditors' claims. The voluntary administration process (*concurso voluntario de acreedores*) also allows companies to discount some debts by 50% and delay repayment of others for up to five years.

While in administration, the company has conducted two waves of collective redundancies, one in August 2008 (when 312 workers were affected) and a second in January 2009 (with 259 workers affected). In both cases, the job losses were based on agreement with unions in accordance with Spanish redundancy procedures (*expediente de regulacíon de empleo*, ERE) which heavily incentivise such agreed settlements. The job losses affected in particular the company's headquarters in La Coruña, where fewer than 20 of the 450 staff employed in 2006 remained. In total, the company's direct workforce was reduced from 821 to 250 employees.

Workers subject to collective dismissal in Spain are entitled to compensation of a minimum of 20 days' pay for each year of service, which in the case of insolvency is covered by the national wages guarantee fund (FOGASA). In the first wave of redundancies, the company agreed a more generous compensation package of 36 days pay for each year of service. Just over half of this will be paid by FOGASA, subject to repayment by the company by 2015.

Many other workers involved in Martinsa-Fadesa projects will not have been so fortunate. A 'core–periphery' employment model is especially prevalent in the less regulated construction sector. The extensive network of self-employed tradesmen or those working with smaller subcontractors for Martinsa-Fadesa are less likely to benefit from severance packages. Indeed, the crisis in the sector has thrown into sharp relief the increased vulnerability in a downturn of non-core, contract employment as well as of certain categories of workers – younger workers and migrants – overrepresented in the construction sector.

On a more positive note, if the court-appointed administrators are successful in devising a restructuring and debt-repayment schedule that is satisfactory to creditors, Martinsa-Fadesa has a chance of surviving its insolvency, albeit with a significantly reduced workforce.

The table that follows concentrates exclusively on restructuring cases involving job destruction and looks at the share of announced job losses attributed to the different forms of restructuring at country level. The second part of the table relates the extent to which restructuring during the most recent period 2008 to the end of June 2009 has differed from that in the prior ERM cases dating back to 2002.[12]

[12] 2004 in the case of the Member States that acceded in 2004 or 2007.

Table 14: Proportion of total announced job loss by country and type of restructuring (%)

ERM 2008-2009	AT	BE	CZ	DE	DK	Baltic States	ES	FI	FR	HU	IE	IT	NL	NO	PL	PT	RO	SI	SK	SV	UK	Other EU	EU
Bankruptcy/closure	18.2	18.6	36.0	8.8	23.6	30.9	29.3	21.6	8.7	28.9	28.9	21.9	14.5	13.6	15.3	52.5	4.8	34.7	22.8	12.9	35.9	32.4	21.3
Internal restructuring	47.8	70.4	61.7	80.2	70.5	56.6	65.7	76.0	87.7	67.3	44.4	52.6	72.3	75.2	84.4	43.6	89.6	61.8	54.6	86.1	55.9	55.1	70.3
Merger/acquisition	1.3	1.7	0.2	7.8	0.7	3.6	1.1	0.0	1.8	0.0	0.0	21.1	8.1	3.7	0.2	0.0	0.0	0.0	0.0	0.2	5.2	1.5	3.9
Offshoring	16.1	7.7	2.1	3.2	3.0	8.1	3.1	1.4	1.6	3.8	20.8	2.8	1.0	5.7	0.0	3.9	1.6	3.5	20.0	0.5	1.8	3.6	3.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.7	0.0	0.0	1.8	0.0	0.0	0.0	0.0	1.5	0.0	0.3	6.9	0.4
Outsourcing	16.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.6	1.0	0.0	0.0	0.0	1.3	0.0	0.0	0.2	0.4	0.0	0.5
Relocation	0.0	1.5	0.0	0.1	2.2	0.7	0.9	1.0	0.2	0.0	2.8	0.9	3.1	0.0	0.0	0.0	2.6	0.0	1.1	0.0	0.5	0.6	0.6
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
																						0.0	
Difference ERM pre 2008 (percentage point)	AT	BE	CZ	DE	DK	Baltic States	ES	FI	FR	HU	IE	IT	NL	NO	PL	PT	RO	SI	SK	SV	UK	Other EU	EU
Bankruptcy/closure	-3.8	3.8	19.0	-1.0	6.7	-23.5	11.3	13.1	-6.7	14.6	6.5	13.2	6.8	11.2	2.6	19.6	-5.6	17.3	-4.1	5.0	20.1	18.7	7.2
Internal restructuring	-15.6	0.5	-13.2	-0.4	13.3	19.2	-7.1	5.9	14.8	-9.9	-9.6	-11.6	-10.6	32.8	3.9	-2.0	2.8	-0.6	-8.1	6.1	-12.5	-23.6	-2.7
Merger/acquisition	-6.7	-3.3	-2.9	3.0	-0.5	3.6	-2.8	-3.6	-2.7	-0.8	-4.6	9.8	5.3	-31.7	-4.0	-1.0	-1.4	-1.4	-0.9	-1.4	1.4	-0.8	-0.2
Offshoring/delocalisation	10.9	0.2	1.8	0.4	-14.1	5.4	-1.0	-11.4	-4.1	1.5	4.8	-1.6	-3.8	-5.3	-1.1	-12.9	1.6	-10.6	14.9	-4.6	-6.4	-5.2	-2.6
Other	0.0	0.0	-3.8	0.0	0.0	0.0	0.0	-0.7	0.0	-3.9	1.9	0.0	-0.3	1.8	-0.4	-0.4	-1.2	-4.7	-0.6	0.0	0.1	11.7	0.0
Outsourcing	15.8	-1.1	0.0	-0.4	-1.0	-3.2	-0.2	-2.1	-0.7	-1.5	-1.2	-9.8	0.3	-8.9	-0.9	0.0	1.3	0.0	0.0	-0.8	-0.7	0	-0.7
Relocation	-0.6	-0.1	-1.0	-1.5	-4.4	-1.4	-0.3	-1.2	-0.6	0.0	2.2	0.0	2.3	0.0	-0.1	-3.3	2.5	0.0	-1.2	-4.3	-2.0	-0.8	-1.0

Notes: Colour coding:

= >+/-5 percentage points change from pre-2008 to 2008–2009.

= >15 percentage points increase from pre-2008 to 2008–2009.

= > -15 percentage points decrease from pre-2008 to 2008–2009.

Country grouping: Baltic States =LV, LT and EE; Other EU=BG, EL, CY, MT and LU.

Source: ERM

Internal restructuring accounted for 70% of announced job loss in ERM restructuring cases in 2008–2009, three percentage points lower than in the pre-2008 period. As already noted, bankruptcy or closure accounted for a sharply increased proportion of job losses in 2008–2009 (up from 14% to 21% of the total). At national level, the increased proportion of bankruptcy/closure-related job losses was notable in the Czech Republic, Portugal, Slovenia and the UK (up by more than 15 percentage points in each country). In 13 Member States or Member State groupings (and Norway), an increase of at least five percentage points was reported in the proportion of bankruptcy/closure-related job losses, while the Baltic States, France and Romania reported a lower proportion. At aggregate EU-level, the increase in the proportion of bankruptcy/closure-related job losses was matched by a decline in the proportion of job losses related to offshoring/relocation/outsourcing and internal restructuring, as already noted in relation to the proportion of restructuring cases.

Early retirement

The last 10 years has seen a withdrawal or reduction of incentives to retire early – in the public and private sectors – in line with a revised policy consensus (Council of the European Union, 2009) that emphasises the importance of broadening labour market participation and of increasing the effective retirement age.[13] The move to reduce early retirement incentives has been made all the more pressing by clear empirical evidence that countries with generous and easy to access early retirement schemes have also been those that have suffered the sharpest declines in the employment levels of those aged between 55 and 64 years. Rates of employment of older people are particularly sensitive to the structures of retirement incentives, which vary considerably from country to country. Research also largely confirms that early retirement has not been successful at the aggregate level in one of its ancillary objectives – contributing to increased youth employment by 'freeing up' jobs for younger workers. [14]

However, there are strong interests in maintaining early retirement arrangements, which can be attractive for a variety of reasons for different stakeholders including unions, employees and employers. While some governments have recently attached more stringent access limitations to early retirement benefits – for instance, in Poland, Sweden and France (Carley, 2009) – others have rediscovered its short-term attractions as a cost-saving measure and/or as a politically acceptable means to achieve numerical flexibility in the public service. An illustrative example is the early retirement scheme for civil servants introduced by the Irish government in April 2009. The scheme was included in an emergency budget as one of a number of measures explicitly targeting public sector cost savings. (Eurofound, 2009a) ERM national correspondents also report increased recourse to early retirement in Hungary, Latvia and Luxembourg and Romania (Mandl and Salvatore, 2009).

The ERM shows some evidence of the persistence of early retirement as one form of labour-shedding during restructuring, especially amongst large companies. In the ERM in 2008–2009, 70 cases made explicit mention of early retirement schemes. Early retirement

[13] See, for example, the Polish government's recent proposed reform of 'enhanced' early retirement provisions, Eurofound 2009f.

[14] There may, however, be examples of the success of this policy at firm level: in June 2009, Group Michelin announced the offer of early retirement benefits – primarily to those within five years of retirement – with the aim of creating vacant positions to be filled by the 500 new employees the company expects to recruit annually.

features in particular in cases from the following countries: France (10 cases); Belgium (nine); Italy (seven); Spain and Norway (six). As a rule, early retirement tends to be one of a range of measures deployed when restructuring is undertaken, as by definition it relates to only that part of a company's workforce between 55 years of age and the statutory retirement age (generally 65).[15] Other measures may include partial retirement, part-time working, relocation, retraining and voluntary redundancies; the mix of measures in specific restructurings is generally agreed on the basis of social partner negotiations.

Early retirement has in the past been associated with restructuring arising from privatisation where states have bought industrial peace by offering generous early retirement packages to workforces affected by post-privatisation restructuring job loss.

Some of the largest recent cases of restructuring with a substantial early retirement dimension involved publicly-owned enterprises. As part of its EU accession agreement in 2003, the Maltese government undertook to cease public aid by 2008 to Malta Shipyards, one of the country's biggest employers (with over 2,600 employees in 2003). With the company showing no signs of independent commercial viability, the Maltese government decided to privatise Malta Shipyards and sell its assets in 2008 (Eurofound, 2008a). As part of the privatisation, the company offered generous early retirement packages, which were accepted by over 90% of employees. In February 2009, the assets of the state-owned Maltese shipyards were put up for sale to private buyers, though it is not clear what facilities will remain operational and what, if any, share of employment in the firm will be retained.

Similar privatisation episodes – where a partially or fully publicly owned firm is allowed to operate often on dwindling public subsidies until effective bankruptcy forces through a privatisation – have also occurred in two major national airlines, Olympic Airways (Eurofound, 2008b) and Alitalia in recent years. In the case of Alitalia, protests and industrial action only abated after the successful negotiation of early retirement benefits – or their equivalent – for affected employees.

Alitalia's new phase as a private company began in January 2009 after Italian investor group Compagnia Aerea Italiana (CAI), acquired the 'new' Alitalia, leaving the Italian government with the old company's debts and its least profitable units. Employment in the privatised Alitalia totalled 12,600 as against 21,500 in the combined 'old' Alitalia and Air One, the smaller Italian airline, with which it merged. Prior to the acquisition and in a context of sustained industrial action, the Italian government and main trade unions reached a deal, which made use of the full range of Italian social shock absorbers (*ammortizzatori sociali*), to cushion the effects of redundancies for over 3,000 Alitalia employees. The agreement included recourse to the 'extraordinary' Wages Guarantee Fund (CIGS) for four years. After this period, redundant workers will benefit for three years from the 'mobility' programme, which will support their incomes until they reach retirement age (or find a new job). The Italian state – through the National Social Security Institute (*Istituto Nazionale Previdenza Sociale*, Inps) – will pay an allowance equal to 80% of the average wage lost by the workers.

[15] In the case of Hellenic Petroleum (EL) early retirement was offered to workers as young as 47 and 48.

At Telecom Italia, the announcement of 5,000 job losses in June 2008 led to strike action, which was resolved when the restructuring plan was largely deferred to 2009–2010. The job cuts will be effected with recourse to a '*procedura di mobilitá*' (mobility procedure, an administrative prelude to dismissal) with a view to early retirement, which would guarantee up to 90% of salary for the redundant workers.

BAWAG, the Austrian retail bank, formerly owned by the Austrian Federation of Trade Unions (ÖGB), reduced its workforce by 400 during 2008 without recourse to compulsory redundancies. The bank was taken over in 2007 by a consortium led by the US private equity firm Cerberus Capital Management, following losses incurred on currency derivative investments. The takeover was facilitated by a large injection of public funds by the Austrian state. Employees within seven years of the official retirement age were allowed to opt for early retirement, in which case they continued to receive at least 60% of their last take-home pay until reaching the legal retirement age – 60 years for women and 65 years for men.[16]

To the extent that privatisation in many countries has largely run its course and relates to a declining share of economic activity, early retirement arising from privatisations may be expected to decline.

Other large-scale restructurings with a significant element of early retirement included those at Eon-Energy (DE), Air France-KLM, Renault, ArcelorMittal (BE), Volvo Europa (BE) and Metso (FI).

ERM data has been extensively used both by Eurofound (see *ERM Report 2007 – Restructuring and employment in the EU: The impact of globalisation*) and by external researchers[17] as a source for analysing developments in relation to the offshoring of activities and the consequences of this for employment in the EU. One principal conclusion is that offshoring has accounted for between 5% and 8% of announced job loss arising from major restructuring events in the EU since 2002, a perhaps unexpectedly modest proportion given the interest of researchers and the general media in the phenomenon. What is notable about the recent downturn is that the share of cases and of announced job loss attributable to offshoring or delocalisation – and the related restructuring categories of relocation and outsourcing – have declined even from these modest levels. Offshoring accounted for 3% of announced job loss in the ERM in 2008–2009 and was responsible for a significantly lower proportion (at least five percentage points less) of announced job losses in the Nordic countries, the UK, Slovenia and Portugal than hitherto. Austria represents something of an exception, as here offshoring or outsourcing accounted for a much higher proportion of overall announced job losses (26 percentage points higher). Other countries in which offshoring represented a greater proportion of job losses included the Baltic States and Slovakia, countries that would previously have been considered offshoring destinations.

Job loss by sector

Before looking at the sector job destruction data in more detail, an overview will first look at the basic composition of restructuring job loss by broad sector aggregates. The primary sector (agriculture, fishing

[16] *See forthcoming EMCC study*, Managing restructuring without redundancies in the Austrian banking sector: Bawag PSK

[17] See, for instance, Auer, Besse and Meda, P., 2005.

etc.) and construction account only for a very small proportion of overall job losses and gains, which is not surprising given the high proportion of self-employed workers and of smaller businesses in these two sectors: these sectors, therefore, often fall under the ERM thresholds.

Table 15: Percentage of announced job loss by broad sector category

	2002–2007	2008–2009
Primary sector	3.8	1.7
Construction	1.0	1.8
Low technology industries	18.0	20.8
High technology industries	23.9	28.6
Less knowledge-intensive services	22.1	22.6
Knowledge intensive-services	31.1	24.5

Note: This table uses the Eurostat sub-classification for knowledge-intensive services (KIS] and less knowledge-intensive services (LKIS][18] and the OECD sub-classification of low and medium-high technology industries to differentiate between lower and higher end manufacturing or productive activities.[19] This mixed classification is exclusive and captures all sectors of activity.
Source: ERM

According to Table 15, 49% of ERM announced job loss occurred in industry and 47% in services, with nominal percentages in the construction and primary sectors (for reasons indicated above). Relating these percentages to the actual proportion of employment in manufacturing industry (less than 20%) and in services (more than 65%) in the EU, it is evident that industry was affected proportionately more by restructuring job loss than was the service sector.[20] There was a seven percentage point increase in the proportion of industry job loss in 2008–2009 compared with the pre-2008 period; the lion's share of this increase was in high-technology industries (e.g. auto manufacture) although there was also a small increase in low-tech industries (e.g. food, textiles production).

Table 16: Top 10 NACE 2-digit sectors in percentage composition of overall ERM job losses, 2002-2007 and 2008-2009 compared

NACE	Sector	absolute job loss 2008-2009	Percentage job loss 2002–2007	Percentage job loss 2008–2009	Difference (percentage points)
34	Manufacture: auto	106,554	8.1	11.7	3.7
75	Public administration	86,396	13.2	9.5	-3.7
52	Retail	68,668	3.0	7.6	4.5
65	Financial intermediation	67,867	7.6	7.5	-0.1
64	Post and telecoms	63,613	12.0	7.0	-4.9
29	Manufacture: machinery/equipment	46,804	2.0	5.2	3.1
27	Manufacture: basic metals	33,472	3.0	3.7	0.7
31	Manufacture: electrical machinery	26,580	2.3	2.9	0.6
24	Manufacture: chemicals	26,055	2.9	2.9	-0.1
15	Manufacture: food products	24,955	3.3	2.7	-0.6

Source: ERM.

Looking in more detail (at NACE 2-digit level),[21] Table 16 shows that sector shifts in the composition of job loss recorded by ERM have affected in particular car and machinery manufacturing and the retail

[18] See http://epp.eurostat.ec.europa.eu/cache/ITY_SDDS/fr/reg_htec_base.htm
[19] see Hatzichronoglou, 1997
[20] However, there is also likely to be a bias in terms of over-representation of manufacturing firms and establishments on account of ERM thresholds and their greater average employment.
[21] NACE rev 1.1

sector. Of all 60 NACE 2-digit sectors, car manufacturing accounted for the highest proportion of job loss in 2008–2009 (11.7%), up nearly four percentage points from its previous average. Car production globally has been especially hard hit by the decline in consumer demand. Manufacture of machinery/ equipment, a broad category that encompasses production of engines, domestic appliances, weapons and capital equipment among others, was also responsible for a significantly increased proportion of job losses (up from 2% to 5%). Six of the top 10 job loss sectors were in manufacturing.

Sectors accounting for a declining proportion of job loss include public administration (falling from 13% to less than 10%) and post/telecoms (falling from 12% to 7%). While public administration has not been immune to the impacts of the recession, and there is evidence of radical restructuring in some of the Member States whose fiscal situation has been most compromised by recent developments (such as Estonia and Latvia), state employment represents one stabilising factor in a recession, sustaining levels of demand and consumption. Of course, there are other reasons why governments may be more reluctant to shed jobs in a downturn – public opinion, political unpopularity, and the stronger legal protections and collective organisation of public sector workers.

Construction sector: company and policy responses to downturn

The credit crunch originated in the conjoined excesses of two sectors, property and financial intermediation. Failing property-related investments in the US in 2007 induced huge write-downs by the developed world's financial system, whose losses were magnified many times over by the financial engineering of the underlying investments.

EU Member States – in particular the Baltic States, Ireland, Spain and the UK – that experienced construction booms similar to that of the 2002–2006 period in the US have been similarly affected by the correction in property prices. There has been a sharp fall-off in the level of construction sector activity and employment in these countries, though arguably from previously unsustainable, boom levels. According to ELFS data, Spain alone accounts for around three quarters of the total net employment decline in the sector across Europe. There was a net decrease of nearly 700,000 jobs between the first quarter of 2008 and the first quarter of 2009, equivalent to 26% of Spanish construction sector employment. Other countries registering major fall-offs in construction activity included Estonia (a drop of 22%), Latvia (26%) and Lithuania (17%).

In the EU and Norway as a whole, the index of production for the construction sector started to decline from the second quarter of 2008. In the fourth quarter, production had declined by more than 7% from where it had been a year earlier. However, new orders, which are a precursor of developments in 2009 and beyond, declined by 14% compared with the same period in 2007. Given that employment always lags behind changes in production and order-levels have fallen off sharply in most Member States, further significant employment losses appear inevitable.

Employment in construction tends to be concentrated in smaller firms and as a result tends to be under-represented in the ERM dataset. The principal threshold for the inclusion of a case (more than 100 job losses) excludes the vast majority of restructuring in the sector. Despite significant overall employment losses in the sector (which accounted for more than a quarter of net employment losses across all sectors), fewer than 2% of ERM restructuring job losses in 2008–2009 occurred in construction. Nonetheless, some large restructurings have been recorded in the sector in 2008–2009, notably in the Nordic countries where firms tend to be bigger. **Skanska**, anticipating a 15% reduction in activity in the Nordic region in 2009, announced in November 2008 that it would cut 3,400 jobs in the region (of which 2,000 would be cut in Sweden). In the same month, **NCC** announced that it would downsize all its units in Sweden, Norway, Denmark, Finland and Germany with the loss of 1,700 jobs.

Reactions of governments and companies

Employers have adopted a range of different policies to respond to the downturn in the construction sector. These include reductions in working time, temporary dismissals and wage cuts, as well as redundancies. In over half the Member States, the reduction in the workforce has mainly affected those on temporary employment contracts – many of them low-skilled workers and a significant number of them migrants in some countries – or self-employed individuals working under contract.

In the majority of countries, economic stimulus measures have included policies directed specifically at the construction sector, particularly in relation to an expansion or front-loading of public works programmes. In some countries, governments have introduced tax concessions and subsidies in order to stimulate demand in particular parts of the construction industry, as seen in the following examples.

- In Sweden and Finland, additional tax allowances have been introduced for the renovation and repair of certain buildings.
- The ceiling for tax relief on mortgages has been raised in Italy.
- The value-added tax (VAT) rate on new houses in Belgium has been reduced from 21% to 6%.
- In Spain, subsidies amounting to €8 billion have been allocated for local investment in public buildings and civil engineering projects.

Member States have also intervened to change the rules and regulations relating to social security payments in order to help maintain the incomes of the workers affected by company measures aimed at reducing wage bills. In Finland, increased social security payments have been introduced for workers made redundant who had been with the same employer for over three years. In Sweden, special income support measures have been implemented for workers made redundant who are members of an unemployment insurance fund. In Spain, unemployment benefits have been extended to those who are on temporary lay-off. Short-time working or temporary lay-off compensation has also been introduced or extended in many Member States (Austria, Bulgaria, France, and Germany, as well as in Norway) which again has served to cushion the earnings of construction sector employees.

In some countries, governments have introduced training programmes to improve the employability of low-skilled workers who have lost their jobs in construction, with a view to tackling emerging skills shortages. In Ireland, for example, the national Training and Employment Authority (Foras Áiseanna Saothair, FÁS) has increased the provision of training opportunities for redundant construction workers in emerging areas of expertise, such as the installation of equipment and materials to increase energy efficiency or to take advantage of renewable energy sources. In Latvia, the State Employment Agency (Nodarbinātības valsts aģentūra, NVA) has carried out research to identify future needs in the construction sector and to plan training programmes to address these needs.[22]

[22] This section is based largely on the work of Ward, and Coughtrie, 2009.

Car manufacturing

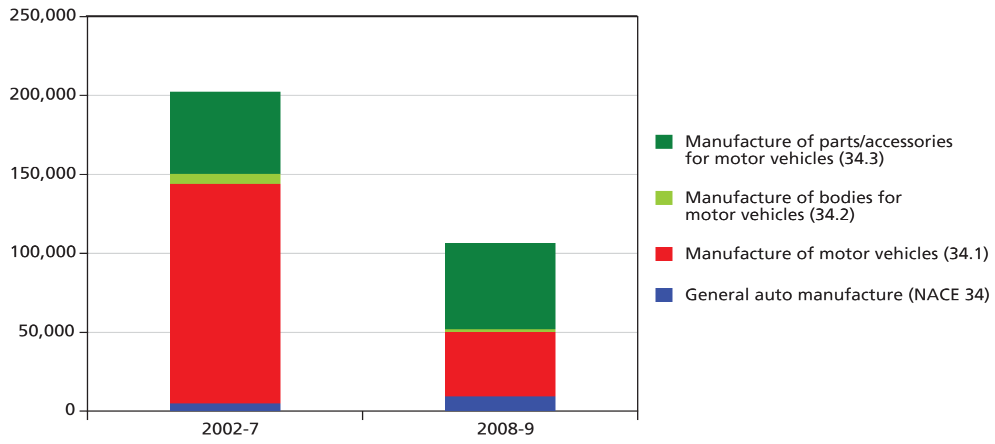
Demand for cars and trucks has been severely affected by the economic downturn; Europe's automotive industry, with the assistance of the public authorities, has experimented with various remedies to endure and survive the slump while preparing for the next generation of vehicles and consumers.

The automotive sector remains vital as an employer – with more than 2.2 million people directly employed and nearly 10 million in supply-chain activities. It is also a major hub of research and development (R&D) activity, a source of tax revenues and a positive contributor to the EU's trade balance with the rest of the world, thus signalling that the industry in Europe is internationally competitive.

Nonetheless, the scale of the slump in demand has raised questions over the viability of parts of the automotive industry, especially in a context of local and global overcapacity estimated to be in the range of 20%–30%. Two main stimulus paths have been identified, one short-term and the other more medium-term, both involving sizeable public investment. In the short-term, car scrappage premia introduced by a number of Member State governments have provided a boost to production and sales – especially of smaller, economy cars. In the medium-term, climate change imperatives are motivating large-scale public investment such as the European Investment Bank's (EIB) European Clean Transport Facility, which will underwrite the research, development and production of less polluting, more energy-efficient vehicles.[23]

Elsewhere, this report describes the measures – short-term working, shift reductions and temporary plant closures – deployed to confront the consequences of a fall-off in demand for passenger vehicles which was greater than 25% year-on-year at the height of the crisis (ACEA, 2009a). While these measures may have absorbed some potential job losses, according to STBS data already cited there was a net decline of nearly 8% in automotive sector employment between the first quarter of 2008 and the first quarter of 2009. The sector also accounted for the largest single share of job losses by sector in ERM restructuring cases during 2008–2009.

Figure 18: Breakdown of ERM job losses by sub-sector (within NACE 34, automotive manufacture) comparing 2002–2007 and 2008–2009



Source: ERM

[23] See also *Recent restructuring trends and policies in the automotive sector*, Eurofound, 2009.

As Figure 18 illustrates, the figure for announced ERM job losses in the sector in the 18-month period from the first quarter of 2008 to end of the second quarter of 2009 was over half that recorded in the entire period 2002–2007. Of the 106,000 jobs announced lost, the majority were in supply-chain firms rather than in Original Equipment Manufacturers (OEMs, NACE 34.1), in contrast to the earlier period when OEM job losses predominated. The increasing share of job losses in the manufacture of auto parts and accessories is suggestive evidence that the combination of negotiated flexibility and public measures to stem unemployment in the sector have been more effective at avoiding restructuring job loss in the main auto manufacturers than in their supply chains. This may reflect the political importance of the principal manufacturers (and their employees), as well as the pragmatic fact that OEMs lie at the centre of an extensive network of high-end manufacturing activity and are its least dispensable components.

The sector's problems have been put in stark perspective by the plight of two of the big three American car manufacturing groups. The US administration guided Chrysler and General Motors through fast-track bankruptcies in the second quarter of 2009 and financed their restructuring with over USD 60 billion in public funding. Among the consequences for the European automotive industry are that Fiat has now become a controlling stakeholder in Chrysler, one of General Motor's European affiliates – Opel – has come under the control of a Canadian-Russian consortium while another - Saab is likely to be under new ownership in the near future. One of the largest cases of international restructuring captured by the ERM in 2009 was General Motor's announcement in February that it would be cutting 10,000 white-collar and 37,000 blue-collar positions in its operations worldwide before the end of 2009, over half of these outside the US.

Within the EU, BMW announced in February 2008 that it would cut a total of 8,100 jobs, mainly in its German operations. An illustration of the vulnerability of temporary and fixed-term workers during the current crisis was that temporary agency workers accounted for 5,000 of the jobs to be cut by BMW. The decision of the company to let go at short notice 850 of its temporary agency staff at its Cowley (UK) plant, which produces the new Mini, caused an outcry in the UK. Union leaders accused the company of taking advantage of the minimal protections afforded to agency workers in the UK.

In the case of Skoda Auto's announcement of 4,000 job losses in December 2008 in its Czech operations, all were temporary agency worker positions. Similarly, Volkswagen in March 2009 announced that it would be cutting all 16,500 temporary jobs in its worldwide operations.

In July 2008, Renault announced plans to cut between 5,000 and 6,000 jobs from its European workforce of 47,000 in response to declining sales. The majority of these jobs were in the group's 'home' operations in France, notably in the large facility at Sandouville in the Seine-Maritime departement.

Restructuring at Volvo Cars

Relative to the size of its economy, few countries have been as hard hit by the crisis in the automotive sector as Sweden. The sector directly employs over 140,000 people and accounts for 15% of Swedish exports. Among the Swedish companies, most collective dismissals have been at Ford-owned Volvo Cars.

Even before the acute phase of the crisis hit the firm, it was experiencing difficulties due to adverse developments in the dollar exchange rate and its reliance on the especially weak US consumer market, which accounted for over a quarter of its sales.[24] The company had already engaged in a cost-cutting exercise, including a voluntary redundancy scheme. While in terms of cost cutting this was at least partially successful, the company did experience the typical problem with such schemes, namely that many of those who opted for the scheme were precisely those that the company wanted to keep. However, by June 2008 the drastic drop in sales led to the company notifying 6,000 employees of the termination of their contract with the firm. These were mainly employees (and contract consultants) at the main plant in Gothenburg, Sweden and in Ghent, Belgium. Such drastic measures had never been proposed in the company's history. At the same time as the obligatory negotiations with the trade unions on the proposed dismissals, the company's personnel department began a very extensive internal matching process which led to roughly 1,000 employees with new job descriptions. Also at this time the bi-partite transition body, the National Agency for Outplacement (*Trygghetsrådet*, TRR), led training sessions with 750 managers on managing change within the company and to prepare them to deal with the difficult situation of informing staff that they would no longer be required. These training or coaching sessions lasted between two hours and one day.

The results of the social partner negotiations were made public on 8 December 2008. In Sweden, 2,721 employees were to leave the company, of whom 2,367 were blue-collar workers and 354 were white collar. An additional 680 employees abroad also left the company. The limited impact on white-collar workers was largely due to the above mentioned previous reorganisation which led to the termination of 1,215 contracts with external consultants (see table below).

Notified and enacted redundancies at Volvo Cars 2008

		Total notified	Actual job loss
Sweden	Blue collar	2,600	2,034
	White collar	1,300	297
	Pension and education Programs		390
	Subtotal: Employees in Sweden	*3,900*	*2,721*
International	Blue collar	300	200
	White collar	600	480
	Subtotal: Volvo employees	*4,800*	*3,401*
Consultants		1,200	1,215
Total		6,000	4,616

Swedish law stipulates a last in–first out (LIFO) principle for collective redundancies. However, exceptions can be made subject to agreement with the trade unions. The difficult issue at Volvo was that many of the senior and older blue-collar workers who were relatively well protected by the law no longer worked on the production line. Production line work is very physically demanding and many of these older workers may not have been able to perform it. The application of strict seniority rules would have meant staffing shortages on the production line. As a result between 300 and 400 of the blue-collar workers were exempted from the LIFO principle.

[24] It should be noted that while there have been other problematic issues related to the company being owned by Ford in the United States, the dependency on the US market is long standing, i.e. even when it was 'Swedish' owned by AB VOLVO.

Among those blue-collar workers aged over 57 years, 40 received an early pension, which guarantees SEK 16,000 (around €1,500) per month. Some 160 of the staff are enrolled in training programmes and will retain their employment contract with the company for a further year. If demand picks up, they will continue their employment at Volvo.

As part of the notice process, each affected employee was given an information package including invitations to meetings with the bi-partite transition agencies TRR (for white-collar employees) and Startkraft (for blue-collar employees) and the Swedish public employment service. The majority of the redundant employees had left the company by 31 December 2008, with full salary during the notice period. During the autumn of 2008, approximately 1,000 people were placed in new jobs where positions had become available in connection with reorganisation and the termination of contracts with consultants.

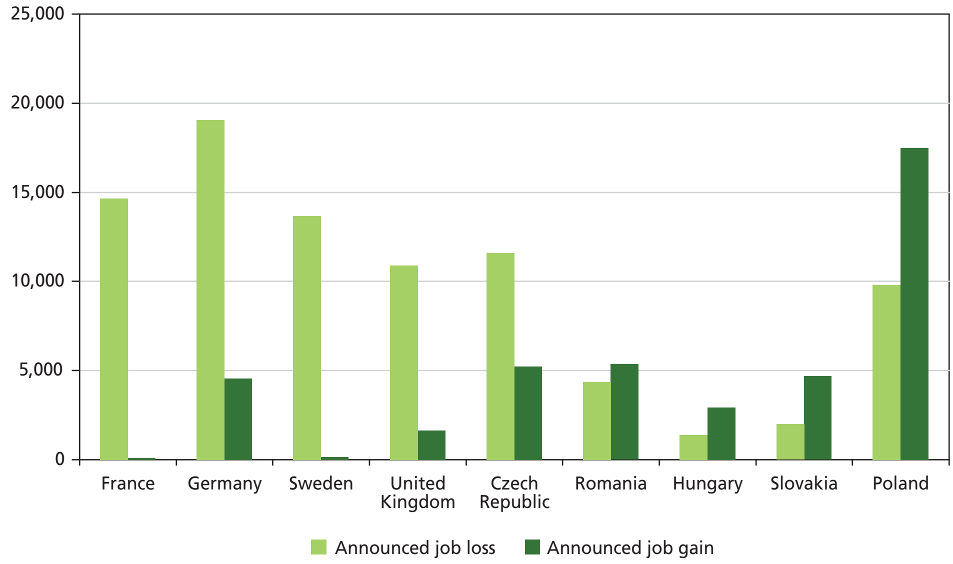
Despite this very extensive round of collective dismissals, this was not the end of the story. In March 2009, the company signed a collective agreement with the local unions, which in the view of the company 'most probably means that the company can avoid further employee separations' (press release Volvo Cars, 12 March 2009). It was estimated that the savings would amount to close to SEK 500 million (approximately €50 million) in 2009. In conjunction with the savings, a further reduction of production volumes was planned in both Ghent and Gothenburg. The agreement, valid from 1 April to 31 December 2009, includes the following measures:

- The company's salary revision is postponed until January 2010 for all employees, and corresponds to approximately half of the total saving.
- The so called 'Work time compensation' (*arbetstidskompensation*, ATK) was reduced by approximately 1.5 hours per week for all employees between 1 April 2009 to 31 December 2009.
- The company's 40 highest-ranked managers, including the executive management team, are to reduce their salaries by 5% percent from 1 April 2009 to 31 December 2009.
- No bonus will be paid to employees (including managers) in 2009 and 2010.
- To handle the decline in orders, the agreement also contains up to 45 layoff days during 2009 for employees in production. A salary reduction of 15% will be made for each of the layoff days. This means a reduction of the monthly salary of up to 5%.

CEO Stephen Odell has called the agreement 'a unique agreement for a unique situation' and underlined the 'good and open dialogue with the unions. This agreement we all believe is a good model to secure our business and avoid further employee separations at the present time'.

As already noted, the automotive sector has seen announced job creation as well as (more significant) job destruction during 2008/9: after retail, it is the second leading sector in terms of announced new jobs in the ERM. As Figure 19 – detailing the geographical distribution of job gains and losses – shows, the major western European producing countries generally are those with the greatest announced job losses. In France, Sweden and the UK, extensive job losses were reported with only nominal countervailing job gains. Germany had the highest level of announced job losses (over 19,000) but this represents a much smaller percentage of overall sector employment than in the case of Sweden, for example. There were also some countervailing job gains in the Czech Republic – the one exception to a qualified east–west dichotomy of job creation and destruction.

Figure 19: Automotive sector job losses and gains recorded in ERM 2008–2009 in the countries most actively restructuring



Source: ERM

In all, there were 10 cases of business expansion in auto manufacturing, each involving the creation of at least 1,000 jobs. Nine of the ten were in the new Member States (three in Romania and Poland, one each in Slovakia, Hungary and the Czech Republic) and most took place in 2008. Of the two large automotive sector cases recorded in 2009, one was largely attributable to increased demand arising from the scrappage schemes in neighbouring Member States: at Skoda Auto, in Mladi Boleslav in the Czech Republic, 1,000 jobs were created, in March 2009. This was a continuation of previous trends and shows clearly a shift – though not explicitly nor necessarily constituting an offshoring – of productive capacity in the sector from older to newer Member States.

At company level, the ERM picks up a number of concrete examples of the above shifts. Autoliv, manufacturer of safety equipment including seatbelts and airbags, announced a major worldwide restructuring involving 3,000 job losses in July 2008. Subsequently, specific job loss announcements were made at facilities in Hasselholm, Sweden in August 2008 and Gournay-en-Bray, France in March 2009. In the same month, 800 new jobs were announced as the company expanded production at Jelcz-Laskowice in Poland. In 2008, auto components manufacturer Faurecia announced 1,250 job losses at its French units between 2009 and 2011 and 1,000 new jobs at its facilities in Pisek and Karvina in the Czech Republic. Similar patterns can be observed in cases involving a number of other automotive component manufacturing firms including Keiper, Johnson Control and Mahle.

Financial services

The near-collapse of the global financial services sector in autumn 2008 brought in its wake widespread restructuring as the heavily internationalised sector dealt with the consequences of its own ‘irrational exuberance’ during the earlier years of the decade.

In many cases, public money has been the main bulwark against insolvency as temporarily less restrictive competition and state aid regimes have allowed Member State governments to channel aid to stricken banks. Many of the large cases of restructuring in financial services featured in the ERM in the last two years make reference to a common narrative of high-risk lending and investment activities, asset price collapses, ballooning debts and impaired loans and ultimately intervention and rescue by the public authorities.

It is worth noting that banks that have received state aid appear just as ready to shed employment as their counterparts that have not. Indeed, in many cases the public stake taken in companies has been contingent on such companies making explicit plans for a return to sustainable and profitable operations; these have generally involved retrenchment and job loss.

There were 15 announced cases of employment loss involving at least 5,000 employees worldwide by banking groups in 2008–2009. The largest single restructuring in the sector was that of Citigroup. The US bank announced in November 2008 that it would cut around 52,000 jobs worldwide after large losses on subprime mortgage-related securities. The job cuts were predicted to impact particularly on the group’s workforce in two major financial centres, London and New York, and followed earlier announcements of 4,000 job losses in January 2008 and 9,000 job losses in April 2008.

European-headquartered banks have suffered the consequences of the global financial crisis just as severely as their American counterparts. Indeed, some of the principal losers in the subprime mortgage debacle have been banks with European headquarters. Each in the following list of banks have written down to date in excess of €4 billion in relation to failed mortgage-related investments: UBS, Credit Suisse, Credit Agricole, Barclays, IKB Deutsche, HSBC, Deutsche Bank, Royal Bank of Scotland, HBOS, Bayern LB, Fortis, Société Générale, ING (Bloomberg, 2008). Not surprisingly, the majority of these banks have also announced major restructurings, often serial in nature, during 2008–2009.

The following European banks (or national subsidiaries) have reported at least three restructurings during the period: Lloyds BG, Unicredit, HSBC, UBS, ING, Deutsche Bank, Commerzbank, Credit Suisse, Barclays, Hypo Alpe-Adria and Bank BPH.

Lloyds Banking Group

The case of Lloyds Banking Group is in some ways emblematic of restructuring in the financial sector. One of the traditional big four companies of UK high-street banking, Lloyds exploited its advantage as one of the few banking groups with limited exposure to sub-prime toxic debt to acquire one of its damaged rivals, Halifax Bank of Scotland (HBOS) in the fourth quarter of 2008.

The deal was completed in January 2009 after the UK government exempted Lloyds from standard competition law oversight. Subsequently, escalating losses in the legacy HBOS units – over and above the substantial losses previously disclosed – necessitated an effective nationalisation of the group. The UK government took a majority share in the group in return for insuring up to GBP 260 billion of 'toxic assets'.

There have been six separate Lloyds restructuring announcements in the period April–June 2009 involving a total job loss of over 6,000 jobs in the UK. This prompted a union official to accuse the bank of 'embarking on a strategy of death by a thousand cuts'. He added 'The union will not accept a situation where Lloyds makes weekly announcements of hundreds of job losses. Staff must be told the company's plans for the future of the organisation and not be left with the uncertainty that they could be the next to lose their jobs." (BBC News, 2009a)

To what extent the job losses at Lloyds were a consequence of the deleterious state of HBOS's balance sheet or were the customary outcome of post-merger rationalisation is not easy to unravel. What is clear is that UK taxpayers, Lloyds shareholders and those bank employees that have lost their jobs and become unemployed are worse off than they were before the merger.

The financial services sector in London – Europe's major financial centre – has been particularly exposed to job loss over 2008–2009 and accounts for much of the UK's 43% share of total ERM job loss in the sector during the period. In the last quarter of 2008, investment bank Goldman Sachs laid off 10%, or 600, of its City of London staff, Credit Suisse announced that it would be letting go at least 650 employees from its London investment banking section and Commerzbank announced that it was to cut 1,200 staff resulting from the acquisition of Dresdner Kleinwort and the need to restructure the combined workforce of 3,300 in London. HSBC also announced 1,100 job cuts, many of them in its Canary Wharf offices. The collapse of Lehman Brothers led to immediate job losses for 750 staff in its London offices; following the sale of parts of Lehman's investment business to Nomura, the Japanese bank in turn announced in December 2008 that it would be shedding 1,000 jobs due to rationalisation following the acquisition.

Corporate activity has also resulted in large job losses elsewhere in the sector. Following the takeover of Dresdner Bank in August 2008, Commerzbank announced plans to cut a total of 9,000 of the 67,000 jobs in the merged group, the majority in its German operations.

One announcement of a less negative hue was that of Unicredit in June 2008. The stated objective of the bank's large-scale restructuring was to shift its geographical focus of activities from mature markets in western Europe to emerging markets in central and eastern Europe (CEE). The plans included the loss of 9,000 jobs over 2008–2010, mainly in Italy but affecting also its subsidiaries HypoVereinsbank in Germany and Bank Austria in Austria. In parallel, the plan envisages 1,300 new branches in the CEE countries (900 of them in Russia, Turkey, Romania and Ukraine) with the creation of an estimated 11,500 new jobs. The UniCredit group is the second largest bank operator in Europe and the most important operator in the CEE region, employing around 70,000 people there.

Those German regional banks (*Landesbanken*) most affected by the toxic assets problem have instead announced a scaling back of activities, nationally and internationally. Bayern LB Group announced in December 2008 that it would cut 5,600 jobs by the end of 2013, including 1,000 jobs at its Munich headquarters. It also announced that it would shut down its representative offices in Milan, and across Asia. At the end of November 2008, a German government rescue package worth €30 billion was approved to save the group from financial collapse. Previously in 2008, large job losses had been announced at IKB (a subsidiary of the state-owned development bank KfW), HSH Nordbank and West LB. In each case, losses had been incurred on subprime mortgage related investments.

With the prospect of limited profitability and further investment losses in the short term and consolidation in the medium-term – especially when governments start selling their reluctantly acquired stakes in banking groups – the European financial services sector is likely to remain in the throes of corporate restructuring with attendant job losses for some time.

Job creation in ERM restructuring cases

The downturn clearly impacted on the levels of business expansion; meanwhile, figures for announced job gains continued their decline. From a peak of nearly 200,000 new jobs announced in the first quarter of 2007, the second quarter of 2009 delivered the most meagre crop of new jobs in recent years with fewer than 50,000 announced. Since 2007, announced job creation has declined consistently. Poland and the UK continue to be the countries in which the ERM records the most job creation.[25]

Table 17: Member States with the greatest job gains, ERM 2008–2009

Country	Cases	Total job gains announced
Poland	200	97,218
United Kingdom	82	92,663
Germany	26	51,840
Romania	64	36,345
France	36	27,001
Czech Republic	43	23,060
Ireland	40	12,726
Portugal	25	12,065

Source: ERM

ERM data also breaks down the pattern of job gains and losses by region.

Table 18: Top regions by announced job gain, ERM 2008–2009

Country	NUTS-2 region	Region name	Cases	Job gain
Poland	PL22	Slaskie	30	21,906
Poland	PL11	Lodzkie	15	12,960
Poland	PL51	Dolnoslaskie	36	8,564
France	FR51	Pays de la Loire	6	7,900
Poland	PL42	Zachodniopomorskie	15	6,480
Romania	RO31	Sud Muntenia	9	6,360
Ireland	IE02	Southern and Eastern	26	5,451
Romania	RO32	Bucuresti	15	4,870
Poland	PL43	Lubuskie	14	4,695
Czech Republic	CZ06	Jihovychod	7	4,480

Source: ERM

[25] The UK and Poland also account for a large and probably disproportionate proportion of overall ERM activity. This is due notably to the comprehensive coverage of restructuring activity by selected media sources in the two countries. For example, in the UK the extensive regional presence of the BBC makes it a richer source of cases that are just above the ERM thresholds than the selected national media sources in Germany and France.

The traditional industrial Polish region of Slaskie (Upper Silesia) heads the list of both announced job loss and announced job gain in 2008–2009, with job gains outnumbering job losses by some 10,000. Job gains in the region were largely concentrated in the traditional sector of mining with major announcements (of more than 1,000 jobs) by companies including Katowicki Holding Węglowy, Karbonia PL and Kompania Węglowa. Over half of all job losses took place in two heavy manufacturing sectors: basic metals and machinery/equipment.

Overall, Poland accounts for three of the top 10 regions for job loss and five of the top 10 regions for job gains with the western Polish regions in particular benefitting from job creation. In the Czech regions of Stredny Cechy and Moravskoslezsko, virtually all job losses were in manufacturing sectors while approx 40% of job losses in Piemonte in Italy and Vastsverige in Sweden were specifically in automotive manufacturing.

Job creation by sector

Over half (56%) of announced job gains in 2008–2009 were in services, while 37% of the gains were in industry. There was a decline in announced new jobs in manufacturing (down 10 percentage points) in the most recent period. There were increases in the proportion of new jobs in less knowledge-intensive services, notably in the retail sector, and also in the primary sector (due largely to new mining jobs in Poland already discussed) but it needs to be borne in mind that such increases come in a context of declining levels of job creation.

Table 19: Announced job gain by broad sector category (%)

	2002–2007	2008–2009
Primary sector	1.1	5.7
Construction	1.9	1.6
Low-technology industries	15.4	12.0
High-technology industries	30.2	24.5
Less knowledge-intensive services	25.7	38.0
Knowledge-intensive services	25.8	18.2

Note: This table uses the Eurostat sub-classification for knowledge-intensive services (KIS] and less knowledge-intensive services (LKIS] and the OECD sub-classification of low and medium-high technology industries to differentiate between lower and higher end manufacturing or productive activities.[26] This mixed classification is exclusive and captures all sectors of activity.
Source: ERM

At a more disaggregated level, the most striking feature of ERM-captured job creation from a sector perspective is the strong contribution of the retail sector already noted. Alone, it accounted for nearly one quarter of the announced new jobs in 2008–2009 and was one of the few sectors during the downturn to record a net surplus of jobs (announced job gains minus announced job losses in ERM cases).

The two leading sectors for job creation in 2008–2009 – retail and manufacture – are also those that recorded amongst the greatest job losses. The retail sector accounted for a significantly increased share of both job losses (up from 3% to 7.6%) in 2008–2009 as well as of announced job gains (up from 15% to nearly 24%).

[26] See Hatzichronoglou (1997).

Table 20: Top ten NACE 2-digit sectors in percentage composition of overall ERM job gains, 2002–2007 and 2008–2009 compared

NACE	Sector	absolute job gain 2008-2009	Percentage job gain 2002–2007	Percentage job gain 2008–2009	Difference (percentage points)
52	Retail	99,245	15.3	23.7	8.5
34	Manufacture: auto	45,001	11.2	10.8	-0.4
10	Mining	20,500	0.5	4.9	4.4
55	Hotels/restaurants	18,040	1.9	4.3	2.4
75	Public administration	16,285	3.4	3.9	0.5
74	Other business activities	13,929	5.5	3.3	-2.2
65	Financial intermediation	13,685	2.7	3.3	0.6
35	Manufacture: other transport equipment	13,648	1.4	3.3	1.9
72	Computer and related activities	12,100	3.4	2.9	-0.5
32	Manufacture: radio, TV etc	11,635	9	2.8	-6.2

Source: ERM.

Retail sector – creative destruction

Over 2008–2009, the retail sector was noteworthy both in terms of job creation (accounting for nearly a quarter of all new jobs announced in the ERM) and job destruction (accounting for the largest proportionate increase of announced job losses for any sector). A competitive sector with generally low margins, the sector is more sensitive than most to an economic downturn.

On the negative side, decreasing sales and profits result from weak consumer confidence, tighter credit conditions and rising unemployment. A number of retail businesses that were experiencing difficulties beforehand have been unable to withstand further weakening of trading conditions and have declared bankruptcy or entered administration. There have been 41 cases of retail sector bankruptcy recorded in the ERM in 2008–2009 involving nearly 50,000 job losses.

On the positive side, some of the larger retail conglomerates have signalled aggressive growth plans with a view to securing market share from failing retailers. Also noteworthy has been the expansion of discount retailers (e.g. Aldi, Asda) seeking to benefit from new ‘downshifting’ customers. Price competition from such retailers may itself be a further spur to rationalisation within the sector, especially as they extend their activities across new national markets.

Employment in the retail trade in the UK – where consumer spending accounts for 65% of GDP – has been especially affected. According to ELFS data, net employment declined by over 160,000 between the first quarter of 2008 and the first quarter of 2009 in the UK retail and wholesale trade. One of the largest cases of bankruptcy ever recorded in the ERM involved Woolworths, which closed the last of its 807 British stores in January 2009, putting 27,000 employees out of work. Other UK-based retail groups that went into administration during the most severe phase of the downturn in the fourth quarter of 2008 and the first quarter of 2009 include Stylo (selling shoes, 2,500 jobs), MFI (home furnishing, 1,400 jobs), Rosebys (home furnishing, 1,250 jobs) and Celebrations Group (cards and stationery, 1,400 jobs). Also Wolseley, a retailer that sells plumbing and building supplies, announced the closure of 200 of its 1,700 UK branches with the loss of 2,300 jobs.

Subsequent to the Woolworths UK closure but independently, Woolworth Deutschland also entered administration, announcing 5,000 job losses. Taken over by a British private equity group in 2007 and no longer linked to the British group, Woolworth Deutschland filed for bankruptcy in April 2009. The stores are still operating, since wages are paid by an insolvency fund; the company, or parts of it, may yet be sold to an investor. On 25 June 2009, the works council approved plans to transfer 9,300 employees to a transfer agency for six months, starting in July. Less than half of all jobs are to be saved by re-establishing 142 Woolworth stores under a new legal framework. Some 169 small stores out of a total of 311 will be either closed or sold. The administrator plans to bundle the surviving stores in a new transfer company. The stores of *Neue Woolworth Deutschland* are expected to employ between 20 and 30 persons each.

Major cases of retail sector restructuring have been reported also in Germany. In January 2009, the Metro Group launched its 'Shape 2012' programme which envisaged the loss of 15,000 jobs, largely without recourse to compulsory redundancies, before 2012. Arcandor's 'pact for the future' negotiated with employee representatives and the ver.di service workers' union traded wage cuts for jobs (affecting managers and high earners in particular) but failed to arrest the group's slide into insolvency in June 2009. More than 3,000 job losses were envisaged at the group's Quelle and Primonda outlets.

Retailers with healthier balance sheets are taking advantage of the downturn and most enterprising have been discount mass-retailers. Asda, the second-largest UK supermarket chain and a subsidiary of Walmart, announced the creation of 7,000 jobs in the UK in January 2009 following an earlier announcement of 9,000 jobs in February 2008. Many of the jobs will come from extending new(er) activities, including the group's home delivery service and new in-store pharmacies. The group announced that recruitment would be targeted in particular at the long-term unemployed with the assistance of local employment partnerships. Other UK supermarkets announcing major expansions in January 2009 were Tesco (10,000 jobs), Wm Morrison (6,500) and Sainsbury's (5,000).

The largest new retail job announcement in 2008–2009 was by German supermarket chain Edeka, which plans the creation of 25,000 jobs by the end of 2010, as it opens 200 new supermarkets and discount stores annually. German and Austrian retail groups have also been actively expanding abroad. In November 2008, discount retailer Aldi announced the creation of 650 jobs across Ireland over the following three years. Kaufland Romania, a hypermarket chain belonging to the German Schwarz Group, announced in March 2008 the creation of 3,700 jobs in Romania before the end of 2009. OBI, retailer of building materials, announced new stores in Oradea and Bucharest with the creation of 400 jobs as well as further investment extending its network in Romania. BauMax Romania, the Austrian chain of retail stores for construction materials and household goods, announced the creation of 660 new jobs with the opening of six new Romanian stores in 2009.

The presence of mining on the list of job creating sectors is due exclusively to major expansion announcements by Polish (or Polish-based) mining – mainly coke or coal mining – companies in 2008; as noted in last year's ERM report, notwithstanding environmental issues and recent price movements, the likelihood of future price increases for oil and gas has made the exploitation of other more traditional energy sources commercially attractive once again.

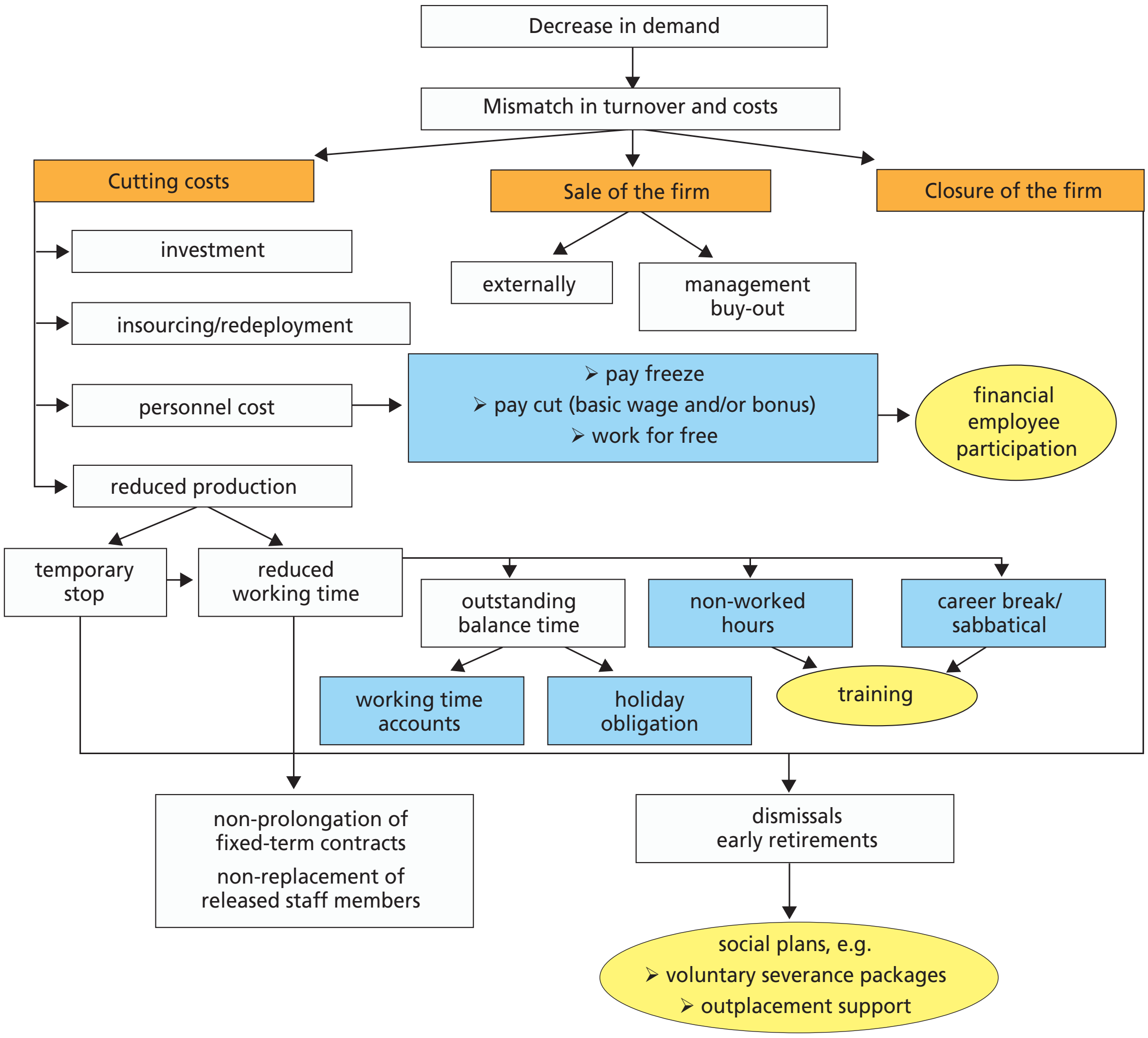
A large share of the job gains in hotels / restaurants appear to be similar in nature to those observed in the retail sector – low-cost operators expanding market share as demand shifts from higher- to lower-end providers. Fast-food restaurant chains such as McDonalds, Subway and Kentucky Fried Chicken – and holiday facility operators such as UK-based Ocean Parc, which runs the Pontins chain –all announced expansions of over 1,000 jobs in 2009. Meanwhile American coffeehouse chain Starbucks – targeting a more aspirational market – has seen its sales and profits decline and announced at the end of January the closure of 300 stores worldwide (half outside the USA) with the loss of 6,700 jobs.

The sector with the biggest decline in the proportion of job gains was the manufacture of radio and TVs. In the period 2002–2007, the ERM recorded widespread employment gains in this sector as companies either moved or established production in four eastern European Member States. Together, Slovakia, the Czech Republic, Romania and Poland accounted for over 90% of this job growth. This employment expansion slowed abruptly in 2008–2009 (from 9% of total job gains to less than 3%), though eastern Europe continues to account for the lion's share of announced new jobs.

Company initiatives to safeguard jobs 3

Since the advent of the recession in 2008, companies have faced a very significant decrease in demand for their products and services. How companies respond depends not only on the severity of the decline but also on their expectations of the future. Moreover, their options for action depend on a wide range of institutional factors such as the legal framework (for example, employment protection legislation), the system of social insurance and various other more specific tools such as short-time working schemes (this topic is taken up in some detail in Chapter 5). The industrial relations framework, both in terms of the objective rules and the spirit of cooperation or otherwise, also determines in a very practical way the possible outcomes. In addition, each firm has its own circumstances and culture and may take particular modes of action based on previous experience. Figure 20 presents a schematic picture of most possible options.

Figure 20: Recession measures at company level



Note: The boxes coloured in orange represent the three main alternatives a company has if facing a decrease in demand. Closures and the related redundancies are dealt with in Chapter 2. Since only fragmented and anecdotal evidence is available for management buy-outs, these are not presented in more detail later. Rather, the following sections describe the company practices coloured in blue as well as incentives for employees to agree to them (yellow bubbles).
Source: Eurofound

It must be underlined that the following overview of European companies' employment-related activities to avoid dismissals does not claim to present an exhaustive list of each and every measure taken by the enterprises. Rather, the objective is to provide information about the most common types of company initiatives. The information has been compiled by in-house Eurofound research during the first and second quarter of 2009. The information was collected by Internet research, compiling more than 700 newspaper articles dealing with about 250 companies, as well as by drawing on information provided by the national correspondents of the European Restructuring Monitor (ERM). Furthermore, the European Industrial Relations Observatory (EIRO) has been used. Although it is deemed that in this form a good overview of the different types of employment-related initiatives taken at company level to cope with the recession can be given, it is not possible to pinpoint differences and similarities among countries or sectors. This is due to the fact that there is no coherent media coverage of all sectors and countries at European level (because of different languages, company sizes and other factors). Another range of company initiatives to deal with the recession stemming from the automotive sector – one of the most severely hit industries – can be found in Mandl, Storrie and Bober (2009).

If the financial situation is acute, some of the most drastic options in the top right part of the figure may be taken. Indeed, ERM evidence presented in Chapter 2 suggests that closures (often due to bankruptcies) constitute an increasing share of all announced job losses. However, the focus of this chapter is on companies' initiatives aiming to maintain the staffing levels until the economic situation of the firm recovers.

Ideally, most firms would want to deal with the cost-cutting challenge without having to change their business activities too much, in order to maintain their productive potential for the subsequent upturn in demand. For example, there is evidence that some companies decided to reduce or postpone investment that can be waived without disturbing the production or service delivery process. Another possibility is to in-source production or services that have previously been contracted out. Workers can be redeployed from their original jobs for which there temporarily is no need to other jobs within the establishment (for example, for maintenance work for which otherwise no free capacity would have existed) or to other units of the group. The Adria Mobil example, outlined below, is an example of redeployment of labour between companies.

Redeployment during the recession

The steel producer Arcelor Mittal had to halt its production in a Romanian plant for three weeks in summer 2009 due to unsold stocks. While the plant had been shut down, maintenance work has been carried out with the participation of 700 employees, the other workers being placed on temporary layoff or taking leave (Rompress, 2009)

Adria Mobil is a Slovenian company based in Novo Mesto. The company markets its basic line, production of caravans and motor homes, under the 'Adria' and 'Adriatik' brands and sells 99% of its total turnover in western European markets. The company has a 6.5% market share on the European market and ranks sixth among the most successful European producers in its field of activity. In recent years, the Adria Group has become very widespread and today it operates globally on numerous markets and on three continents (Europe, Asia, Australia), employing more than 1,200 people (source: www.adria-mobil.com).

In 2009, after agreement with its employees, Adria Mobil introduced a series of measures to deal with the crisis:

- an agreement between Adria Mobil and Renault's subsidiary Revoz: given Revoz's temporary need for 150 additional workers, part of the Adria Mobil workforce will be temporarily shifted to Revoz (the temporary move to Revoz takes place in accord with individual workers' wishes).
- a three weeks working month: during this period, salaries are not reduced but employees will compensate for this with extra work in the following year;
- 30 days unpaid leave.

While the presentation in this chapter is structured according to the type of measures, it should be underlined that the majority of companies do not engage solely in one isolated measure, but rather establish many interrelated initiatives, either at the same time or in sequence. The example of the Swedish automotive company Scania shows how extensive the companies' activities to safeguard jobs may be.

Variety of 'recession measures' at company level: the case of Scania

Scania is one of the world's leading manufacturers of trucks and buses for heavy transport applications, and of industrial and marine engines. It operates in about 100 countries and has 34,777 employees. Of these, 2,400 work in research and development, mainly in Sweden. Scania's corporate purchasing department is supplemented by local procurement offices in Poland, the Czech Republic, the US and China. Production takes place in Europe and Latin America. In addition, about 20,000 people work in Scania's independent sales and service organisation. In 2008, invoiced sales totalled SEK 89 billion and net income amounted to SEK 8.9 billion (Scania, 2009a; Scania, 2009e)

In the first half of 2009, Scania's total deliveries and order bookings declined by a considerable amount compared with the same period in 2008, requiring the company to take a number of steps to adjust the cost level in the organisation (Scania, 2009e).

- During most of 2009, there will be no wage or salary increases (Scania, 2009a).
- Since September 2008, about 3,900 employees have left the group. More than half of these were fixed-term temporary employees in the global production network whose contracts have not been prolonged (Agence France Press, 2009a; Scania, 2009a; Scania, 2009c; The Local, 2009)). Similarly, the number of outside consultants has been reduced.
- Under the flexibility agreements, Scania was able to take advantage of the time bank system, which allows total weekly working hours to be increased or decreased (ENP Newswire, 2009; HRM Guide, 2009; Scania, 2009c)

Furthermore, Scania introduced a series of measures aiming at keeping its workforce and also providing its employees with training programmes, in order to preserve and improve core competency (Agence France Press, 2009a; ENP Newswire, 2009; Scania, 2009c)

1. Production stop for one month

Since its order bookings in Europe fell by 50% during the first nine months of 2008, Scania stopped all production in Europe from 22 December 2008 to 19 January 2009. Scania's extended production halt in conjunction with the Christmas and New Year's holidays occurred within the framework of the flexibility agreements (ENP Newswire, 2009; Esmerk Swedish News, 2008; HRM Guide, 2009; Scania, 2009c).

2. Employee training

In January 2009, Scania started planning to invest in training to increase the company's ability to respond to competition, once volume recovers, by reaching a higher level of productivity and efficiency due to a greater sense of participation and dedication by the employees (ENP Newswire, 2009; HRM Guide, 2009; Scania, 2009c).

In Sweden, the employees at the production units in Luleå, Södertälje and Oskarshamn were offered general and individually tailored training in such fields as production engineering, Scania's working method, languages and mathematics. Similar efforts were planned at the company's other European production units and in South America. In Sweden, the scale of these training efforts was determined, among other things, by the programmes for human resource development in the heavy vehicle industry that the Stockholm County Administrative Board intended to implement (hence, it applied to the European Social Fund – ESF – for resources). For similar efforts at the production units in the Netherlands and France, for example, Scania had the option of using existing public labour market and training grants (ENP Newswire, 2009; HRM Guide, 2009; Scania, 2009c).

The European Commission announced on 14 May 2009 its approval of the funding and set aside SEK 125 million to partially finance training programmes at the affected companies through the ESF. The company will now continue the employee training programme at its production units in Luleå, Södertälje and Oskarshamn that has been under way since early February (OMX Nordic Company News Bites, 2009; Scania, 2009d).

3. Four-day working week in Sweden

Scania announced on 15 May 2009 that it had reached an agreement with the trade unions on the introduction of a four-day week with a pay reduction of 10% for all employees in its Swedish operations (some 6,000 white collar employees and 6,000 workshop employees in all) for six months, during which no lay-off notices would be issued. Early in the year, Scania had introduced reduced working hours for about 2,000 workers in its European units, mainly in the Netherlands, France and Germany (Agence France Press, 2009a; Scania, 2009b; The Local, 2009). The four-day week is meant to achieve savings of 27.5 million euro (Agence France Press, 2009a; Scania, 2009a; Scania, 2009b; The Local, 2009). At first, the Union of Metalworkers (IF Metall) rejected the offer to decrease working hours and suggested instead a reduction in dividends. Following a negative response from the shareholders, Scania announced that it would have to start issuing notices to workers. Therefore, the workers voted on whether to accept decreased working hours. About 60% of the workers accepted temporary lay-offs. The trade union then re-entered negotiations with Scania and an agreement was concluded.

Trade unions' and works councils' involvement

Company initiatives to save jobs during the recession often involve bargaining with employees' representatives as well as collective agreements at plant level. Particularly in those countries where collective frameworks providing for negotiated working time flexibility are less common or even absent at national and sectoral level, company-level 'concession bargaining' is more prominent (Mandl and Salvatore, 2009).

In general, the agreements signed at company level are based on an exchange between the reduction of labour costs and temporary employment guarantees. The reduction of labour costs thereby either refers to the acceptance of pay freezes (or even pay cuts) or to agreeing to reduced working hours. Hence, these are issues on which workers' representatives are traditionally reluctant to compromise. Nevertheless, in several cases they are accepted in order to avoid redundancies, an example of which is the case of Irish airline Aer Lingus.

Agreement between unions and management in Aer Lingus

In November 2008, the former Irish state airline Aer Lingus abandoned previously announced plans to outsource 1,500 jobs after the management reached agreement with the Services, Industrial, Professional and Technical Union (SIPTU) on an innovative 'leave and return' option in a bid to secure cost cuts. Under the deal, some 850 workers have chosen to take a lump sum severance payment and leave the company before returning on reduced pay and conditions. Pay and conditions will be diminished for the majority of the employees, although they will initially be cushioned by a once-off lump sum payment. They will also retain their current defined benefit pension entitlements. The agreement is part of an overall cost reduction plan that envisages total savings of €74 million, of which €50 million will be a saving on labour costs. Meanwhile, about 1,200 cabin crew – who are members of the Irish Municipal Public and Civil Trade Union (IMPACT) – reached a separate agreement, which includes new lower entry pay rates, 96 voluntary redundancies and changes in working conditions.

Source: EIRO

The unions might be approached by the companies with the request to agree to planned measures, but they may also be the driving force behind the establishment of instruments 'other than redundancies' or considerably influence their distinctive design (often in the framework of an intensive consultation and negotiation process). Examples of agreements between companies' management and trade unions/works councils in the European automotive sector are given below, the automotive sector being one of the industries most severely hit since the start of the current recession. The Italian and Spanish examples show that in several cases, companies are 'forced' by the worker representatives to establish alternatives to redundancies by means of protests, strikes or overtime bans.

Social dialogue in European car companies

The German Schaeffler group, active in the automotive industry, signed an agreement in 2008 with the trade unions IG Metall and IG BCE, the German Mining, Chemicals and Energy Union and representatives of the works council, which provides for a relative guarantee of job security until 2014. The group also agreed to maintain the existing employment and worker representation structures and to respect all existing provisions laid down in collective agreements. In February 2008, the car component manufacturer and IG Metall signed the so-called 'Agreement for the Future'. With the agreement, IG Metall accepted to support the request for public aid addressed to the government by the Schaeffler group. In exchange, the group finally agreed on the introduction of co-determination rights. Thus, half the seats of the supervisory board will be given to staff representatives (Schaeffler group and IG Metall, 2009). On 26 May 2009, the Schaeffler group, IG Metall and the group works council signed an agreement defining an agreement based on the reduction of labour costs in exchange for temporary job security (Eurofound, 2009g). This arrangement represents the first practical outcome of the 'Agreement for the Future'. It rules out company redundancies until 30 June 2010, provided that the reduction in labour costs is achieved by means of a jointly agreed list of measures (working time reduction with an adjustment of wages and salaries, a further use of short time work, voluntary agreements to terminate the labour contract, part-time contracts for senior workers, reduction of one-off payments as well as the establishment of transfer companies).

In the agreement signed in April 2009 at the German car manufacturer Daimler, the company granted a limited job guarantee in return for a number of concessions concerning working time and pay. The measures laid down in the agreement are intended to reduce labour costs by €2 billion. The agreement covering 161,000 employees working at the 15 German sites follows a previous cost-cutting package concluded at the company in 2004. Of the apprentices who started their training in 2006 and 2007, 80% will receive a permanent employment contract from the company following their apprenticeship. The remaining 20% of apprentices will be employed on a fixed-term contract for 12 months. In case the car producer's economic situation does not improve or deteriorates further, the company, however, has the right to cancel the agreement with effect from 31 December 2010. As a consequence, forced redundancies are effectively excluded only until the end of 2009 (Eurofound, 2009b).

Magneti Marelli, an automotive supplier belonging to the Fiat group, announced at the beginning of 2009 that the contracts of nearly 70 Italian temporary agency workers, which expired at the end of May 2009, would not be renewed because the jobs were being given to around 100 Fiat workers, working short-time, who were covered by the Italian wage guarantee fund (see Chapter 5). The affected workers decided to go on strike, a strike which was then extended by the metalworkers union to other suppliers and to the Fiat Sata plant. Due to the mobilisation, after one week the production at the Fiat Sata plant fell by 7,000 vehicles. At the beginning of June, an agreement between the management and unions was reached, providing for a continuation of the employment of the 70 temporary agency workers. The trade union organisations considered the agreement a result of the solidarity of permanent workers with temporary workers.

In Spain, unions at Nissan plants protested against planned lay-offs, resulting in the implementation of a temporary work reduction programme instead (Mandl, Storrie and Bober, 2009).

Nevertheless, there are also cases where the workers' representatives reject the company's suggestions (or urge staff to do so in the form of a ballot). Examples are Independent Newspapers in Ireland or Corus in the United Kingdom. In June 2009, the trade union CFDT opposed pay cuts planned at the French subsidiary of US computer company Hewlett-Packard (5% for executives and 2.5% for employees) (Les Echos, 2009a). In the Scandinavian airline SAS and in British company FirstBus, negotiations have been stopped as it emerged that no agreement could be reached (Esmerk Swedish News, 2009b; The Press and Journal, 2009).

Working time reduction

As mentioned earlier, many European enterprises reduced their production level in response to lower demand. Due to the time line of the current recession – with its trough at the end of 2008 and beginning of 2009 (see Chapter 2), several companies took advantage of the holiday season at the end of the year. Production stops and firm closures occurred in December 2008 and January 2009 and often lasted for four weeks. This process also continued throughout the first six months of 2009, with companies opting for production halts or reduced shifts. The implementation varies from a few occasional days to repeatedly applied flexible stoppages (depending on the current demand) and more long-term general halts – such as plant closures for several months, as has been the case with Honda in some EU Member States, or in the Finnish-Swedish forest industry company Stora Enso (Esmerk Finnish News, 2009). Depending on the size of the company, between a few hundred and 150,000 workers have been affected in the analysed cases.

In general, companies' first reaction to the slack periods resulting from lower demand during the recession was to reduce workers' outstanding time balances by proposing or requesting them to take advantage of holiday entitlements. This holds particularly true for the above-mentioned closures during the holiday season at the turn of the year 2008–2009. According to a recent study, one fifth of British companies have, for example, already brought forward annual leave entitlements or are considering to do so (CBI, 2009). Similar approaches also seem to be widespread, for example, among public sector employers in Latvia.

With regard to the 'holiday obligation' of employees, the distinctive design varies among the companies applying this instrument. While some enterprises at least partly pay for the absence periods (such as Infineon in Austria, Volkswagen in Slovakia or KPMG in the UK), other firms oblige their employees to leave the company without payment during the stoppages (examples include Hasbro in Ireland or several ministries and municipalities in Lithuania).

Another possibility – concerning holiday obligations but also more generally using outstanding time balances – is the introduction or enhanced use of working time accounts. Such schemes normally consist of two operational modes (or a combination of the two). On the one hand, workers can be requested to take compensatory time off for already accumulated overtime. Thereby, employees benefit from days off without having to use their annual leave, while the company avoids paying higher compensation for overtime. On the other hand, workers might be asked to take time off now and work longer hours later on, when the demand for the firm's products recovers and a higher production level is necessary. In the framework of the current recession, several companies have extended the time corridor (the maximum number of hours that can be taken off) of their working time accounts or newly introduced equivalent systems. This is the case for several car manufacturers (such as Aston Martin, BMW, Daimler, Honda, Seat and Volkswagen). Another example is Menneke, the German manufacturer of electrical appliances, which introduced a new working time account system comprising

150 hours not worked in 2009. During this time, wages will not be cut. The plan foresees that after the recession workers will work 150 additional hours without extra pay.

In order to avoid dismissals during the current downturn in demand, when taking advantage of holiday and/or overtime entitlements is no longer feasible, many European companies place their employees on short-time working or temporarily lay them off. For the employees, it provides at least a temporary guarantee of not being made redundant and, hence, maintaining income security – even if the reduced number of working hours leads in many cases to a relative pay cut (see Chapter 3). For the employers, it increases their internal flexibility by decreasing their personnel cost without their losing access to skills and competences later on.

In the UK, for example, 30% of companies have implemented short-time working or are considering doing so (CBI, 2009). Across Europe, short-time working appears to be more prevalent in the manufacturing sector (for instance, the automotive industry), but is also often applied in the construction sector or in the banking industry. It seems that the application of short-time working or temporary lay-offs started in January 2009, with a 'second wave' starting in April–May 2009. In general, companies intend using it as a temporary instrument, for between a few weeks or several months. Now, it seems that some companies later extended their initial plans, extending the period over which they put their employees on short-time working or temporary lay-off. Nevertheless, there are also cases where the planned reduction in working hours turned out not to be necessary: for instance, Skoda in the Czech Republic benefitted from increased demand due to the German car scrapping scheme (Mandl, Storrie and Bober, 2009)).

A very widespread approach is a weekly reduction of working time, introducing a three- or four-day working week, or a daily reduction of working hours (from eight hours, to six or six and a half hours). However, there are also cases where employees do not work at all for a certain period of time (a few days up to a few months), sometimes on a rotating basis; during this time they are formally kept in employment. Depending on the individual design of the scheme, this may occur at regular intervals (e.g. one week off every month) or only once (e.g reduced days within a certain time period). In some cases, the hours not worked are used for educational measures or training.

In some European countries, there exist public support schemes to partly compensate for the income loss of the employees or the costs arising for employers (see Chapter 5). Even with a public support instrument there are some costs for the enterprises. In Germany, for example, firms have to pay approximately 24% of personnel costs for the hours not worked, if the government fully covers the social security contributions (35% if the government pays half of the social security contributions and about 48% if the company has to pay an additional allowance to the employees on short-time work due to collective agreements). This is due to other non-wage labour costs as well as the holiday entitlements of the employees. For 2009, an average of 1.1 million short-time workers is forecast, resulting in a loss of about 38% of normal working time and costs of between €4.2 billion and €6.2 billion for the companies (corresponding to between 0.4% and 0.6% of the overall German wage bill) (Bach and Spitznagel, 2009).

Next to comparatively short-term working time reductions as described above, some companies adopt a more long-term perspective, by offering their employees career breaks or sabbaticals. During this time, often lasting for between one and five years, staff members may conduct training or devote the time to family or caring tasks. They are paid a certain amount of their previous wage (depending on the duration of leave), either as an annual percentage or as a lump sum. Those companies that offer such possibilities are mainly active in the services sector (banking, business consulting), but there are also a few examples from the manufacturing sector (such as the car manufacturer Aston Martin or the Austrian metal manufacturer Plansee). The most advantageous initiatives (from the perspective of the employees) guarantee the employee a job similar to the one they currently hold when they return. Employees in the Spanish bank BBVA do not only benefit from a job guarantee after their career break, but are also given several different options with regard to the time frame and financial compensation.

Career breaks and sabbaticals

BBVA is a worldwide financial group that employs 112,000 people in more than 30 countries around the world and has more than 47 million individual and business customers. BBVA is Europe's sixth-largest bank and the second largest in Spain.

BBVA achieved a profit of €2.8 billion over the first half of 2009 – a drop of 10% compared with the same period in the previous year (BusinessWeek, 2009a). Staff numbers in Spain have decreased by 10% since 2007, and the bank closed 220 branches in the last year (NightNurse, 2009; BusinessWeek, 2009; Financial Times, 2009b).

At the beginning of May 2009, the bank introduced a set of cost-cutting measures that also sought to help employees reconcile family and working life, and give them more flexibility. The measures offered to its 30,000 employees in Spain on a voluntary basis included the following (NightNurse, 2009; Newser, 2009, BBVA, 2009):

- between three to five years leave to pursue personal or professional projects, with a guaranteed job at the end of the extended leave; during the leave, employees receive the equivalent of 30% of their annual pre-tax pay, subject to a minimum of €12,000 euro, plus €3,600 in healthcare coverage; to qualify for the scheme, the employee must have worked at BBVA for at least eight years;
- up to two years' special leave to take care of children or relatives or to take up post-graduate studies; employees on study leave are paid €6,000 euro a year; to be eligible, employees must have worked at the bank for at least three years; to avail of family leave, which is unpaid, employees must have worked at BBVA for at least one year;
- shorter working days: a five-hour day, five days a week or a four-day working week; during the short-time working period, employees' pay is reduced in proportion to the reduction in working hours.

Spain's labour minister and several trade unions were critical of BBVA's offer (Financial Times, 2009c).

Another way of reducing overall working time without dismissing workers (in the strictest sense) is to not renew fixed-term contracts, or introduce a hiring freeze, thereby not replacing released workers (for example, those retiring or opting for voluntary severance packages). Often, these two instruments are combined. In the UK, for example, 61% of employers reported a recruitment freeze, with the construction and manufacturing sectors more likely to do so (81% and 70%, respectively). The equivalent figure in the public sector was 44%. The smaller the employer, the more likely they are to institute a hiring freeze (CBI, 2009). Similarly, in the spring of 2009, 62% of small Irish firms planned to halt recruitment in the coming three months (SFA, 2009). Across Europe generally, such practices seem to be more prevalent in the manufacturing sector than in other industries: they have been applied, for example, by several car manufacturers, the metal companies ArcelorMittal and ISD Dunaferr, the electrical appliance producers Gorenje and Philips, the food manufacturer Eckes-Granini and the textile company Chanel.

Measures to cut personnel costs

Apart from reducing working hours, the direct reduction of personnel costs for companies also results in a better match to the lower level of demand. The 'softest' instrument in this regard – comparatively speaking – is the introduction of a pay freeze, i.e. not raising the salaries and wages as would otherwise be done annually. This seems to be common in Bulgaria, the Czech Republic and in Poland. In addition, almost 70% of small Irish firms planned to introduce pay freezes in the spring of 2009 (SFA, 2009). A UK survey also revealed that 55% of employers plan a pay freeze during the next pay round, while 39% expect to deliver only a modest increase. Plans for pay freezes are most prevalent in construction (82%), manufacturing (64%), retail (62%), professional services (60%) and hi-tech, science and IT (60%). Only minor differences could be found regarding company size (CBI, 2009).

While in some cases such pay freezes are applied to all employees, other instruments focus them on specific groups. The British Broadcasting Corporation (BBC), the Irish food manufacturer Glanbia and the Spanish company Iberdrola, for example, have frozen the pay for senior executives only, while the majority of staff receive a modest pay rise for 2009. Similarly, the British Pearson media group has frozen the pay of all staff who have an annual income of more than GBP 30,000, while lower-paid employees receive an increase of 3.5%.

In most of the identified cases, the pay freeze is applicable for one year. However, in a few companies it has been applied up to 2011 – for example, British Airways and Jaguar Landrover in the UK and Seat in Spain). In contrast, staff of the Finnish airline Finnair rejected a freeze of previously agreed pay increases for 15 months (Associated Press, 2009).

Several European companies have opted for another instrument, the non-payment of bonuses. Some such schemes are limited to management, whereas others affect all employees. In one example, in the first quarter of 2009, Germany-based Deutsche Bank AG was planning to cut bonuses at an average of 60% after reporting a loss (Global Banking News, 2009), and Poland's state-controlled refinery PKN Orlen announced a bonus reduction of 20% (Reuters News, 2009b).

A considerably more contentious strategy is to cut pay; in such cases, labour law regulations often apply. Hence, in many countries, this can only be done on a voluntary basis, with the agreement of employees. A study from the Czech Confederation of Industry shows that 61% of all Czech firms are cutting employees' salaries due to a drop in orders as a result of the global recession. At the same time, it has been pointed out that around 60% of the firms have not yet resorted to lay-offs or have only slightly decreased their workforce (Reuters News, 2009a). In Ireland, 'only' 23% of small firms planned to cut pay in spring 2009; however, a further 24% are considering doing so (SFA, 2009).

The extent of pay cuts varies considerably from company to company. Nevertheless, a reduction of 10%–20% seems to be relatively widespread. Often, pay cuts are not uniformly applied to all staff members, but are based on wage levels. In several cases, only the wages of the management team and executives have been reduced (in the Irish Electricity Supply Board, Nissan across Europe, Ducati in Italy, Tallink in Estonia, Impresa in Portugal and Telekom Slovenije). The German car manufacturer BMW cut employees' pay by 10% but cut area managers' salaries by one third; members of the management executive committee volunteered to give up 40% of their salaries (Datamonitor News and

Comment, 2009; The Guardian, 2009). At the Irish Times newspaper, a pay cut of 10% was proposed to those earning more than €100,000 per year and a 5% cut to those earning between €40,000 and €100,000. A pay cut of 20% was agreed with the Managing Director and the Editor (and of 15% with their deputies) (Irish Independent, 2009) In France, Hewlett Packard plans a 5% reduction of executive remuneration and a 2.5% cut of the pay of several thousand employees (Les Echos, 2009a).

Pay freezes and pay cuts

In December 2008, Independent News and Media (INM) – which owns several papers in Ireland and elsewhere – announced pay cuts and freezes affecting employees working at the two main Irish newspaper titles – the Irish Independent and the Sunday Independent. All directors and top executives would have their pay cut by 10% and bonuses will not be paid for the 2008–2009 period. Employees at other levels will be also affected by pay cuts proportionate to their salaries. A range of cuts is proposed – a pay freeze for those on €40,000 or less per year, a reduction of 2.5% for those on between €40,000 and €50,000 and a pay cut of 5% for those earning between €50,000 and €100,000 euro (Irish Independent, 2008). At the same time, INM introduced a new share-buying scheme whereby employees are given the option to buy shares – at the share price on the day of introduction of the scheme – worth 2.5 times the pay cut (NUJ web site, 18 December 2008).

While seeking staff cooperation in the implementation of the cost-saving plan, the company ruled out any third-party labour conciliation on the issue and opted out of the national-level pay arrangement.[27] According to a management spokesperson, the rationale behind this decision was to avoid differential treatment for unionised and non-unionised employees. The company hopes to save around €1.5 million this year by implementing its cost-saving plan (Irish Examiner, 2009).

Meanwhile, the National Union of Journalists (NUJ) expressed concerns regarding the deadline related to the share-buying scheme and asked for an extension. The NUJ also accused company management of unilaterally changing the terms and conditions of its employees and found unacceptable the pay-for-shares proposal which had been presented 'on a take it or leave it basis'.

Mounting pressure from the NUJ has prompted INM management to extend the deadline for the acceptance of the offer. Although the NUJ chapel meeting had unanimously rejected the management request for a pay cut, the management expressed satisfaction with the initial number of employees – 50 staff at INM's Dublin headquarters – who had agreed to the request for a pay cut (source: NUJ web site, 14 January 2009). The company management, however, could not definitively rule out job cuts in the future.

In many of the identified cases, pay cuts are not introduced as a stand-alone instrument, but rather in combination with reduced working hours (plant closures, short-time working, temporary lay-offs, career breaks or sabbaticals). Thus, in some companies, pay is reduced by the same percentage as the working time (particularly, for example, in Cyprus and Hungary) while in others, the pay cuts are less severe.

[27] National pay agreements, however, are not legally enforced under Ireland's traditionally voluntary industrial relations system.

The continuation of the idea of cutting employees' pay is to ask them to work for free. Apart from British Airways (see below), the workers of the Swedish construction company Smålandsvillan also agreed to work for free for four days (Esmerk Swedish News, 2009a), and the works council of the German carmaker Opel announced in May 2009 that the employees are willing to work for free for three days in May and June 2009 (Die Welt, 2009). Interestingly also, in Ireland, a jobseekers' website – www.talenttank.ie – has been set up, targeting unemployed people who are willing to work for free for a short period while they search for a job (Sunday Business Post, 2009a).

Work for free

Airlines, severely hit by the recent global economic recession, rising fuel prices and fears of the H1N1 flu pandemic, are struggling to come up with ways to save cash. According to the International Air Transport Association (IATA) in June 2009, airlines carried 16.5% less cargo and 7.2% fewer people than a year previously. Adjustments in capacity of -4.3% were not significant enough to offset the fall in demand, which put extreme pressure on average fares and yields. As a result, in June 2009 revenue in international markets dropped by 25%–30% (IATA, 2009a). The organisation claims that this is the most difficult situation the industry has faced and estimates that globally airlines will lose USD nine billion in 2009 (IATA, 2009b).

For British Airways (BA), the national flag carrier of the UK, market conditions also remain challenging. In May 2009, the company announced a record annual loss of GBP 401 million as against the GBP 922 million profit in 2008 (BA, 2009a).

To improve its financial situation, BA introduced a set of saving measures, including not paying management bonuses, no increases in base pay and reducing the size of the workforce. The airline is confident of achieving targeted reductions of 3,700 posts by March 2010, mainly through reduced overtime, increased part-time working and voluntary redundancies. This is in addition to 2,500 jobs that have been cut since summer 2008. Engineers and pilots have already accepted the changes, while talks with other union groups continued in July 2009 (BBC News, 2009b).

In June, BA's chief executive announced he was to work for free in July, forgoing his monthly salary of GBP 61,000, as did the chief financial officer. Then, all employees were given the option to volunteer (as the company was aware that not all staff members were in the financial position to participate) for between one and four weeks unpaid leave or unpaid work, with the pay loss spread over three or six months. The measure was announced to the employees in the form of an email as well as by a letter from the chief executive published in the internal company magazine. Employees had one month to apply to participate, and the measures should be implemented by March 2010.

By June 2009, about 800 out of the 40,000 employees had volunteered to work for free (mostly for one week) and a further 7,000 agreed to unpaid leave, which will save the company up to GBP 10 million (BA, 2009b). The participants come from all employee groups, with no group being particularly overrepresented.

The company considers this interest by the employees as a success and is satisfied with the outcome of the scheme, which was not based on previously envisaged specific targets regarding cost savings. Nevertheless, due to the uncertain economic situation, compulsory redundancies are not ruled out for the future. Similarly, the continuation of the measures described above will depend on the future state of the company.

Other measures the airline is planning, in order to improve its financial situation, include issuing GBP 350 million in convertible bonds to shareholders and releasing bank guarantees from its defined benefit pension schemes back to the airline.

(BBC News, 2009c).

Incentives for affected employees

In order to compensate employees for their willingness to contribute to the company's recovery, several employers offer incentives for their staff to accept the measures described above.

Particularly with regard to reduced working hours (suspension of production, short-time working, temporary lay-offs and career breaks) the support of training measures is widespread – an example of which can be found below. However, considerable differences among countries seem to exist. While educational measures are hardly offered in Bulgaria, Slovenia or Slovakia, for example, they are supported in countries such as Austria, Germany or Hungary where short-time working support schemes are more favourable if they are related to training (see also Chapter 5). Slovakian research, for example, finds that largely, the provision of education courses by external suppliers has been stopped during the recession. Nevertheless by May 2009, companies had not introduced the radical cuts that were initially foreseen in January 2009 (SITA, 2009).

Training activities while working short-time

The Hal Far-based company Trelleborg Sealing Solutions Malta, part of the Trelleborg group headquartered in Sweden, is a well-established producer of parts for the automotive industry, exporting mainly to Germany and the US. As the company relies on orders from car manufacturers, it has been hard hit by the global economic crisis. In October 2008, Trelleborg Sealing Solutions Malta introduced a four-day week and dismissed 25 employees in an attempt to cut costs and remain competitive. The four-day-week system ceased in January 2009 when the company announced the loss of another 102 employees out of a total workforce of 450 (Times of Malta, 2009). As the economic situation worsened, the company announced plans to reduce further to a three-day week, cut over 100 jobs and relocate some of the production activities to Poland. In March 2009, the Maltese government announced that it was to provide financial assistance to companies in an effort to boost investment and revert to the five-day working week. A task force was set up to negotiate support schemes and identify new investment opportunities with those companies facing increasing financial difficulties in the current economic climate. The government concluded an agreement with Trelleborg, which shortly afterwards announced an investment of €2 million euro in its Maltese plant. As a result of this investment, the company will be in a position to retain 150 employees and employ another 85 people by the end of 2010 (DI-VE, 2009). Under the agreement, the government – through the Employment and Training Corporation – will support the company's training needs for a 17-week period. This means that workers will return to the normal five-day working week, with the fifth day reserved for training.

Similar agreements were concluded with other Maltese companies such as Stainless Steel Products Ltd and the switch-maker Methode Electronics – which had also reduced their working week to four days. The government measures to support companies in their efforts to ease the consequences of the global recession are not a permanent feature in Malta's legal and economic framework.

In several cases where companies asked their employees to accept pay cuts, the affected staff members were offered company shares instead. The idea behind this is to compensate them for their current income loss by allowing them to participate in future profits. This approach to employee financial participation is deemed a fair division of profit between the two production factors of capital and labour, while at the same time contributing to a better working atmosphere, greater productivity and better staff motivation and loyalty. Nevertheless, it has to be kept in mind that such an instrument is not available for all company forms due to legal reasons and can more easily be applied in listed and large companies, as the following examples show.

Financial employee participation in German car plants

Works councils at German car producers such as Opel, Volkswagen and Daimler have started a discussion about the role of financial participation in times of economic crisis.

In the past, employees of Opel accepted wage cuts in exchange for investment commitments and employment guarantees. In the context of the present crisis, the Opel employees are ready to waive wage claims worth about €1.2 billion. In return, they are asking for 10% of future Opel shares. According to the works councils' proposal, the stock corporation would hold the employees shares in trust, while the chairs of the works councils of Opel's German plants would serve as shareholder representatives (Spiegel Online, 2009)

At Daimler, the works council is considering the conversion of employee bonus payments, worth a total of €280 million, into Daimler shares.

In the case of the combined Volkswagen-Porsche group, the unions and the works councils are also working towards enabling the more than 380,000 employees to hold a significant share of the company. The works councils' model of financial participation is based on placing employee shares with a foundation, cooperative or registered association. According to this model, employees would receive dividends in form of social projects. Also, voting rights should be exercised collectively in order to guarantee an effective influence on strategic decisions (Stern, 2009).

Finally, it should be mentioned that numerous companies are offering voluntary severance packages to staff members deciding to leave the companies, often within the framework of early retirement. In the United Kingdom, the highest average redundancy payments were found in banking, finance and insurance, professional services, energy and water and in retail. Very large companies (with more than 5,000 employees) and multinational companies often offer about three to four times higher average redundancy payments than the smallest organisations (CBI, 2009). Furthermore, anecdotal evidence from other countries shows that voluntary severance packages are higher in service industries than in the manufacturing sector, and also higher in larger firms than smaller.

In some cases, these voluntary severance packages not only comprise a one-off payment going beyond compulsory redundancy payments, but also support employees with regard to (re-)training and/or other outplacement services (such as the establishment of specialised outplacement bodies; see Chapter 5).

Outplacement support

The Austrian holding Plansee, with more than 30 production establishments and sales establishments in almost 50 countries worldwide, is the world market leader in high-performance materials made by powder metallurgy. The holding employs about 6,350 workers globally, about 2,000 in its Austrian establishments (Wirtschaftsblatt, 2009c; Plansee website, www.plansee.at)

In the business year 2008–2009, the holding succeeded in increasing its consolidated turnover by 2% to €1.1 billion, thereby strengthening its global market position (Plansee, 2009). According to the company, this result was only due to the acquisition of the company Global Tungsten & Powders, without which the turnover would have been 10% below the level of the year before (Wirtschaftsblatt, 2009a; Wirtschaftsblatt, 2009b)

While the business development was relatively stable throughout the first six months of 2008, almost all fields of activity were hit by the crisis in the second half (Wirtschaftsblatt, 2009c; Der Standard, 2009). For the current business year, a two-digit decrease in turnover is expected, requiring the company to reduce its investment from about €131 million in 2008–2009 to about €30 million euro in 2009–2010.

In the framework of a social plan, Plansee initiated employment-related measures to avoid redundancies. For August 2009, a two-week company closure was planned. 160 agency workers have been made redundant, and for 600 workers, short-time work has been introduced. 100 employees will take a year-long sabbatical for training purposes (*Bildungskarenz*) and a further 200 staff members will be transferred to a newly established labour foundation by the end of 2009 (Wirtschaftsblatt, 2009a, 2009b and 2009c; Der Standard, 2009)

Employment-related initiatives at European level

4

Since at least the early autumn of 2008 it became apparent that the impending recession would be something out of the ordinary. Not only would the recession be long and deep but it would also significantly affect every single Member State. As the recession is characterised by a massive fall in consumer and private investment demand, and as the financial crisis has placed considerable limitations on monetary policy, it is almost universally recognised that fiscal expansion is the primary tool to address the current acute employment problems.

The European Economic Recovery Plan sets out the framework for a proposed injection of demand into the European economy, and constitutes the point of departure of this chapter. While the major part of the expansion is to be financed at Member State level, this chapter deals only with specifically European initiatives. The European Commission (2009f) gives some account of the activities of the Member States primarily from the macro level and Chapters 3 and 5 in this report provide numerous examples of initiatives at company and Member State level.

The social partners also have an essential role to play in any European recovery and the position of the major social partners is summarised together with developments in the important automotive sector. The most immediate means for the European Union to address the employment situation of its citizens, however, is through the Structural Funds. Some attention is devoted to changes in the Social Fund and particular emphasis is placed on the European Globalisation adjustment Fund (EGF), which has been revised to act as a dedicated response to the restructuring at company level caused by the current crisis. The first evaluations of two EGF cases conclude the chapter.

Overview of macro measures and policies at EU level

On 26 November 2008, the European Commission proposed the European Economic Recovery Plan (EERP). It was adopted by the European Council in December 2008. The purpose of the plan was to boost public spending at both Member State and European level and thereby stimulate the economy, while maintaining focus on the longer-term strategic European goals as set out in the Lisbon strategy and elsewhere. According to the Communication for the Spring Economic Council, fiscal policy is providing support to the economy in the region of 3.3% of GDP over the period 2009 and 2010.

The contribution from Member States called for in the EERP amounts to 1.2% of GDP. For many reasons the scale of the fiscal expansion varies greatly among Member States. Some Member States, have very limited fiscal room to manoeuvre, while others have decided that appreciably more stimulus is required. Moreover, the extent to which non-discretionary public spending increases during a downturn in the economy through ‘automatic stabilisers’ – while generally considerable in the European Union – varies considerably between Member States. In fact there is some difference of opinion on the size of the aggregate level of fiscal expansion in the European Union, not only as regards the actual sums involved but also on whether the expansion has been sufficient. It would appear, however, that the expansion is less pronounced than in other parts of the world – in particular compared with that of China and the United States.

The financial contribution from the European Union itself amounts to €30 billion, which corresponds to 0.3% of GDP. This includes new public–private partnerships. The Commission proposes making available €5 billion to address the challenge of energy security and to bring high-speed internet to rural areas, as well as through additional advance payments under cohesion policy amounting to €11 billion euro, of which €7 billion euro for new Member States. The changes in the Structural Funds will be taken up in a following section.

A rapid response came from the European Investment Bank (EIB), which has increased annual lending by €15 billion per year in 2009 and 2010. In the first four months of 2009, 12 loans amounting to €4 billion were provided to the troubled automotive sector, mainly under the European Clean Transport Facility. One of the main programmes has increased lending potential to SMEs by €30 billion between 2008 and 2011. The EIB has special lending facilities for SMEs in central, eastern and southern Europe and these are to receive additional funds.[28] Other specific support to new Member States, and with particular focus on SMEs, is channelled through the European Bank for Reconstruction and Development (EBRD).

Two measures were introduced which, while they did not directly stimulate the economy in terms of EU funds being made available, gave Member States added possibilities to do so. Firstly, since 25 February 2009, Member States have enhanced possibilities in awarding state aid to companies affected by the financial crisis. Since the amount that may be provided is no more than €500,000, it should primarily benefit SMEs. The other measure was designed to speed up the public procurement procedure to quicker inject demand stimulus into the economy. The measure shortens the required duration of the tendering process for the most commonly used procedures for major public projects from 87 to 30 days.

While the EERP was primarily a fiscal package, monetary policy as conducted by the European Central Bank, is of course of significance. While interest rate policy was initially rather cautious, the current rate (the main 'rifi' interest rate) in September 2009 is at 1%. The ECB has been much more expansive in terms of providing liquidity by various means. Most strikingly, by 24 June, the ECB had lent banks in the eurozone €442 billion.

As the threat of financial collapse receded, employment reached the top of the policy agenda. José Manuel Barroso, President of the European Commission, has underlined that employment is now Europe's number one objective and at the Employment Summit held on the 7 May 2009 in Prague, he states that 'We all know we must succeed on employment because there can be no economic recovery on the foundations of social collapse, just as there can be no social progress in an economic desert.' Ten concrete actions, addressing both short-term and long-term challenges, were proposed for implementation at national and European levels.

- Keep as many people as possible in jobs, with temporary adjustment of working hours combined with retraining and supported by public funding (including the European Social Fund).
- Encourage entrepreneurship and job creation e.g. by lowering non-wage labour costs and increasing flexicurity.
- Improve the efficiency of national employment services by providing intensive counselling, training and job search in the first weeks of unemployment, especially for the young unemployed.
- Increase significantly the number of high-quality apprenticeships and traineeships by the end of 2009.

[28] For example, on 19 May 2009, the EIB signed an agreement with Erste Group Bank AG under which it will provide finance totaling €440 million for SMEs in central and eastern Europe via four subsidiaries of Erste Group: Ceska Sporitelna, Erste Bank Oesterreich, Erste Bank Hungary and Immorent.

- Promote more inclusive labour markets by ensuring work incentives, effective active labour market policies and modernisation of social protection systems that also lead to a better integration of disadvantaged groups including the disabled, the low-skilled and migrants.
- Upgrade skills at all levels with lifelong learning, in particular giving all school leavers the necessary skills to find a job.
- Use labour mobility to match supply and demand of labour to best effect.
- Identify job opportunities and skills requirements, and improve skills forecasting to get the training offer right.
- Assist the unemployed and young people in starting their own business e.g. by providing business support training and starting capital, or by lowering or eliminating taxation on start-ups.
- Anticipate and manage restructuring through mutual learning and exchange of good practice.

Moreover, it was emphasised that the plan was to be implemented together with the social partners as was the importance of making the best use of EU tools and resources such as the European Social Fund and the European Globalisation adjustment Fund. Both funds have recently been revised to maximise their effectiveness in times of crisis.

European social partners and the crisis package

BusinessEurope underlines the role of market economy principles for recovery and, most specifically, the importance of avoiding protectionism both within the Single Market and externally. The point addressed in the EERP – on the acute difficulties in obtaining credit currently being experienced by very many countries in Europe – is of great importance for employers. In March 2009, BusinessEurope (2009a) presented an action plan for this particular issue. They called for central banks, including the European Central Bank, to engage in the outright purchase of short-term debt instruments issued by corporations and stated that central banks, together with the EIB, should further extend guarantees to ease access to finance. In the ongoing restructuring of commercial banks, the importance of allowing the sector to operate under market conditions was also underlined, together with the benefits of a coordinated European approach. The latter was important, not least due to the priority of maintaining a level playing field. Finally, and perhaps most controversially, the action plan proposed that governments, the European Commission, central banks and regulators take initiatives to revive securitisation and credit derivative markets.

The other major BusinessEurope point on recovery from the recession is the need to speed up structural reform. Indeed, from the organisation's perspective, the speed of structural reforms has declined in the last year. The organisation's spring 2009 European Reform Barometer, shows that a reform slowdown is already evident (BusinessEurope, 2009b).[29] Labour markets have been the only policy area in which member federations reported faster progress than in the previous survey. Finally, BusinessEurope underlines the need for macroeconomic coordination by the Member States.

This macroeconomic perspective is the main concern of the European Centre of Employers and Enterprises providing Public services (CEEP). It questioned the effectiveness of fiscal policy at European level and pointed out, for example, the lack of strong fiscal instruments at that level, given the discretion that Member States have on determining the composition of the national expenditure (infrastructure

[29] This was based on a survey of BusinessEurope's national member federations conducted in January and February 2009.

investment, tax reductions, transfer payments, guarantees, loans etc). CEEP argues that the multiplier effects and thus the overall demand stimulus will be unclear. In the opinion of CEEP, priority should be placed on investment in public infrastructure. This includes both physical infrastructure (roads, rails, buildings, pipelines, ICT networks, energy interconnections etc) and social infrastructure (education, health, social services etc).

The European Association of Craft, Small and Medium-sized Enterprises (UEAPME) expressed much satisfaction with the recovery plan: its Secretary General Andrea Benassi found it to be a 'bold, coherent and proactive answer to tackle the economic downturn and promote a swift recovery process in Europe, without jeopardising Europe's mid-term economic objectives'. As access to finance is a constant issue for SMEs, the recognition of the importance of access to finance in these tough economic times was well received. UEAPME believes that if properly applied, the new rules on state aid for working capital will go some way towards answering SMEs' financing needs. On a more negative note, UEAPME expressed concern that – while support may be available for employees dismissed from large companies – it was not obvious that such support would be available for smaller companies, which that may also be affected by the restructuring of bigger firms.

Like some other European actors, the European Trade Union Confederation (ETUC) questions the coordination of the European macroeconomic response. However, more than the other major stakeholders, they very strongly advocate further demand stimulus of the economy; early on in the crisis, they were critical of the slow lowering of interest rates by the ECB. Like BusinessEurope, ETUC expresses concern about the spread of protectionism, but emphasises the policing of the Single Market more from a social perspective. Indeed, it believes that without strong leadership at European level, the crisis may lead to an undermining of the Single Market and, ultimately, to social unrest. As ETUC had for many years been critical of recent aspects of financial capitalism, it very strongly advocates stricter financial regulation. As has been the case for decades, while BusinessEurope call for structural reforms, ETUC calls for a 'new social deal'. The crisis has not lead to any significant change in the position of both parties in this respect. Perhaps most interestingly, ETUC has been very actively exploring the potential of how long-term environmental necessities may be harnessed to alleviate the more pressing short-run employment needs.

ETUC and a 'new green deal'

In its response to the crisis, ETUC emphasises the need for a 'new green deal'. According to ETUC, there is an opportunity to reorient the European economy towards sustainability. In the confederation's opinion, the areas warranting investment are 'renewable energy, sustainable engines and new lifestyles'. As part of the 'new green deal', ETUC is calling for a supplemental investment programme worth another 1% of GDP. This programme would be aimed at investing in the development of new industries, sustainable energies, European transport networks and social housing. It would also encompass a European low-carbon economy adaptation fund in order to accompany the transitions imposed on workers who have lost their jobs due to climate change measures.

A closer look at these proposals reflects many of the traditional preoccupations of trade unions, such as the call for financial aid for workers affected by the transition to a low-carbon economy. Sustainable investment, fair wages and distributive justice are inextricably linked (Eurofound, 2009e). The 'new green deal' is also being viewed as a 'new social deal'. Therefore, ETUC is calling on the Swedish EU Presidency to consider merging the Climate Change Package with a 'Just Employment Transition Package' which would include the following items (ETUC, 2009):

- a White Paper on climate change, skills and jobs, setting out practical proposals for promoting coordinated action by the Member States in support of training in new skills in sectors such as energy efficiency and renewable energy;
- the creation of a European 'low-carbon adjustment fund' for switching to a low-carbon economy; this fund would provide measures to support the adjustments to be made by workers affected by climate change measures and would be partly financed by the revenues earned from auctioning of permits;
- a comprehensive assessment of the impact of the Climate Change Package on energy prices and employment, on a sector-by-sector basis, with particular attention paid to the most vulnerable categories of workers and households;
- the creation of a consultative committee of the European social partners on climate change and policies;
- the development of means of negotiations, in particular at regional level, in order to design new industrial policies contributing to a low-carbon economy.

However, as the example of the car industry illustrates, the call for a 'new green deal' is not only a new label for traditional trade union claims. In its response to the climate change package adopted at the European Council in December 2008, ETUC argues that 'delaying the introduction of strict standards for CO_2 emissions from cars will not solve the serious crisis the automotive industry is experiencing at present' (ETUC, 2008).

European social dialogue in the automotive industry

The European automotive industry is one of Europe's most important industries, being a key driver of growth, exports, innovation and jobs. However, as was seen in Chapter 2, it is also a sector that has been very severely hit by the recession. Thus, it has received much support at both the EU level – not least through the EIB – and in some Member States, mainly through the introduction of scrappage schemes (see Mandl and Storrie, 2009). At national level, social dialogue is relatively well developed; Chapters 4 and 5 give many examples of this. Given the wide geographical dispersion of the several large firms throughout the Union, even at European level social dialogue is relatively well developed – through, for example, several European works councils.

In 2005, the European Commission, through its Directorate General for Enterprise and Industry, initiated the 'CARS 21' process, involving national governments, the European Commission, the European Parliament, the automotive industry, environmentalists, trade unions, suppliers, consumers and the oil industry. The process aims to make recommendations for the short-, medium-, and long-term public policy and regulatory framework for the European automotive industry. Thereby, it provides a platform for exchanging views on how to improve the industry's competitiveness and also provides a framework for balancing economic and environmental interests. In the framework of the mid-term review (European Commission, 2008a) the Commission has sought the opinions of stakeholders on the automotive regulatory framework. The stakeholders agreed that the new CO_2 strategy adopted by the Commission has made a start in implementing the integrated approach (allowing for both demand and supply side interventions) to reduce CO_2 emissions. There is unanimous agreement that proposals should be put forward to harmonise CO_2 labelling across the European Union.

In 2007, the sectoral European social partners (The European Automobile Manufacturers Association (ACEA), the European Association of Automotive Suppliers (CLEPA) and the European Metalworkers Federation (EMF)) together with the Commission launched an initiative entitled 'European Partnership for the anticipation of change in the automotive sector'. A comprehensive two-year work programme is being carried out to anticipate and mitigate the social impact of restructuring. The unfolding crisis, however, threatens to greatly intensify and accelerate previously existing restructuring pressures.

In order to cope with the crisis, the EMF is asking for stronger cooperation between social partners at all levels (EMF, 2009a). In this context, one of the main concerns of the EMF is to retain a skilled workforce that will be prepared for the next phase of recovery. Therefore, the EMF is asking for measures in the field of social security, labour market and wage policies. The union proposes that in the short-term, full use should be made of the cushioning labour market measures available in the different countries to maintain and support the workforce, whether directly employed or through agencies and sub-contractors. In particular, the EMF calls for temporary labour market measures to ensure that short-time working is combined with appropriate training and guarantees for wage levels in order to prepare for future economic recovery, while at the same time maintaining the purchasing power of workers (EMF, 2009a). According to the federation, there should be common EU minimum standards on these labour market instruments and their availability should be guaranteed in all European countries.

Furthermore, the EMF demands that employment pathways towards similar sectors and growing sectors should be rapidly made available. In this context, it points to the important role of measures such as transfer companies or *cellules de reclassement* (see Chapter 5). It claims that such models have already proven their worth and deserve a broader application throughout Europe, especially for those in the automotive sector and its supply chain. Therefore, the EMF calls for a coherent and sufficiently funded system in all European countries based on a European framework.

In concrete terms, however, there as yet appear to be no significant social partner agreements or initiatives to deal concretely with the recession in the automotive sector at European level. This judgement may be premature, however, not least regarding the role of the European works councils (EWCs) in the restructuring of US manufacturers in Europe. The very sensitive nature of the ownership issues regarding Opel, in particular, makes an evaluation of EWC impact very difficult. Moreover, one could expect more concrete and transparent involvement of the EWCs once these issues are settled when, presumably, some restructuring of the company will occur. This is not least due to the fact that the EWC at General Motors Europe is frequently cited as one of the relatively few examples of an efficient body of employee representation at a European level within a multinational company.

On other points, such as the need for combating protectionism and guaranteeing fair competition, social partner organisations seem to have a common view. ACEA and EMF agree that fair competition in open markets can help to fight the current crisis, whereas any protectionist measures threaten to deepen it (EMF, 2009b). Consequently, the EU should ensure a level playing field and safeguard the internal market (ACEA, 2009b).

Perhaps the greatest potential for constructive social partner cooperation at European level in the automotive sector lies in the energy and climate package launched by the European Commission. The EU Green Car initiative, with a budget of €5 billion, is an important part of the EERP, involving long-term partnership approaches to environmental concerns and opportunities. (This is separate from the European Clean Air Transport Facility mentioned earlier). The previous section 'ETUC and a "new green deal"'indicates that the trade unions see this as an extremely promising avenue to pursue.

European support for restructuring measures

Much of the regulatory framework for restructuring in Europe is based on European directives. This includes not only legislation directly related to restructuring, such as the Collective Redundancy and Transfer of Undertakings Directives: much of the legislation regarding information and consultation, and other initiatives, have their primary application in restructuring issues. Indeed, a proper treatment of European policy addressing structural change would necessarily be very wide ranging and encompass most aspects of economic and social policy – from the overarching Lisbon strategy to the specific areas in the fields of competition, industrial, trade, employment policies etc. Previous issues of the ERM Annual Report and the European Commission report, *Restructuring in Europe 2008: A review of EU action to anticipate and manage employment change*, (European Commission, 2009e) provide substantial detail on the legislative background to restructuring and the particular policy approaches advocated by the European Commission.

This rest of this chapter, however, is confined to recent developments in very concrete measures financed by the European Union, through the European Economic Recovery Programme, to facilitate the immense structural change now ongoing throughout Europe and to mitigate the negative effects of this change for workers. Particular focus is placed on the European Globalisation adjustment Fund, which is emerging as a dedicated crisis management instrument and most directly addresses the issue of restructuring.

The European Social Fund

The European Social Fund (ESF), together with the European Regional Development Fund (ERDF), has been the primary source of finance for restructuring measures in recent decades. The advent of the economic crisis has made the activities of the ESF even more important and, as indicated in the European Economic Recovery Plan, the fund has subsequently seen various changes introduced in order to apply and speed-up its impact.

The EU decided to extend the period in which Member States can spend both ESF and ERDF funds – that allocated in the 2000 to 2006 programming period – to June 2009. The unspent money from this period corresponds to roughly 10% of ESF funds (or €7 billion). Moreover, the decision has been taken to in order increase the amount of advanced payments, under the 2007 to 2013 programming period, by €6.25 billion. Taken together, these two initiatives represent a significant and, perhaps most importantly, a very rapid increase of funding. In financial terms, this constitutes a major part of the European Union's short-run response to the crisis.

As national governments are under increasing financial pressure, the national cofunding requirement (which varies between 50% and 85%) has, in some Member States, become a significant practical obstacle to the use of the Structural Funds. For this reason, it has been made possible for programmes or projects to receive 100% of funding from the European Union, if the deficit is subsequently balanced out later on in the programme period. There has also been some easing of some administrative burdens for the ESF, which should increase take-up. Of greatest importance is the possibility to apply a flat rate for the reimbursement to all project costs by agreeing upon a 'standard scale of cost'. This allows payment on the basis of output (for example the number of training sessions) as opposed to a strict application of €1 of grant aid to be matched by €1 of documented expenditure. This is of particular importance for the ESF, which has many rather small projects, for which administrative burdens may be a very significant issue for programme take-up.

The European Globalisation adjustment Fund

The European Global adjustment Fund (EGF) deserves special attention. It is a relatively new fund and has been awarded a special role in the EU-level policy response. Established in December 2006, its original purpose was to mitigate the negative employment consequences of job loss attributable to a serious disruption in trade. The type of support provided is exclusively for active labour market policy measures. The primary labour market threshold for obtaining support was originally 1,000 redundancies. Unlike most other structural funds, it is not a programme – which once awarded allows considerable discretion to the Member States; rather it is decided on a case-by-case basis. A case deemed valid by the Commission is proposed and adopted (or otherwise) by the Council and Parliament.

Revision of the EGF in the European Economic Recovery Plan

The European Economic Recovery Plan (EERP) announced that as part of the response to the crisis, the rules of the EGF required revision in order that its scope be temporarily widened. Under this derogation, the applicant Member State should establish a direct and demonstrable link between the redundancies and the financial and economic crisis.[30] The previous criteria referring to serious trade disruptions still apply but it may be expected that most current applications will quote the crisis criteria. This widening of the scope is to apply until the end of 2011, as is the increase in EU financing, which is increased from 50% to 65%. The revised regulation entered into force on 2 July 2009 (L 167 of 29 June 2009).

The threshold for the number of redundancies, over a period of four months, required to qualify for support has been lowered from 1,000 to 500. This may take the form of a single case or a number of smaller cases. These smaller cases may either be other firms in the supply chain or other firms in a NACE rev 2.0 sector in a single region, or two contiguous regions, at NUTS 2 level. For single cases, the reference period is four months, and for several cases it is nine months. Support can also be given in ‘small labour markets or in exceptional circumstances’.

Redundancies may be counted either from the date when individual employees are served notice of dismissal, the *de facto* termination of the employment contract or the date of notification of impending redundancy to the appropriate public authority. The intervention period – the period during which workers can receive support – is extended from 12 to 24 months. For an eligible case, even employees who were made redundant before the start of the reference period for the redundancy may qualify for support. Note also that ‘voluntary redundancies’ that are at the initiative of the employer with a mutually agreed contract count as redundancies and may receive support. The EGF may not however finance the passive part of any early retirement scheme. Indeed, there is a very strict emphasis on active measures for workers. The EGF may not fund passive measures, such as unemployment benefits nor may it support firms. So far, the vast majority of funds have been spent on job matching and counselling measures, together with re-training. Other measures, however, are permissible – such as mobility grants, salary support measures and special active measures targeted at particularly disadvantaged groups.

It must be underlined that the activity of the EGF to date has been relatively limited compared with, for example, the ESF. Table 21 summarises the cases that the Commission has awarded or submitted

[30] This also applies retroactively for applications received since 1 May 2009.

Table 21: EGF cases (awarded or submitted for approval by the Commission) as of 19 August 2009

Name of case	Country and region	Sector	Number of workers dismissed	Number of workers assisted	Support (thousands of euro)	Reference period	Status
Peugeot suppliers	France – 11 regions	Automotive	1,345 redundancies in Peugeot suppliers, involving 18 different enterprises, operating at 38 different sites in 11 French regions	267 redundancies at Ateliers de Thomé Génot, Nouzonville (Départment des Ardennes), a supplier in liquidation	€2,558	1 September 2006–31 December 2009	Paid 13 December 2007
Renault suppliers	France – Alsace, Haute Normandie, Nord-pas-de-Calais, Pays de la Loire	Automotive	1,057 redundancies, in 10 different suppliers to Renault	628 redundancies at Cadence Innovation in liquidation, with production sites in Burhaupt-le-Haut (Alsace), 80 redundancies, Vernon (Haute Normandie), 161, Noeux-les-Mines (Nord-pas-de-Calais), 303 and Pouancé (Pays de la Loire), 84	€1,258	1 December 2006–31 March 2007	Paid 13 December 2007
BenQ	Germany – Bavaria and North Rhine-Westphalia	Mobile phones	3,303 in total, in München (1,342 redundancies), in Kamp-Lintfort (1,719 redundancies) and in Bocholt (242 redundancies)	See case studies below for details.	€12,766	22 December 2006–21 April 2007	Paid 20 December 2007
Perlos	Finland – Northern Karelia region	Mobile phones	915 redundancies in total, comprising 906 in Perlos Oyj, in two factory sites (in Joensuu and Kontiolahti) and nine from upstream suppliers	See case studies below for details.	€2,029	6 March 2007–6 July 2007	Paid 20 December 2007
Sardegna	Italy – Sardegna region	Textiles	1,044 redundancies in five companies		€10,971	27 October 2006–26 July 2007	Paid 15 December 2008
Piemonte	Italy, –Piemonte region	Textiles	1,537 redundancies in 202 companies		€7,799	1 September 2006–31 May 2007	Paid 15 December 2008
Lombardia	Italy – Lombardia region	Textiles	1,816 redundancies in 190 companies		€12,534	1 September 2006–31 May 2007	Paid 15 December 2008
Malta	Malta	Apparel	675 redundancies in total: 562 in VF (Malta) Ltd and 113 in Bortex Clothing Ind. Co. Ltd		€681	19 June 2007–30 October 2007	Paid 28 May 2008

Name of case	Country and region	Sector	Number of workers dismissed	Number of workers assisted	Support (thousands of euro)	Reference period	Status
Lisboa-Alentejo	Portugal – Lisbon and Alentejo regions	Automotive	1,549 redundancies: 929 in Opel Portugal, (Alentejo), 180 in Johnson Controls (Alentejo), 440 in Alcoa Fujikura (Lisboa), manufacturer of electrical components for motor vehicles		€2,426	20 December 2006–20 September 2007	Paid 29 May 2008
Toscana	Italy – Toscana region	Textiles	1,558 redundancies in 461 companies in the Province of Prato		€3,854	1 March 2007–30 November 2007	Paid 15 December 2008
Delphi	Spain – Andalucia	Automotive	1,589 in total; 1,521 in Delphi Automotive Systems España in Puerto Real (Cádiz) and 68 in eight suppliers		€10,472	31 July 2007–30 November 2007	Paid 3 December 2008
Alytaus Textilė	Lithuania	Textiles	1,089 redundancies in Alytaus Tekstilė.	600 workers	€299	30 October 2007–29 February 2008	Paid 3 December 2008
Castilla y Lèon and Aragon	Spain – Castilla y Lèon and Aragon regions	Automotive	1,082 redundancies in 12 enterprises.	588 workers from four of the larger enterprises	€2,694	31 January 2008–31 October 2008	Paid 22 June 2009
Cataluña	Spain – Cataluña region	Textiles	1,269 redundancies in 30 enterprises during the reference period, plus 451 eligible redundancies in the following two months	1,100 workers	€3,308	28 February 2008–27 October 2008	Approved by the European Commission
Norte-Centro	Portugal – Norte and Centro regions	Textiles	1,588 redundancies in 49 enterprises during the reference period (of which 39 in the region Norte and 10 in the region Centro), plus 138 redundancies in the following two months	1,504 workers	€833	16 February 2008–15 November 2008	Approved by the European Commission
Nokia	Germany – North Rhine-Westphalia region	Mobile phones	1,337 redundancies in one enterprise, Nokia GmbH located in Bochum, during the reference period	1,316 workers	€5,554	30 July 2008–29 November 2008	Approved by the European Commission

Source: Various extractions from the EGF pages on the DG Employment and Social Affairs website (http://ec.europa.eu/social/main.jsp?catId=326&langId=en)

to the Council and Parliament for approval since the inception of the EGF, up to 19 August 2009. The table also provides some summary information, where available, for the various cases. A notable feature of the cases outlined in this table is the domination of textiles, and, to a lesser extent the automotive sector and mobile phones.

In addition to the cases listed in this table, the Commission has received completed applications from Belgium (Oost en West Vlaanderen Textiel and Limburg Textiel), Italy (Merloni), Sweden (Volvo), Ireland (Dell), Austria (Steiermark), and Lithuania (AB Snaige).

Evaluations of the EGF

The EMCC has published evaluations that compare two EGF experiences – one in Germany, the other in Finland. These are the first case-study evaluations of the EGF. In both countries, changes in global production networks were affecting mobile phone and component manufacturers, with BenQ (Germany) and Perlos (Finland) shifting production from Europe to low-cost countries in Asia, with resulting large-scale factory closures and thousands of job losses. The rationale for the case studies was to explore what kind of support measures were implemented as a result of EGF intervention and what the added value of the EGF was in the two cases.

Measures, outcomes and impact

In the cases of both BenQ and Perlos, EGF support was considered to have been an extremely valuable supplement to other funding sources available nationally and from the EU in terms of the assistance it provided in the rapid reintegration of workers affected by restructuring due to changes in global market patterns.

Qualitative evidence, and to some extent quantitative data – together with information available in the implementation reports of the EGF actions in the two cases – show that the EGF had a real impact on the employability and wellbeing of redundant employees. Although transfer companies and change security models are fairly well developed in Germany and Finland, they often suffer from financial and temporal limitations; these often create significant obstacles for those workers who are most in need of assistance, since they require more in-depth intervention. At both Perlos and BenQ, the most vulnerable groups of affected workers were considered to have benefited most from the additional EGF assistance. These groups included older workers, low-skilled workers and women (in particular, single mothers).

Highly individualised assistance and training for these groups as well as peer-group support organised for particular target groups were among the services that would not normally be offered by a typical transfer company. In addition, EGF assistance enabled the delivery partnerships in both Finland and Germany to prepare more detailed assessments of local and regional labour market requirements and to develop tailored training provision, which was more likely to lead to positive job outcomes in the locality.

In Finland, the ability to hire more staff with EGF funds to support redundant workers was considered to be crucial. The government was in the process of running a public-sector productivity programme to scale down costs. For this reason it was very difficult for local and regional stakeholders to get funding to hire extra personnel; furthermore, the local job centre could not have handled the situation without help from the new advisors, the occupational therapist and the team leader, all of whom were paid through the EGF.

In Germany, legal provisions regarding transfer companies limit their interventions to a 12-month period. Particularly for vulnerable groups, this is often insufficient time to obtain the additional qualifications and competencies that may be required to achieve greater employability. The availability of EGF funding meant that it was possible to help those workers who had not been able to find employment by the time the work of the transfer company was officially over. Support and counselling could be offered to those who had not yet found a job or had only done so in the last few weeks of the work of the transfer company.

The EGF funding available at Perlos and BenQ also provided the opportunity to provide a wider spectrum of education and training measures. In Finland, although the national legislation enables local and regional actors to purchase additional study places, they have been rarely willing to do so due to the heavy bureaucracy and workload associated with this process. The extra funding enabled the stakeholders to take the time to go through the process and allow an additional 295 workers to start their studies. The regional education and training planning committee also brought some of the training courses forward; in addition, refresher courses were introduced so that qualified electricians, for example, did not have to retake the whole course. The age threshold for certain training courses was also increased. All the courses had more applicants than there were places available.

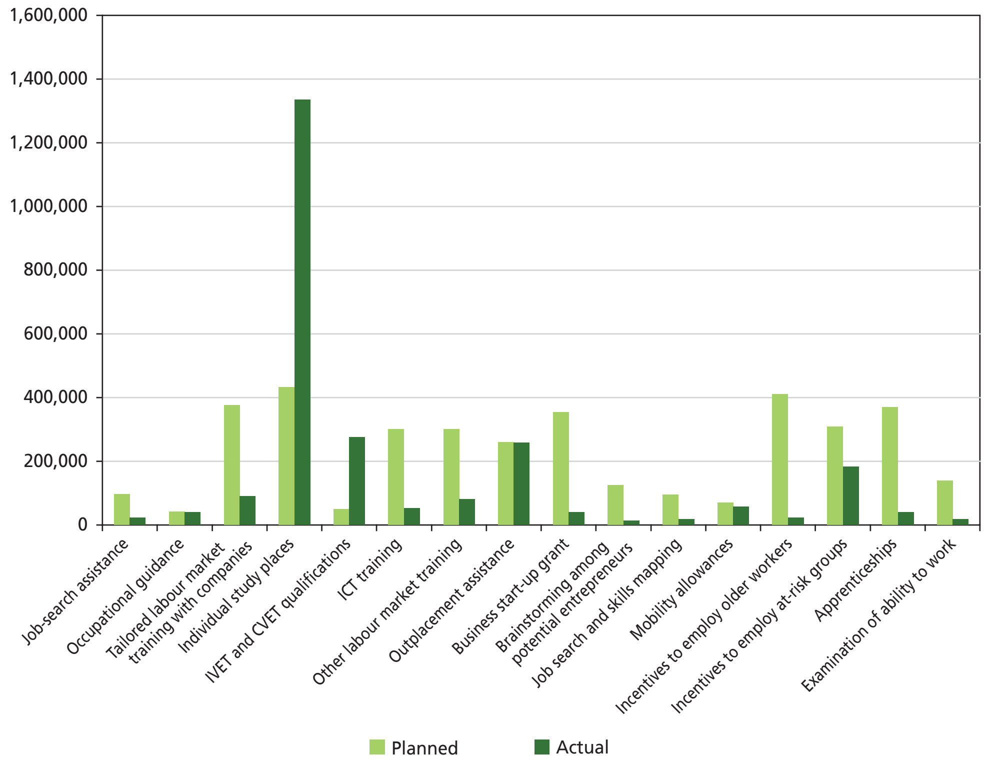
In Germany, funds for qualification measures allowed a specific assessment of the local and regional labour market in order to assess skill shortages and to provide appropriate tailored training. This meant that most of the 300 workers who benefited from such training measures were able to find employment following their training. As well as for jobs in manufacturing and assembly, warehousing and restaurants, specific training courses were organised for specific technologies, logistics and transport. Of the 300 individuals who obtained specific qualification support through the EGF, 215 had been placed by May 2008. According to an assessment by the Labour Ministry, one quarter (460 individuals) of those who have been successfully placed by the transfer companies have benefited specifically from measures funded by the EGF, as a result of the additional time available for the transfer company to offer its assistance.

Finnish respondents in particular felt that other European funding instruments such as the ESF could not have been used to provide this response. The case arose during the transition from the old ESF programme period (2000–2006) to the new (2007–2013). This means that it would not have been possible to set up a new ESF project since the old period had just ended and the new one had yet to start. Furthermore, the focus of the new ESF programme is on longer-term, high impact projects.

In spite of the overall positive assessment of the availability of EGF funding, a number of challenges were also identified with the use and application of this instrument. One of the challenges related to difficulties in predicting in advance, in the funding application phase, the precise nature of the support required. On the whole, fewer individuals were found to need support that was foreseen in the application phase. Among the German transfer companies, this was partly attributed to the fact that participation in transfer company measures is voluntary, thus making precise planning difficult.

In the case of Perlos, although most the EGF cost estimates were found to have been relatively accurate, fewer individuals required support than was foreseen at the application phase (as was the case in BenQ). In fact, the application was prepared to ensure support for every affected worker: 'It is easier to return funds rather than cancel necessary measures due to a shortage of funding'. Both in Germany and in Finland, many affected workers found a new job without significant support. The negative impact of redundancies was alleviated by a number of factors, including the timing of the closures, as they happened during a period of economic growth, which helped with job placement (this despite the challenges faced by most of the regions implicated in the BenQ and Perlos closures). Another important reason in the Finnish case was the diversity of skills and qualifications held by the workers, which meant that the jobseekers were not limited to employment opportunities in one sector alone but could be supported in finding employment across many different sectors.

Figure 21: Total planned and actual EGF expenditure at Perlos (EUR)



Source: Adapted from the EGF final report by the Ministry of Employment and the Economy, Finland 2009

In terms of the success of various measures, occupation and careers guidance and counselling – as well as training and re-training measures – benefited the highest number of workers. In the German case, the assistance offered in the form of peer group advice and counselling was considered to be particularly helpful for disadvantaged groups.

'From our point of view, the peer groups were particularly helpful for those affected by redundancy. We had never previously been able to offer this kind of assistance, because the topics dealt with are only indirectly related to their job search' (Angelika Preiss).[31]

In Finland, outplacement support and financial incentives to companies to recruit individuals with disabilities – and from other at-risk groups – were highlighted as successful measures. According to a survey carried out by the University of Joensuu among Perlos workers (including those who were made redundant, those who left voluntarily and those who still work there), the most important types of support were:

[31] All quotes concerning the EGF involvement at BenQ and Perlos are taken from the EMCC case studies on these two companies (Eurofound, 2009c).

- the financial social package of the company;
- the internet-based job search engine of the public employment service;
- the support provided by the Perlos change security unit;
- the advice given at the job centre;
- information and advice provided at the factory.

The survey assessed all types of support measures, including those cofunded by the EGF and those that were fully funded by national or local actors. The support offered by the Perlos change security unit was the most appreciated EGF-funded intervention, followed by information and advice events held at the factory. The most important providers of support were trade unions, the employer and the job centre. Older workers and women valued information, guidance and other support more than younger employees and men. Unsurprisingly, temporary staff were least satisfied with the support they received as many were laid off before the comprehensive set of support measures were introduced.

Compared with the support generally being offered by the public employment services (PES) to redundant workers, beneficiaries particularly appreciated the more intensive and individualised advice that was offered by the Perlos change security unit and the transfer companies at BenQ (available thanks to the facility of having more advisors working with redundant workers).

In addition, it is clear that the size and nature of the restructuring in both cases had galvanised a variety of key local and national actors (trade unions, employers, local PES, local and regional politicians, development agencies and national agencies) to work together not only to provide counselling and training solutions for affected workers, but also to boost economic investment in the affected regions and to offer more practical solidarity and visibility to their cause. At BenQ, the trade union and worker representatives erected a 'solidarity tent', which in the first 13 weeks following the closure was the focus not only of political campaigns but also of practical and psychological support for affected workers.

At Perlos, all interviewees praised the level of cooperation within the tripartite Perlos working group, and the range of measures the group introduced and 'packaged' to support redundant workers, especially given that it was the first time such an extensive tripartite cooperation had taken place in the region. Many companies and authorities have since copied the Perlos model (e.g. in the case of a paper mill closure in northern Finland) and have visited Joensuu to learn from practice. The regional Economic and Employment Centre has also prepared an action plan based on the lessons learnt from the Perlos case in order to be prepared for similar events.

Lessons learnt from the cases of Perlos and BenQ

It is of course hardly possible to draw general conclusions for the entire EGF from these two cases. However, the nature of the conclusions drawn in these cases does suggest that they might have a more general relevance.

Lessons related to practical implementation

Maybe unsurprisingly, the need for all key stakeholders to be involved in the early planning process of interventions was highlighted as one of the main lessons in supporting successful practical implementation. These stakeholders include employers, trade unions, workers themselves, public employment services, local and regional public authorities and local and regional development centres, as well as other civil society support groups.

The importance of individualised assistance in planning tailored interventions was also emphasised. Although there has been an increasing trend among public employment services towards developing individual action plans, the availability of EGF funding was considered helpful in providing more personalised one-to-one support. In connection with this, the importance of a full assessment of local labour market needs and skills requirements was also seen to be critical, since this should form the basis for planning training and building competencies for swift reintegration.

Peer-group support was also seen to be critical, whether provided formally or informally. Proximity to the remaining – or former – workers was considered useful in this regard.

Lessons from the EGF process

Financial implications of the EGF application process: Comments regarding the length of the EGF application process varied. The European Commission has indicated that the EGF approval process can last approximately between 26 and 31 weeks. This period, coupled with the time taken by the negotiation period to confirm the exact number and profile of dismissed workers and the time taken to gather information on the application form, means that the whole application period can last up to a year. In the Perlos case, the process took 11 months. The direct implication of this delay is that national authorities must plan and even implement various interventions before the funding decision is reached. This forces authorities at national, regional and local level to take a clear financial risk. In the case of Perlos, the authorities received encouragement from the Commission early on, which gave them the confidence to make a start and expect that the official decision would be a positive one. The situation could have been different without this encouragement. For these reasons, the Finnish authorities welcomed the 2008 proposals of the Commission to examine ways to accelerate the approval process (European Commission, 2008b).

In the case of BenQ, the German authorities decided to rely on the Commission's approval of the assessment, on the assumption that the Council and Parliament would agree. The application was submitted at the end of June 2007 and Commission approval was given at the end of September 2007. The Council and Parliament finally approved in December 2007.

Need to raise awareness of the EGF at national and regional levels: The European Commission has agreed to intensify its awareness-raising activities in order to achieve greater visibility of the EGF. Raising awareness among local and regional actors is regarded as equally important for both as the readiness of these authorities to file an application can speed up the application process in the Member States. In Finland, various information activities are undertaken to ensure that regional players are aware of the EGF. Information is cascaded from the Ministry of Employment and the Economy down to regional economic actors through restructuring working groups and other networks. In Germany, publicity surrounding the use of the EGF in a high-profile case such as BenQ and its perceived positive outcome in difficult circumstances has helped raise awareness, as did a conference organised by the German authorities to present the case to regions not directly affected.

Calls for a simplified EGF application form: Information on key facts and figures concerning the company and affected workers is necessary, but the application form can be very time-consuming, difficult and in some cases even impossible to fill and therefore leads to delays in submission.[32] Authorities in both countries welcomed all efforts to simplify the application process.

[32] One example of this is the requirement to classify the redundant workers by ISCO code.

Expanding the duration of EGF assistance: Extension of the funding period from one to two years was welcomed by all individuals interviewed as part of this case study. All interviewees felt that 12 months was not a long enough period to help all redundant workers, especially the low skilled, and 'another six months would have made a real difference'. Many training courses cannot be completed within a year and therefore need continued funding from national authorities. At the same time, the 12-month timeframe not only encouraged but also forced authorities to act quickly and effectively.

Flexibility of the EFG is essential: Flexibility in terms of being able to transfer expenditure from one action to another was found to be an important and valued element of the EGF.

Monitoring: The national and local management information systems used by regional, employment and education authorities are rarely directly suited to cater for the monitoring needs of the EGF. For example, as the EGF was used for the very first time in Finland, new monitoring and administration systems had to be created. The management information system of the public employment service had to be adjusted to allow specific codes to be allocated for the employees benefiting from the EGF. Once this was in place, the monitoring system worked well. While many individuals found the monitoring systems to be taxing, others argue that the stringent monitoring rules helped some authorities in analysing the effectiveness of different interventions. Some went so far as to say that the EGF monitoring system forces authorities to pay attention to the relationship between funding, outcomes and impact.

Administration: Overall, the administrative requirements of EGF were found to be time-consuming. Many felt that too much time had to be spent on tracking and processing minor expenses such as postage costs.

Employment-related public initiatives at national level

5

General aspects of national approaches

The majority of Member States launched comprehensive anti-crisis packages comprising various instruments and funds to cope with the many problems related to the current recession – economic, financial, labour market and social (Mandl and Salvatore, 2009). These packages provide a range of items, which include:

- direct support to enterprises, such as loans or guarantees to facilitate access to finance, but also public investment benefitting company sales, or fiscal measures, such as lower social security contributions;
- instruments to foster consumer demand by supporting purchasing power, such as tax reductions or increases in the minimum wage;
- support of the labour market – for example, employment opportunities in the public sector and reduction of employment taxes;
- support for the social situation of the population, such as financial support for families or compensation for income loss.

Several of the anti-crisis packages also contained 'green measures' since it is believed that the economic crisis provides the opportunity to lay down the foundations of a low-carbon economy (see also Chapter 4).

'Green' recession measures

Incentives for low-carbon industries combine the short-term goal of stimulating the European economy in times of crisis with the long-term goal of reaching a sustainable way to deal with climate change and pollution. According to experts, effective 'green policies' are those that are quickly decided and implemented, have a large multiplier effect in terms of triggering (further) investment from the private sector and have long-term climate benefits. On the basis of these criteria it is recommended that governments focus their investment on improving energy efficiency, upgrading physical infrastructure and supporting clean technology markets.

In its European Economic Recovery Plan (EERP), the European Commission recommended investing in energy and climate-change related infrastructure, sustainable power generation from fossil fuels and renewables, the electric grid, energy efficiency in buildings, green cars and transport networks.

At Member State level, it can be observed that there are several initiatives promoting the development of 'green' technologies, infrastructure investments that focus on climate protection (such as railway networks or infrastructure for electric and hybrid cars) and energy efficiency. Examples of the latter are incentives for renovating buildings to make them more energy efficient. Other strategies focus on offering incentives to households for structural reduction of their energy consumption, reducing pollution or fostering employment in the 'green economy'.While it is estimated that more than 60% of European stimulus funds will be devoted to 'green measures', at Member State level the percentage of the overall packages spent on climate-friendly policies varies from less than 2% in Italy to about 21% in France. Various instruments promoted as 'green measures' have turned out either not to be truly environmentally friendly or to have negative environmental effects (such as car scrappage schemes that are not linked to an improvement of fuel efficiency in new cars). These instruments could result in a lock-in of non-sustainable technologies and practices in the long run. Hence, a critical assessment of the opportunities inherent in fostering the 'green' economy during the recession shows that – at least so far – they have not been taken up to their full potential.

Source: Nikolova, 2009

In some countries, policy initiatives focus on specific economic instruments and sectors during the recession. In Austria and the UK, for example, the stimulus packages mostly rely on tax cuts, and hence are directed at pure demand-side effects (Pisani-Ferry and van Pottelsberghe, 2009). In contrast, the Czech anti-crisis plan is focused mainly on fostering the supply side of the economy (Karasek and Balcar, 2009). In Latvia, the programme introduced at the beginning of 2009 is a business-support initiative that mainly provides credits and guarantees for specific sectors of economic activity until the end of 2010. In Malta, the stimulus package principally aims to increase competitiveness and support investment rather than maintain employment, with many initiatives being targeted at the tourism and manufacturing sectors.

In several countries, such as the Czech Republic, France, Germany, Greece, Hungary, Luxembourg, the Netherlands, Portugal, Romania and Spain, specific attention is given to supporting small and medium-sized enterprises (SMEs). A few Member States, such as the Czech Republic, Latvia and Portugal, have emphasised the boosting of export activities.

The needs of young people are specifically addressed in Austria, Bulgaria, Finland, France, Greece and the United Kingdom through, for instance, apprenticeship and internship programmes or job placement initiatives. Meanwhile, older workers are an important target group in some of the Bulgarian and Portuguese provisions.

Particularly in western Europe, already existing instruments have been adapted to the specific needs of the current recession. In many of the NMS, initiatives to combat the recession have been newly established – in several cases, backed by European funds.

Social dialogue

Social dialogue plays an essential role in ensuring fair and inclusive arrangements in the framework of the recession. Across Europe, the involvement of social partners in the development and implementation of recession measures differs with regard to the level and extent of their integration in policy design, in line with the differing tradition of social dialogue in the individual countries.

Particularly in countries with well-established social partnership traditions, a social partner agreement contributed considerably to the design of the stimulus packages (Watt and Nikolova, 2009; ILO, 2009) and the adoption of individual 'recession measures'. Nevertheless, there is also evidence that the difficult situation of the crisis contributed to enhancing social dialogue. In Poland, for example, the agreement reached between the social partners within the Tripartite Commission for SocioEconomic Affairs and the social consultation process of the anti-crisis package is among the first evidence of autonomous dialogue in Poland for the last 15 years (Kwiatkiewicz and Hernik, 2009).

In cases where trade unions have had the opportunity to influence the design of the crisis package, governments benefited from their political support for the package as a whole even if specific measures were criticised (Watt and Nikolova, 2009). Nevertheless, in some Member States, employer and worker organisations have strongly criticised their country's stimulus package, mainly because they deem it to be insufficient in reducing the effects of the economic crisis. This resulted in several cases of public protests and/or the organisation of strikes.

Widespread points of discussion among employer and worker representatives and the government include: the lack of a social dimension in the stimulus package; flexible working hours, including short-time working and temporary lay-offs and associated pay cuts; the setting and the level of the minimum wage; and public spending. Nevertheless, anecdotal evidence shows that discussions can go considerably beyond that.

Financial participation scheme of the German metal workers' union

Although recent years have seen a slightly increased engagement by social partners concerning the usage of financial employee participation, the general attitude towards the concept is sceptical (Mandl and Dorr, 2007). Trade unions, in particular, emphasise that financial employee participation needs to constitute an 'on-top' payment and must not result in a reduction of the basic salary.

In the context of the crisis, trade unions might adopt a more favourable view of financial participation. Against a background of increasing requests from companies for labour-cost reductions, the German metal workers' union IG Metall has developed a strategy of extended codetermination, which envisages a model of financial participation of employees in times of crisis. The new strategy consists of converting wage concessions into employee equity (Spiegel Online, 2009). If companies in crisis want to cut wages, IG Metall will ask them – in exchange – to give part of the capital to the employees. With this new approach, IG Metall intends avoiding future bargaining practices characterised by wage reductions without a real trade-off. Although the union will still take account of businesses' problems and allow for deviations from collective agreements in justified cases, it will no longer accept unilateral wage reductions. According to the union, there are two possible ways to overcome the practice of unilateral reductions: either the employees agree to grant the company a loan which it must pay back with interest, or the repayment will be effected through the sharing of capital.

In the view of IG Metall, wage reductions have to be seen as an investment on the part of employees in the company. In this way, employees become co-owners of the company and are able to exert influence on company policy. This influence should also contribute to a sustainable development of companies since the employees' interests are focused on a medium and long-term increase in value. To ensure that financial participation becomes an effective tool of participation, the trade union aims at a 10% share in the capital of the companies. Under these conditions, according to IG Metall, the model of financial participation might be usefully integrated into existing codetermination rights defined by law.

The extremely serious nature of the crisis has also significantly changed the content of collective agreements in several countries. One example of this was the agreement struck by the Swedish trade union IF Metall with several employer organisations. This central agreement opened up the possibility for local-level negotiation on the reduction of working time, with a corresponding reduction in wages. The reduction in wages, however, may not be more than 20%. This is in conflict with the fundamental premise of Swedish trade unionism that jobs cannot be saved by lowering wages; it was met by much criticism from other Swedish trade unions. It would appear, however, that the probability of still more collective dismissals and ensuing unemployment for their members with appreciably lower unemployment benefits than in earlier years led to the unions' fundamental shift. While IF Metal may consider this a temporary measure, and the one-year agreement expires in March 2010, it has already led to numerous local agreements. In some cases these have resulted in more favourable outcomes for the employees – for example, through the provision of training while the employee is off work or the provision of some wage compensation along the lines of statutory working time schemes in some of the Member States mentioned below. Sweden has no such statutory short-time working scheme.

In Germany, many collective agreements include the possibility of so-called opening clauses, allowing company-level agreements to deviate from sectoral collective agreements. Usually, these agreements concern extensions or cuts in working time without full compensation in pay, cuts in benefits or delays in agreed pay increases.

Less operationally successful are the activities of the Slovakian Metal Trade Union Association (*Odborový zwäz Kovo*, OZ KOVO). It prepared a guideline for trade union officials for procedures in the case of reduction of work in companies. However, in spite of the trade union's efforts to include relevant provisions to protect employees against dismissals in collective agreements, so far such provisions have not been integrated into the accords.

Classification of employment-related recession measures

Eurofound has classified the most widespread employment-related public recession instruments in the EU Member States into three broad categories (Figure 22).

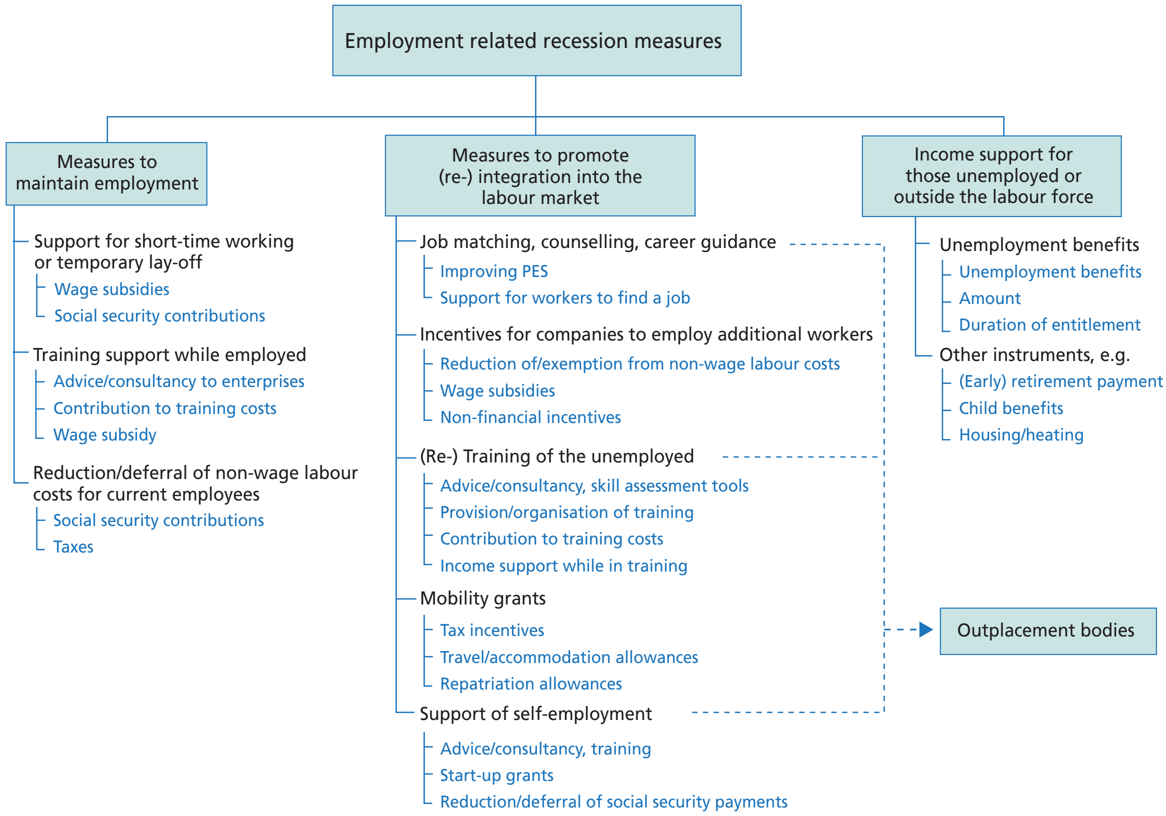
- **Measures to maintain employment** have a 'preventive' character, aiming to keep people in employment.
- **Measures to promote (re-)integration into the labour market** address the transition of the individual jobseeker from unemployment to employment.
- Initiatives to support individuals financially in case of redundancy are summarised in the category of **income support for unemployed people and those who are outside the labour market.**

The following sections will briefly outline the types of measures introduced by the governments in the Member States within each of these three categories, supplemented by examples of such instruments, as well as information – insofar as it is available – on the social partners' involvement in their design. The purpose is to provide an overview of the types of instruments most commonly applied, their main characteristics and differences and similarities across Europe, rather than giving an exhaustive list of all initiatives available in the EU Member States. [33]

[33] More detailed information can, for example, be found in Mandl and Salvatore (2009), European Commission (2009f) or OECD (2009a).

The information presented is an updated summary of Eurofound's comparative study on tackling the recession (Mandl and Salvatore, 2009). It is based on facts gathered in the Member States by ERM correspondents in April and May 2009. These contributions have been supplemented and updated with other in-house research by Eurofound, based on a review of recent policy research papers and web-based newspaper articles up to July 2009. It has also been complemented with other Eurofound sources, including its European Industrial Relations Observatory (EIRO).

Figure 22: Employment-related recession measures in EU Member States



Note: PES = public employment service
Source: Eurofound

Measures to maintain employment

Support for short-time working and temporary lay-off

Several Member States have adapted already existing public support instruments in order to support companies and workers who have agreed on short-time working or temporary lay-offs as a way of avoiding redundancies. Examples for these can be found in Austria, Belgium, Denmark, France, Germany, Italy, Lithuania, Luxembourg and the Netherlands. These adaptations are often based on a tripartite initiative, with the aim of making the rules more flexible and practicable. Other countries, particularly those new Member States that had not yet availed of such measures, have introduced them recently. Often, the regulation is valid for a limited time period only – that is, as long as the recession continues. In some countries (such the United Kingdom) trade unions are lobbying the government to implement a short-time working subsidy; however, such measures have not yet been introduced.

In general, a social partner agreement on the terms and conditions of a short-time working or temporary lay-off plan has to be established at sector or company level, and/or the measure must be approved by a governmental authority, such as a local public employment service (PES).

The instruments available across Europe show several differences regarding their design and applicability. Some countries offer support for short-time working or temporary lay-off to all employees, irrespective of their employment status. In Belgium, for example, temporary agency workers and workers with a fixed-term employment contract have recently been included in the scheme. However, only blue-collar workers are eligible regarding reduced working time; white collar-workers are eligible for measures that are not formally defined as 'temporary unemployment' but that serve similar purposes (a reduction in working hours, a crisis time credit system and collective suspension from work). In the Netherlands, the instrument is available for full-time employees only and is not accessible for temporary agency workers. Austria explicitly excludes apprentices, chief executive officers (CEOs) and board members from the list of beneficiaries.

The monetary assistance (which is either directly paid to the employees affected or to the employer who is obliged to maintain the workers' income level) may consist of financial support towards the wage and/or social security contributions. In Denmark, for example, workers are entitled to unemployment benefits for up to 13 weeks if within the company the workforce is put on temporary lay-off on a rotating basis. In the Welsh ProAct scheme in the UK, a wage subsidy of GBP50 per employee, for each day not worked (up to GBP 2,000 per employee), is provided by the government, if the worker participates in training.

More widespread are schemes in which the employer is obliged to compensate the worker for their lost income and, in turn, receives public financial support for such compensation. In France, the level of support is higher for SMEs than for larger companies. The extent of compensation ranges from 50% (in Poland and Slovenia) to 80% of the last wage (in Hungary, Italy and Luxembourg) for hours not worked. In some cases, absolute income ceilings are applied (as in Belgium and Italy). Furthermore, the duration for which support is possible is limited, and varies from country to country. The ceiling is up to 1,000 hours in France, up to 13 weeks in the Netherlands (a period which can be extended up to four times) and 36 months for the extraordinary wage guarantee fund CIGS in Italy. In some schemes (such as in Austria, Germany and Romania) the government also covers the social security contributions that are attributed to short-time working.

Several instruments (as for example in Austria, Luxembourg, the Netherlands and Slovenia) require that the affected workforce must not be dismissed during or after their short-time working/temporary unemployment period. Sometimes short-time working support is related to training provision (see below).

To summarise, Table 22 provides an overview of some of the recently introduced or adapted short-time working and temporary lay-off support schemes across the EU, as well as their main characteristics.

Table 22: Selected public support short-time working and temporary lay-off schemes addressing the recession

	Name	New or adapted?	Eligibility	Type and extent of support	Duration
Austria	Short-time working, short-time working support (*Kurzarbeit, Kurzarbeits-beihilfe*)	Adapted	All employees, including temporary agency workers, except apprentices, CEOs and board members Other possibilities have to be exhausted first, such as use of overtime and holiday entitlements, or working time accounts. Working time has to amount to 10%–90% of normal working hours.	Compensation of the income loss to at least the level of unemployment benefits (about 55% of the net wage); from the seventh month, social security contributions are funded by the PES instead of the employer. Support is increased by 15% if the employer offers training.	Maximum 24 months
Belgium	Temporary unemployment/ technical unemployment (*Chômage temporaire/ chômage technique*)	Adapted	Employees, including temporary agency workers and workers on fixed-term employment contracts; in some cases only blue-collar workers	Temporary collective reduction of working time: monthly compensation of a minimum of €150 per month for the employee paid by the employer; employer benefits from a reduction in social security contributions (minimum €600 per quarter) Temporary individual reduction of working time: public allowance of min. €188 per month Temporary unemployment: public compensation of at least 70% of the worker's gross wage, up to €2,206 per month	Temporary individual reduction of working time: working time reduction by one fifth or half for a minimum period of one month and up to a maximum period of six months Temporary unemployment: total suspension of employment (all days of the week) or partial suspension (at least keeping two working days a week) for at least one or two weeks and up to a maximum of 16 or 26 weeks a year
Bulgaria		New	Employees in industry and services	Maximum BGN 1,200 (€613 as at 25 June 2009) per worker, depending on the number of non-worked hours	Maximum three consecutive months per calendar year
Denmark	Work-sharing	Adapted	All employees	Eligibility for unemployment benefits	Maximum 13 weeks
France	Partial unemployment/ technical unemployment (*Chômage partiel/ chômage technique*)	Adapted	In the case of short-time working, all employees, including part-time workers, temporary agency workers and those on fixed-term employment contracts, if their employer has a decrease in sales of at least 50% In the case of temporary lay-off, all employees	The employer pays up to 75% of the hourly gross wage for the hours not worked hours at a minimum of €6.84 an hour; the state pays SMEs €3.84 and large companies €3.33 per hour and per worker. In case of a company closure of more than three months, employees are entitled to unemployment benefits.	Six consecutive weeks – in total, 800 hours per employee per year or 1,000 hours in the textiles, clothing and leather industry and automotive industry
Germany	Short-time working, short-time work allowance (*Kurzarbeit, Kurzar-beitergeld*)	Adapted	All employees, including temporary agency workers (under certain conditions) and workers on fixed-term employment contracts, if their employer has a decrease in earnings of at least 10%	The government pays up to 67% of the difference between the normal wage and the lower wage, as well as 50% of the social security contributions for the hours not worked hours (100% in case of training).	Maximum 24 months (if started in 2009)
Hungary		New	All employees	80% of the last wage up to 150% of the national minimum wage; 80% of training costs if provided by the employer	Six to 12 months

	Name	New or adapted?	Eligibility	Type and extent of support	Duration
Italy	Wage guarantee fund (*Cassa integrazione guadagni*, CIG)	Adapted	Employees, including temporary agency workers and to a limited degree project workers and apprentices	80% of the last wage up to a certain threshold	Maximum one year (CIGO) or 36 months (CIGS)
	Solidarity contract (*Contratto di solidarietà*)	Adapted	Shop floor and office workers, members of cooperatives	60% of the last wage when working hours are reduced by 60%	Maximum 24 months
Luxembourg		Adapted	All employees, including part-time workers; other possibilities must be exhausted first, such as a reduction in the number of temporary agency workers, use of overtime and holiday entitlements or internal redeployment.	The employment fund pays 80% of the gross hourly pay; this is planned to increase to 90% if the employee participates in training.	Up to 50% of normal working hours
Netherlands	Short-time working (*Werktiid-verkorting*, WTV) until end of March 2009, partial unemployment thereafter	Adapted	Only full-time workers, no temporary agency workers; company must have experienced an income loss of at least 30% in the previous two months; reduction of working hours – 20% to 50% of normal working hours.	70% of the wage for the non-worked hours; pension rights will not accrue on the unemployment component (short-time working); employers pay for the worked hours, employees receive unemployment benefits for the hours not worked if all conditions are met (particularly in terms of the agreed number of working hours) – otherwise the employer has to pay the full salary (partial unemployment).	Up to 13 weeks (partial unemployment), with the option of extension (up to four times)
Poland	Economic production slowdown	New	Employees ready to work but not performing work for reasons not related to the employees; employer must have a defined percentage of turnover decrease, overdue mandatory contributions to the Labour Fund, tax and social security, announced bankruptcy, and has to implement a year-long recovery plan.	Salary can be reduced to the level of the minimum wage, 50% of which is paid by the government.	
Romania		New	All employees	Employers and employees are exempted from paying social security contributions; workers' pay during a temporary suspension of business is free of income tax.	Maximum three months
Slovenia		New	All employees	Employees on temporary leave are entitled to 85% of their average wage over the last three months: 50% is funded by the state, the remaining 35% by the employer.	
UK (Wales)	ProAct	New	All employees of employers that have been viable before the crisis and that have introduced short-time working at a level of at least 20%.	GBP 2,000 per employee in training costs and up to GBP 2,000 (at a rate of BGP 50 per day) per employee in wage subsidy	For 12 months to March 2010

Remark: Compilation by Eurofound

Training support while employed

Several governments support education and training measures for employees during the recession aimed at motivating enterprises to carry out additional training activities (rather than subsidising the cost of training that the companies would undertake in any case).

Support may take the form of the provision of advice and consultancy to companies on how to organise in-house training and/or how to find the most suitable external education provider. An example is the UK 'Train to Gain' programme (http://www.traintogain.gov.uk), a government service offering independent advice on improving the skills of employees. Employers of all sizes and in all sectors of economic activity can get help from skills brokers in finding the right training and in accessing available funding. Since January 2009, the initiative has been extended to include short-term training in areas that create quick returns for businesses, such as cash flow management and business improvement techniques.

Alternatively, financial support may be provided, either with regard to the training costs arising for the employer (for example in Belgium, this covers vocational training for temporarily unemployed persons, subcontracting workers, fixed-term contract workers and temporary workers) or in terms of wage subsidies for the training time. An example of the latter is an ESF-funded educational programme – 'Training is a chance' (*Školení je šance*) – in the Czech Republic. Its main aim is to increase the adaptability of workers and thereby the competitiveness of the enterprises through the development of general and specific skills of employees. Projects with a high proportion of employees under 25 or over 50 years of age are prioritised (Karasek and Balcar, 2009).

Income support while training is being pursued may also directly address the employees. In Austria, the general provisions for unpaid training leave (*Bildungskarenz*) have been amended for the current recession (*Bildungskarenz plus*). If the employer and the employee agree on unpaid leave for the purpose of further training, the employee is entitled to a training allowance amounting to the level of unemployment benefit that would have been paid by the PES if the employee were officially unemployed. The employer bears the costs of the training but receives a public subsidy of between 25% and 50% of the cost up to a certain limit, varying across the individual federal states. The leave period allowed also varies across the regions.

In several cases, public training support is linked to short-time working. In Austria, the Czech Republic (through the Educate Yourself programme), Germany and Poland, for example, employers receive a special training subsidy if they offer their employees training courses during hours not worked while on short-time working. The training subsidy varies. It can be as low as 25% of the training costs, as it is for specific courses in Germany (where for general qualification measures the rate is – as in Austria – 60%). However, it may be as high as 80% – as in Poland and in Germany (in the case of disadvantaged persons or small enterprises).

The Flemish government in Belgium grants a special bonus to workers who reduce their working time in the framework of a company's restructuring plan and who undertake training during the reduced working time. In a similar way, the recently introduced Short Time Working Training Programme in Ireland will provide two days of training a week for employees who are on systematic short-time working for three days a week and a social welfare payment for the two days that they are not working. The training offered will be flexible, which will allow people to complete courses if they return to full-time work.

In France, a social investment fund has been established – based on the proposal of a trade union confederation and funded by the state and social partners – to provide training for workers in partial unemployment and for jobseekers (Triomphe and Goryacheva, 2009).

Reduction or deferral of non-wage labour costs for current employees

The reduction or deferral of non-wage labour costs provides financial support to companies in order to help them maintain jobs in economically difficult times by (temporarily) reducing their personnel costs. Some countries generally reduce all social security contributions, while others concentrate on particular elements, such as pension insurance or health insurance. Furthermore, across Europe, differences arise regarding the target group of the reduction – that is, whether employer or employee contributions are lowered.

In Slovenia, for example, the employer organisation suggested a reduction in the rate of employers' social security contributions. It also proposed a reduction in the rate and duration of the compensation for absence from work due to illness that employers pay – from 80% to 70% of the wage and from 30 days to 20 days (Gorenjski Glas, 2009). Trade unions have strongly opposed these proposals.

In Germany, employer contributions to unemployment insurance have been lowered to 2.8% for 2009 and 2010 (European Commission, 2009b). Contributions to health insurance were reduced to 14% by July 2009. In addition, the contributions that employers must pay for workers on short-time working will be halved during 2009 and 2010.

In Finland, employers' pension contributions have been reduced for 2009 (and might be abolished in 2010) (OECD, 2009a). Meanwhile, in Hungary, employers' social security contributions have been reduced by five percentage points (Gligorov, Pöschl and Richter, 2009).

In the Czech Republic, both employers and employees have been benefitting from a reduction of non-wage labour costs since the beginning of 2009. While employees no longer have to pay health insurance and state employment allowance at all, the employers' rate of health insurance has been reduced by one percentage point (Karasek and Balcar, 2009). In Bulgaria, both parties benefit from lower contributions. To date workers and employers have paid pension insurance contributions in a ratio of 40:60. However, since the beginning of 2009, the state has been paying 40% of the pension contributions, reducing the employees' share to 26.7% and the employers' share to 33.3%.

In some countries, specific groups of employees are subject to reduced social security contributions. In the Czech Republic, Hungary and Portugal, for example, the government encourages employers to hire or retain older workers through reductions or exemptions from social security contributions, such as health insurance. Sweden targets youth employment with a reduction in social security contributions for workers under 26 years of age.

Another possibility is to address specific types of companies by making reductions in social security contributions. In Spain, for instance, the government deferred employer social security contributions in the airline and road transport sectors. Other countries, such as Portugal and Sweden, have reduced social security contributions for micro enterprises.

In order to ease the financial situation of businesses, several countries have not only adapted social security regulations but have also introduced employment-related tax exemptions or delayed tax payments for companies. In Belgium, for example, the stimulus package that was agreed by the government at the end of December 2008 provides for an exemption of tax on overtime up to 130 hours, whereas previously the limit was up to 65 hours. The package also provides a tax exemption of 75% for the employment of scientific researchers; this proportion has been increased from 65%. Finally, the new measures allow for an increased tax exemption on night shifts, up from 10.7% to 15.6%. In addition, the stimulus package grants the possibility of delaying – by three months – the tax payment for the first two quarters of 2009.

Income tax changes are another alternative for governments to help workers maintain their spending power in economically difficult times when those workers receive a lower wage. The income tax rate reductions realised across Europe during the recession range from one percentage point in Poland (where the minimum income tax rate was reduced from 19% to 18%) to almost 10 percentage points in Lithuania. In Hungary, the lower public income due to a reduction in income tax is supposed to be compensated for by the introduction of a wealth tax.

Income tax reductions may not only be achieved by cutting the tax rate, as the example of Italy shows. Here, the experimental scheme for tax relief on productivity bonuses introduced by the 'Agreement on work, welfare and social security' was extended to 2009. Furthermore, the range of beneficiaries was increased: employees in the private sector earning annual incomes of less than €35,000, up from €30,000 in 2008, will now be eligible for the tax relief. Moreover, the amount of the bonus to which tax relief applies has also been increased, from €3,000 to €6,000.

Wage subsidy scheme in Ireland

Apart from supporting employers with regard to non-wage labour costs, a direct wage subsidy also constitutes an important financial relief for enterprises and could, therefore, contribute to the avoidance of redundancies.

An example is the 'Temporary Employment Subsidy Scheme' in Ireland (www.employmentsubsidy.ie). Companies in manufacturing and/or internationally traded services that were not in difficulty on 1 July 2008 are eligible to a wage subsidy of €200 per week and full-time employee, for a duration of 26 weeks. Afterwards, they are entitled to a lower subsidy, up to a total of €9,100 over 15 months (up to 21 November 2010). The maximum support an enterprise can receive amounts to €500,000. Companies have to employ at least 10 full-time workers at the point of application and they have to commit themselves to maintaining a certain number of non-subsidised jobs on top of the full-time jobs that may be covered by employment subsidies until 30 November 2010. In total, €250 million are available for this instrument.

Measures to promote (re-)integration into the labour market

Job matching, counselling and career guidance

One of the most obvious instruments for bringing together supply and demand on the labour market – including in times of crisis – is the provision of services for job matching, counselling and career guidance. Several Member States have made efforts to adapt their public employment services (PES) to the increased demand for consultancy services during the recession. This strategy may include, for example, hiring additional PES staff members, training the existing staff members, increasing the frequency of consultancy or restructuring the service by linking it to other (public or private) labour market service providers. A Cypriot example shows that activities in this field are not necessarily limited to employment services under governmental administration. The Cyprus Building, Wood, Mine and

General Workers Trade Union has upgraded its employment office that deals with finding jobs for unemployed people, on the basis of daily contacts between trade unionists and employers.

From a more operational point of view, many Member States have increased their service provision to unemployed people. This is done by actively looking for job vacancies and matching these with suitable candidates, by providing advice and consultancy to jobseekers and by helping them prepare their job application. Some countries put specific emphasis on individualised service provision. In Sweden, for example, attention is given to individualised coaching for unemployed persons, while the UK has introduced a government-funded scheme, known as Jobcentre Plus, offering individual jobseekers one-to-one support and training tailored to their needs.

In some cases, initiatives focus specifically on the groups of individuals most severely hit by the recession. In the UK, for example, one focal point of unemployment policy is young people aged under 25 years who are 'not in education, employment or training' (NEETs), as well as persons unemployed for six months or more. Cyprus and Ireland, for example, have enhanced their services for migrant workers.

Incentives for companies to employ additional workers

Public incentives for enterprises to create additional employment opportunities may include, for example, reductions in the non-wage labour costs that employers are required to pay for newly hired workers. This has been done, for example, in France (for companies with fewer than 10 employees), Germany, Poland (with a permanent reduction of employers' social security contributions for the first 12 months when hiring unemployed persons aged 50 years and older), Portugal (for micro and small enterprises hiring long-term unemployed persons) and Spain (a reduction of employers' social security contribution for 24 months when hiring unemployed persons with children in 2009 and 2010) (OECD, 2009a)

Public incentives can also take the form of wage subsidies, by means of which parts of the new employees' wages are paid by public funds instead of by the company. Belgium, for example, has increased its wage subsidy for hiring persons aged 50 years and over in Flanders and offers additional subsidised jobs for young people in SMEs in Wallonia. In Greece, the unemployment benefit has been converted into an employment subsidy, and Slovakia provides a state allowance amounting to between 15% and 30% of the national average wage for creating jobs for those who are registered unemployed. In the UK, a wage subsidy is given to employers who hire people who have been unemployed for more than six months (European Commission, 2009c and 2009d; Cziria and Borgula, 2009; OECD, 2009a)

In a few cases, non-financial incentives for companies to create additional employment opportunities have been established. An example is the proposal by the Cypriot Employers and Industrialists Federation (OEB) to establish a state prize for corporate social responsibility based on the hiring of unemployed individuals.

(Re-)training of unemployed people

Another important active labour market policy widely used in the Member States to prepare people who are unemployed due to the current recession for future job opportunities is (re-)training. Some European countries have adapted or introduced instruments to assist unemployed persons in finding the most suitable education or training measure. The Estonian government, for example, plans to issue vouchers to jobseekers as well as a list of courses, their location and their schedule. The idea is to provide assistance while at the same time increasing the autonomy of jobseekers in choosing the 'right' training courses (Global Insight Daily Analysis, 2009).

In several cases, the public provision of training for the target group of unemployed people has been altered by, for instance, devoting more funds in order to offer more courses or by changing the eligibility criteria to allow more people to have access to the educational measures. The former option has been adopted in France and the Netherlands, based on tripartite agreements. Italy has established a fund for employment and training financed from the Employment Fund and the Fund for Underdeveloped Areas (*Fondo per le Aree Sottosviluppate*).

Some countries' additional training offers focus specifically on particular groups among those who are unemployed – for example, temporary agency workers, young people, workers who lack occupational qualification, migrants or workers in sectors particularly hit by the recession.

In a few countries, unemployed persons are now eligible for additional income support if they are attending (re-)training while unemployed due to the recession. In France, for example, the occupational transition contracts (*contrats de transition professionelle*, CTP) provide for the compensation of employees made redundant by funding 80% of their gross income for one year, during which they undertake vocational training or internships in companies. This measure was originally only applicable to companies with more than 1,000 employees but has now been extended to all enterprises (Glassner and Galgóczi, 2009). Furthermore, to encourage young persons to gain competencies by combining work experience with training, the French state offers a one-off payment of €1,000 to people aged under 26 years (€2,000 in the case of unskilled persons), if they sign a contract for work and training (*contrat de professionnalisation*) in a company with fewer than 50 employees between 24 April 2009 and 30 June 2010. In the UK, unemployed persons under the age of 25 years who have been out of work for 12 months will receive additional money on top of their benefits if they participate in training (Financial Times, 2009a).

In a similar way, the Bulgarian Industrial Association (BIA) has suggested establishing a public–private partnership (PPP) organisation for the training or retraining of unemployed people, whereby unemployment benefits would be suspended if the participants opted out of this training. Meanwhile, the Cypriot OEB has proposed distributing to unemployed individuals benefit payments amounting to 75% of their previous earnings if they join the vocational training programme of the Human Resource Development Authority (AnAD).

In Portugal, one trade union has suggested that unemployed persons who complete a minimum of 200 training hours and who do not receive unemployment benefits be granted a scholarship for training. This scholarship is supposed to amount to the statutory minimum wage and should also provide for coverage by the social security regime.

Mobility grants

To better align supply and demand on the labour market in geographical terms, a few EU Member States introduced or strengthened incentives for workers to relocate – either temporarily by daily commuting or permanently by changing their place of residence.

In Belgium, for example, extended tax incentives are offered to employees commuting from their place of residence to another region in which suitable job offers are available. The Interprofessional Accord envisages greater exemptions from taxes for employees' commuting costs for 2009 and 2010 (ETUI, 2008). In Slovakia, the mobile workforce is supported by a travel and/or accommodation allowance to offset the higher costs to workers of working somewhere other than their place of residence. Such mobility grants were also provided before the economic downturn took place. Nonetheless, from March 2009, the subsidy provided to commuting workers was significantly increased (by between 37% and 88%, depending on the length of the journey). Also in Lithuania, the amendment of the Law on Support for Employment of June 2009 foresees a compensation for territorial mobility, if travelling expenses exceed 20% of the salary which is lower than two minimum monthly wages or amounts to LTL 1,600 (€436) per month.

Mobility grants are not always limited to national borders. As migrants are among those groups in the workforce most severely hit by redundancies, some countries have established a repatriation allowance providing financial means for foreign workers to return to their country of origin if they become unemployed due to the recession. For example, in February 2009, the Czech Republic introduced a ‘voluntary return’ (*Dobrovolný návrat*) repatriation programme for foreign workers, providing accommodation in the period between registering for the programme and leaving the country, as well as payment of travel costs and €500 (€400 in the second phase) to migrants who have lost their jobs due to the economic crisis and want to return to their home countries. By mid-July, about 1,800 migrants had registered for the programme, which was set up for 2,000 persons (Prague Daily Monitor, 2009).

Supporting self-employment

Particularly in times of economic downturn, when many companies can no longer afford to pay wages and related costs, skilled and experienced employees may offer their expertise on a self-employed and (sub)contracting basis. As such a step implies considerable risks for the individual concerned, governments provide support for new entrepreneurs in safeguarding their own work as well as giving a potential boost to employment if the developing enterprise hires additional workers.

Such assistance may consist of advice and consultancy to the future entrepreneur regarding the required procedures for the start-up, as well as the legal, social and economic aspects that should be considered before founding a business. For instance, the UK package introduced after discussions between the government, social partners and business representatives at the employment summit of January 2009 includes the provision of help for unemployed persons in setting up a business, such as advice on creating a business plan and funding for the first months of trading.

Potential self-employed persons may also be supported by the provision or funding of training measures to prepare them for their future role as entrepreneurs. In the framework of the Bulgarian anti-crisis package, for example, it is planned to train 150,000 persons, 10,000 of whom are supposed to start a business afterwards.

Several Member States have also introduced or extended their subsidies for business start-ups to facilitate access by the newly self-employed to capital during a period of ‘credit crunch’. In Estonia, start-up and development grants aiming to support the establishment and survival of small businesses with higher growth potential and technology investment in the manufacturing sector are cofinanced by the European Structural Funds and managed by Enterprise Estonia (Ettevõtluse Arendamise Sihtasutus, EAS). In Poland, eligibility for subsidies (which are cofinanced by the EU) for launching private business activity has been extended from covering solely the long-term unemployed and those excluded from the labour market to include those having lost their jobs due to the recession.

Another incentive that may encourage potential self-employed persons to realise their business idea may be the reduction or deferral of social security payments. This has now been implemented, for example, in the Czech Republic, in Slovakia – where compulsory contributions to the Solidarity Fund have been reduced from 4.75% to 2% of the tax assessment base from 1 April 2009 to the end of 2010 – and in Sweden.

Likewise, business taxes may represent a significant financial burden, particularly at the start of entrepreneurial activities if income is low and investment has to be made for the future. In the Romanian chemical sector, which is experiencing a high number of dismissals due to the recession, the unions have – for example – been calling for a tax exemption of two years after the business start-up, as well as a grace period of 12 months for loans at preferential interest rates and a €2,000 non-refundable support grant.

Outplacement bodies

While in general the instruments aimed at promoting (re-)integration into the labour market described above are managed and offered by public employment services, in some Member States specific outplacement bodies exist that take care of persons who become redundant – from the moment they enter unemployment until they are reintegrated into the labour market. Although the authors have little information about the special establishment or adaptation of these bodies during the current recession, their main characteristics are briefly presented below, since they are deemed an interesting instrument for coping with the effects of the economic downturn.

Across Europe, the organisation and individual characteristics of these entities vary considerably (purely private outplacement companies that have as their core business activity the matching of job seekers and vacancies are not considered here). However, in common, they follow a 'multi-stakeholder approach' in that they are funded and administered by several cooperating actors, such as companies, trade unions and public authorities. This cooperation is seen as one of their main success factors, since the involvement of various types of actors accelerates the process of reintegrating affected workers into the labour market.

In Belgium, the Wallonian 'reconversion units' (*Cellules de reconversion*) are, for example, publicly funded by the regional government, with potential cofunding by the European Structural Funds, with some contributions (about 20%) from affected employers. The administration of the units lies with a committee of representatives of the Ministry for the Economy and Employment, the regional directorates of the Regional Vocational Training and Employment Office (*Office communautaire et régional de la formation professionnelle et de l'emploi*, FOREM), trade unions as well as sector and employer organisations. Similarly in France, the professional reclassification units (*Cellules de reclassement*) involve other parties, as well as the companies and the national government (in particular the Ministry of Labour and Employment) that facilitate their implementation and organisation: trade unions are consulted about the setup of such units and they are also involved in the management of each individual unit. In Italy, bilateral bodies have been set up in the craft sector by collective agreement. The individual implementation is based on an agreement at regional level between regional authorities and social partners, while the funding is provided by the companies under consideration. The Dutch mobility centres are characterised by cooperation between local governments, companies, schools, trade unions and job-searching organisations. The Swedish job security councils are established and regulated by social partners on a bipartite basis through collective agreements and management and administration is also divided equally among the social partners. The councils are financed by companies, which must pay a certain percentage of their payroll (Eurofound, 2009d).

Examples of stakeholders in the Dutch mobility centres

On 8 May 2009, the municipality of Meppel, in the Netherlands, and UWV Workcompany Steenwijk and Zwolle opened a new mobility centre. The centre focuses specifically on avoiding unnecessary unemployment during and after the current economic recession. The partners cooperating in this mobility centre include the following:

- Employers' platform WAM;
- Municipality of Meppel;
- UWV Workcompany;
- the Meppeler business association;
- ICC-Parkmanagement;
- the chamber of commerce;
- trade unions;
- colleges;
- employment agencies.

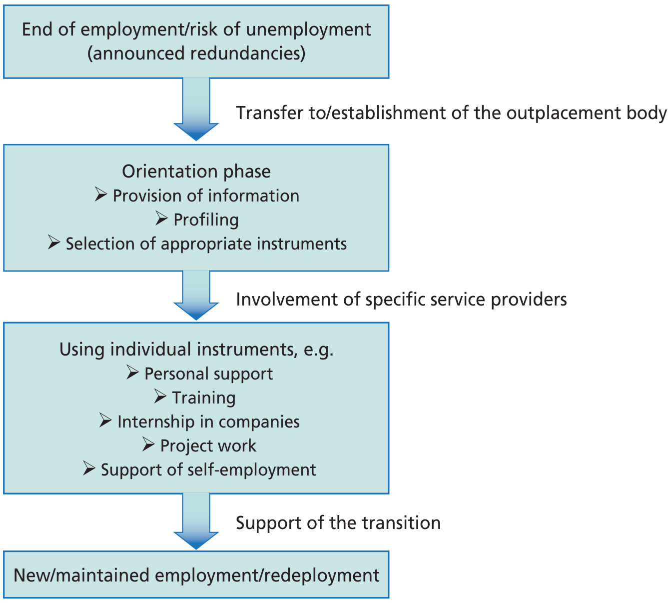
In the framework of the 'Euregional mobility centre' in Limburg, cooperation is not confined to regional or national borders. Apart from the Dutch actors, the Flemish Service for Job Placement and Professional Educations (*Vlaamse Dienst voor Arbeidsbemiddeling en Beroepsopleiding*) and the German Agency for Labour (*Bundesagentur für Arbeit*) are also involved, with the aim of providing cross-border support for affected employees. For example, the Dutch car manufacturer NedCar is about to reduce its workforce. The mobility centre will support the affected employees and determine if the Ford car manufacturers in Genk (Belgium) are in need of people. (For employees who are moving between jobs across Europe, competencies and experience are more important than diplomas.) The mobility centre is also aware of potential difficulties regarding differences in working culture and is prepared to deal with these.

Instead of offering their services to the general public, outplacement bodies focus on a specific target group (for example, redundant employees of a single company, a certain region or a particular industry) and provide employees with useful, individualised services, thereby combining several of the instruments described above. Furthermore, in some examples of such measures across Europe, the participants do not become unemployed while being involved in the services. Rather, the outplacement body takes over the employment contract from the firm.

In general, the involvement with outplacement bodies starts with an orientation phase for the participants, which normally lasts several weeks (for example, three to six weeks in Austria). This includes the provision of information regarding the labour market, career paths and training possibilities for the participants. In addition, a profiling of the participant takes place, to uncover their skills and competencies, their personal interests, concerns and perspectives as well as their future job expectations. On the basis of this, the participant and the outplacement organisation jointly draw up an individual career plan and decide upon the specific instruments the participant should benefit from. In some cases (as in Austria) the envisaged measures must be accepted by the PES in order to ensure that the plans are in line with labour market requirements and forecasts.

The instruments applied include, for example, training measures, internships in companies, project work or support of self-employment. If required and/or desired by the participant, there is also the possibility of taking advantage of psychological support to cope with the loss of employment. Depending on the individual measures, other actors (such as other companies, training providers or consultants) might be approached and integrated in the initiative. At the end of the process, the participant is supported in their transition to a new position (including assistance with the preparation of application documents, preparation for job interviews, self-marketing or looking for vacancies).

Figure 23: Typical method of operation of outplacement bodies



Source: Eurofound

The programme developed for the participant is individually tailored to their needs. It covers a longer period than is normally foreseen for active labour market policy instruments: for example, it generally lasts about two years in Germany, between three and four years in Austria and up to five years in Sweden (where it typically lasts between six and eight months) (Eurofound, 2009d). This provides the opportunity to consider a very substantial qualification programme (including, for example, apprenticeships or university studies), and even a complete career change. Throughout the participation period, the workers are often supported by a mentor or coach whom they may approach in case of problems, difficulties or doubts.

In spite of this common general approach, outplacement bodies are characterised by a considerable heterogeneity across Europe. In Sweden, this instrument has been available for white-collar workers since the 1970s, while it has been used in Austria, Belgium, Germany (with new provisions included in the Civil Code in 2004) and Italy since the 1980s or early 1990s. The model of the Austrian labour foundation model (*Arbeitsstiftung*) has also been 'exported' to Poland, in the form of a model project that took place in 2006–2007 with the support of ESF funding (www.fundacjapracy.pl). The regional foundation, which involved 100 participants and succeeded in a reintegration rate of 70% managed to raise the interest of the media, trade unions and politicians. Nevertheless, it remains to be seen what the further development of the concept in Poland will be. In general, outplacement services in Poland are provided by private companies and consultants or in the framework of individual projects under the Operational Programme 'Human Capital 2007–2013' of the ESF. The network of Dutch mobility centres was introduced in December 2008 and implemented in March 2009 (creation of the national network of 33 centres), as a means to cope with the current recession. One reason for this decision was the 'success story' of previously established mobility centres achieving reintegration rates of 85% or higher.

In Austria, to be eligible for the process, a person has to be unemployed and receiving unemployment benefits. In Sweden, in contrast, participants are usually still employed by the company (although redundancies have already been announced) when they start to receive support from their affiliated job security council (Eurofound, 2009d)). In the Netherlands, the mobility centres mainly focus on employees and employers making use of governmental schemes, such as short-time working or partial unemployment.

In Austria, there are different types of labour foundations, depending on whether an individual company, a whole region or industry sector is affected. With the exception of insolvency foundations, which are fully funded by public money, the companies working with the labour foundation finance the services for the affected workers. In some cases, those employees not affected by the redundancies contribute a low monthly solidarity fee. A similar concept can also be found in the Italian Income, employment, requalification and conversion solidarity fund for the support of banking sector personnel (*Fondo di solidarietà per il sostegno al reddito, dell'occupazione e della riconversione e riqualificazione professionale del personale del Credito*).

In Austria (its labour foundations) and Germany (its transfer agencies –*Transfergesellschaften*) the creation of such outplacement bodies is agreed upon by the company and the works council or trade union in the framework of negotiating the social plan. Consequently, individual characteristics of different outplacement bodies vary, depending on the negotiations. The Dutch Gatekeeper Centres are also quite heterogeneous as their individual design depends solely on the agreements between the involved companies and institutions.

Participants in such schemes receive financial support from the PES, often amounting to the level of unemployment benefit. In Germany, the company commonly tops up this amount (which is between 60% and 67% of the previous wage), so that the former employees receive about 80% of their last salary. Participation in an Austrian labour foundation extends the period for claiming unemployment benefits to 156 weeks (209 weeks in exceptional situations). The arrangement for German transfer companies is similar, with an extension of unemployment benefits up to 30 months.

Participants in the Swedish job security councils are eligible for additional financial support, which complements their unemployment benefit payments and safeguards a certain level of income during the period of participation (Eurofound, 2009d)). One of the most important Swedish job security councils, the Council for Redundancy Support and Advice (*Trygghetsrådet*, TRR), for example, aims to replace up to 70% of the previous salary of the participant, including the payment from the unemployment insurance fund. Financial support can be ensured through paid leave, job security income supplements, sponsorship that enables individuals to try out a new job to see if it suits both the employee and the employer, supplementary unemployment benefit, extended occupational health services, early retirement and pension benefits. Job security agreements can make provisions for the payment of the difference between the wage of the previous job and the wage of a new but lower-paid job.

Austrian public authorities (such as regional governments) also provide participants with an additional allowance to support their reorientation activities. However, this approach is not standardised and is based on individual agreements. It has, for example, been introduced by the federal state of Upper Austria to cope with the current recession. The need for such outplacement services is confirmed by the fact that the number of participants in labour foundations has increased fivefold during the present economic downturn. A new labour foundation for temporary agency workers has also been created on the initiative of a trade union, with a specific focus on young persons and SMEs.

The Austrian labour foundations may be organised on a temporary basis, but may become a permanent body that can be approached by individual companies. However, the Wallonian reconversion units are established temporarily (normally for one year) by the regional government following a request by the relevant trade union and the regional public employment service. Similarly, the German transfer companies and the French professional reclassification units are specifically established for individual restructuring cases and offer their services for one or two years. In contrast, the Swedish job security councils are permanent structures that also engage in anticipation activities (however, to a much more limited extent compared with providing the outplacement services described above). They advise companies that could be affected by restructuring in the future by, for example, familiarising the company's management with the different options available for handling change relating to a shortage of work, or advising them with regard to procedures in the transition process. They also offer training for managers and trade union representatives as well as career planning sessions for employees (Eurofound, 2009d)). Since the Swedish councils are established by collective agreement and run by the social partners, they are greatly trusted. This is particularly useful in the often highly charged atmosphere that exists when collective dismissals are to be carried out. For example, the councils often become involved in the process even before the announcement of dismissals: a key factor for success in outplacement is to start early.

Apart from 'general' outplacement bodies providing services for all employees (even if restricted to certain geographical or sectoral areas), bodies also exist that specialise in dealing with specific groups in the labour market. The above-mentioned newly established Austrian labour foundation for young persons and temporary agency workers is one example; another is the Austrian labour foundation for female workers. A different approach is followed by the 28 Gatekeeper Centres that have been set up across the Netherlands: in this model, employers support each other through a regional network for finding job offers suitable for those among their employees who can no longer work in their original position due to sickness or disability.

Income support schemes

Unemployment benefits

Unemployment benefits are an important measure among the policies used to provide income support to people who are temporarily forced out of the labour force. During the present economic crisis, several governments have made amendments to the prevailing regulations, for example with regard to the eligibility criteria.

In France, for instance, as of 1 April 2009 the government has temporarily relaxed the rules for entitlement to unemployment benefits. Under the new legislation, a person must have made unemployment contributions during any four months in a past 28-month period in order to be eligible for the benefits. Those eligible will receive a one-day benefit for every day worked during the past 28 months, payable over a maximum period of two years. In the case of a person aged over 50 years, the benefit can be payable over a period of three years. The change in rules will apply only until the end of 2010. In addition, young jobseekers who cannot claim unemployment benefit – because they have not yet made enough social security contributions – receive a one-off payment of €500.

In Italy, the government has extended the possibility to benefit from the unemployment allowance to a maximum of 90 days for workers employed in companies outside the scope of the wage guarantee fund (CIG). This measure will also be available to apprentices on an experimental basis for the period 2009–2011. The unemployment allowance will be financed by joint bodies (agreed by collective bargaining) and the national social insurance authority. In addition, the government extended the possibility for workers of companies with up to 15 employees who lose their jobs to demand their inclusion in the work availability or mobility lists (*lista di mobilità*). Project workers will receive a one-off payment when they finish their contract, provided that they meet certain requirements. For 2009, the payment will be equal to 20% of the income received in the previous year; from 2010, this proportion will be 10% of the previous year's income. In Sweden, from 1 July 2009, the government is reducing to six months the duration of previous employment required to qualify for unemployment benefit.

In addition to widening the eligibility criteria, several countries have made unemployment benefit more favourable for the beneficiaries. The Czech government, for example, has opted for a weighting system in the benefit regime. In the first months, the claimant receives 50% of the previous income, which decreases to 45% for the subsequent three months. The rationale behind this mechanism is to encourage unemployed people to search for a new job. If the job seeker starts retraining, the amount of the support will be 60% of the previous income for the duration of the qualification period. In Estonia, the parliament approved the new Employment Contracts Act. The law was meant to enter into force on 1 July 2009 and envisages unemployment benefits equal to 70% of a person's last wage, rather than 50% as before (ETUI, 2009). Nonetheless, trade unions expressed concerns regarding the timing of these adjustments, and – given the difficulties experienced by the Unemployment Insurance Fund due to the rapidly increasing unemployment level – these provisions are likely to be postponed.

Trade unions have generally supported initiatives to increase the amount of benefit payable. For example, trade unions in Romania have demanded that unemployment benefits should be supplemented by severance pay from employers and be equivalent to 12 monthly salaries. In addition, they argue that workers made redundant should receive 90% of the salary earned prior to dismissal, instead of the unemployment benefit, which currently represents 75% of the minimum wage. In Slovenia, trade unions have asked the government to amend the Law on Employment and Unemployment Insurance and the Law on Social Security in order to increase the social security of unemployed persons.

Other amendments carried out or planned by a number of governments concern the duration of entitlement to unemployment benefits. In Poland, the government planned to extend the unemployment benefit period from 12 months to 18 months during 2009, but it seems that this idea has not been accepted. However, from 1 January 2010, a weighting system will be introduced, which will provide unemployed persons with higher levels of benefits during the first three months and lower rates subsequently. In Romania, the entitlement period has been temporarily extended by three months for those whose labour relations or service relationships cease after the enforcement date of the respective emergency legislation but no later than 31 December 2009 (Nine O'Clock, 2009).

Other income support instruments

As a way of adjusting the workforce in companies and sectors undergoing economic difficulties, some Member States have started discussions regarding (early) retirement and the related benefits regime. A considerable heterogeneity prevails across Europe in this regard. In some countries, such as Cyprus, Poland and the UK, older people do not seem to be more affected than the average by the recession, and hence no debate has ensued regarding altering the pension system. However, other countries, such as Hungary, Latvia, Luxembourg and Romania, have observed that older workers in particular are subject to the negative labour market effects of the current crisis: for example, they record a significant increase in early retirement. Consequently, a few public initiatives aim to support retirement during the economic downturn. In Italy, for instance, there is a specific provision in the banking sector, which establishes an extraordinary scheme, directly funded by the banks undergoing restructuring, to be used for the outplacement of redundant workers. The fund allows workers with five years or less until reaching pensionable age to receive a benefit worth 70% of their gross wage until they reach the age of retirement.

In Ireland, a pilot programme lasting three years has been introduced as part of a new Pensions Insolvency Payment Scheme (PIPS). In cases where both the company and its pension fund are in serious financial difficulty, pensioners receive up to €12,000 per year from the fund, while those who have not yet retired can claim up to half their entitlement – up to €6,000 per year.

Governments have also put in place other measures, such as adapting or introducing child benefits, housing allowances and student allowances, in order to provide social assistance to people who are outside the labour market as a result of the recession.

Bulgaria has introduced a one-off payment to cover increased heating charges for low-income households. In the Czech Republic, the state plans to set up a fund to providing temporary aid to those who have lost their salaries and who are unable to pay their monthly mortgage instalments. France has a provision to support housing with a twofold increase in zero-interest loans, in addition to welfare support. In Poland and Portugal, financial help is available for those who are unable to meet their mortgage payments.

In Portugal, the government has also increased its contribution towards the cost of generic medicines for pensioners who receive pensions lower than the national minimum wage. Furthermore, it has increased its support for students who are beneficiaries of a family allowance and who have one parent who has been unemployed for more than three months. From a more general perspective, access to social assistance has been extended, so that unemployed people with an income of less than €461 per month (raised from €365) may now receive social benefit for up to a maximum of 18 months; at the same time, the level of benefit was reduced to 60% of the social support index.

The Czech Republic is taking an interesting approach. A law to change the Insolvency Act is in the legislative process. This law establishes that employees' wages should take priority over other creditors, such as banks, and entitles employees to a state subsidy during the insolvency procedure. In Poland, employees' claims in case of bankruptcy of the employer have also been improved: workers no longer have to wait for the court's decision regarding the employer's bankruptcy, and have the same rights as the Guaranteed Employees Benefit Fund's debtors.

Popularisation of short-time compensation programmes in the US

In the last year, 17 US states have expanded short-time compensation (STC) programmes in which employees receive unemployment compensation for their reduced hours. In the event that economic difficulties require a firm to reduce work hours by more than 10%, the programme allows the firm the option of reducing the working time and salaries of each employee, rather than reducing the workforce. Employees then have access to unemployment benefits to replace lost wages.

If an employee's hours are cut by 20%, they receive 20% of the unemployment benefit. Different states calculate unemployment benefits differently, but it often replaces about 50% of lost wages. Employers are usually required to continue providing benefits, such as health insurance and retirement benefits. Employees benefit because they maintain some job security, receive payments to replace lost wages, and continue to receive the aforementioned benefits.

While California has had an STC programme in place since 1978, the federal programme dates back to the recession of 1980–1982. A temporary measure was implemented in 1982, and the programme was finalised in its current form in 1992. Until recently, however, few states have participated, and even states with active implementation have not advertised it well to employers.

Depending on the specifics of the state programme, employees are eligible to receive STC unemployment benefits for anywhere between 26 and 52 weeks. Therefore, STC is a viable solution for firms that expect demand to rebound with the economy, but not a solution for a declining industry or poorly performing firm. STC programmes are financed via the payroll tax levied by states for the larger federal unemployment insurance programme. Additionally, in most states, STC must be approved by the workplace union, if one exists.

The following states have active STC programmes: Arizona, Arkansas, California, Connecticut, Florida, Iowa, Kansas, Maryland, Massachusetts, Minnesota, Missouri, New York, Oregon, Rhode Island, Texas, Vermont and Washington. Louisiana is the 18th state to have enacted a law, but it has not yet implemented a programme (Ridley, 2009).

(*Sources:* BusinessWeek, 2009b; Riley, 2009; Employment Development Department, 2009)

Conclusions

This report has been largely descriptive. The first two chapters described the impact of the recession on the labour market, with particular focus on the recent restructuring of the European economy up to the end of June 2009. It showed which sectors, countries and demographic groups have so far been hardest hit by the recession. An important point made is that, based on the experience of previous recessions, a very difficult labour market should be expected in Europe for some time to come.

The remaining three chapters showed how policymakers, companies and the social partners have responded to these turbulent times. While this may serve as a menu of policy options, their very recent adoption means that policy conclusions cannot be drawn on the basis of evidence-based evaluations. Any policy pointers therefore can only be made by examining the success of similar measures taken in the past, in light of the specific circumstances of the present and with a view to the likely developments in the future.

The recession is deep, global and much of the world's financial system is in disarray. Moreover, it has probably yet to fully run its course. The main policy response to the recession throughout the world has been a return to fiscal demand stimulus policy. There is almost universal agreement that supply-side measures alone could never have tackled the problems that have arisen. There are several obvious and economically logical roles for the EU in this recession. Experiences from the early 1980s demonstrated very clearly the limitations of expansive macroeconomic policy at the level of Member States. To be effective, EU-wide co-ordination is required. While the EU policy competency is relatively limited in this respect, the EU may be successful in encouraging a more coordinated macroeconomic response. The fiscal stimulus initiated in the European Economic Recovery Plan has been almost universally welcomed; the only serious debate was whether the stimulus has been big enough and sufficiently well coordinated throughout Europe. While it should be obvious that the fundamental solution to the short-term problems lie with fiscal and monetary policy and the longer-term lessons relate to financial regulation and the establishment of the appropriate institutions for the emerging global economic order, these topics are largely outside the scope of this report.

Given its strong competition policy mandate, the EU will have a vital role to play in ensuring the avoidance of a protectionist response from Member States. The Great Depression of the 1930s was significantly deepened and prolonged by global protectionism through a massive increase in tariffs. While this is unlikely in the well-established customs union, there have already been tendencies among some Member States to protect national industries through state aids and, in particular, the coupling of these aids to 'buy national' clauses. While the economic argument against state aid is not exactly the same as tariffs, state aid does distort competition and trade and worsen public-sector finances. The issue of state aids is likely to figure prominently in the forthcoming policy debate. If the recession is as deep as many fear, there may even be good arguments for at least temporary public support for crisis industries. It is crucial, however, that this does not disturb the functioning of the Single Market. This can only be avoided with EU-level industrial policy or coordination. It may be that the current recession will spark a significant development of EU industrial policy.

The future development of the labour market is a particularly crucial factor for judging the suitability of the measures and practices adopted so far; the uncertainty of labour market prospects makes such a judgement exceptionally difficult. In previous financial crises, employment returned to pre-crisis levels some four to five years after economic recovery, on average (ILO, 2009) but the question is of course whether it will be a similar story this time around. The importance of the timing and strength of the recovery is clearly a vital issue for the viability of the huge number of short-time working schemes, with or without public support, that have been implemented throughout Europe. Some evidence indicates that short-time working does not prevent dismissals in the long run but rather only postpones redundancies in times of severe economic difficulties (Calavrezo et al, 2009). Furthermore, the application of short-time working, particularly if used over a longer period of time, negatively affects structural change by artificially maintaining employment in declining industries instead of redirecting the workforce into more future-oriented jobs (Eichhorst and Marx, 2009; Crimmann and Wießner, 2009). The longer the economic crisis lasts, the less effective the instrument of short-time working becomes.

In order to effectively use the free capacities during short-time work, several European companies train their staff. Nevertheless, it is highly likely that, given the current financial difficulties being experienced by many companies throughout Europe, these difficulties seriously limit the opportunity for many enterprises to provide such training. Consequently, there is a strong argument for public support for this purpose and several countries have already combined such instruments with short-time working support. Nevertheless, there is some scepticism regarding such training initiatives. As the employer cannot accurately forecast the duration of short-time working, it is assumed that mainly short training measures will be applied, resulting in criticism regarding their effectiveness; hence, modular qualification instruments are recommended.

The source of finance for these schemes is of fundamental importance for the nature of the training likely to be provided. On the one hand, the more the employer pays, the more likely it is that training in skills useful at the existing workplace will be provided; on the other hand, the more the costs fall upon the worker or the public funds, the more likely it is that general or generic skills – which are useful in the wider labour market – will be provided. Again the timing dimension is important. For example, for the employer, the value of investing in skills development may not be clear if they are uncertain whether, or how long, the employees will remain part of their workforce.

For all three parties, workers, employers and governments, there are financial limits for short-term working schemes and they are designed to be short-lived. Unless there is a rather unlikely, rapid and strong recovery, one can expect very soon a return to the shorter working week debate that was so predominant in the 1980s and 1990s. One important lesson from the previous experiences is that there is no simple answer to the question of whether shortening working time saves or creates jobs: sometimes it does, and sometimes it does not. The relevant question is *how* working time reduction can save jobs.

Notwithstanding the reservations regarding some of the policies mentioned above, there is a degree of consensus on the orientation of measures that should be adopted. Some of the following points have already been made by other actors (ILO, 2009; Pisani-Ferry and van Pottelsberghe, 2009; European Commission, 2009e; OECD, 2009b) and in the outcome of the Prague European Employment Summit mentioned in Chapter 3.

- Emphasis should be placed on pro-growth policies, such as education towards future labour market needs, innovation and 'green investment'.
- Employment support should be temporary, apply to the whole economy and focus on keeping workers in employment (for example, financial support for temporary reduction of working hours, but also instruments enabling older workers to remain active), rather than on unemployment support.
- Temporary support should be in line with long-term strategies (particularly the flexicurity approach).

- Concerning these long-term strategies, focus should be placed on the sustainability of the long-run labour supply. This implies, for example, that pathways into early retirement are not widely opened and that young persons are supported in their entry to the labour market.
- Governments should strengthen income-maintenance measures for unemployed and disadvantaged or vulnerable people (including, for example, low-skilled workers), not least to stimulate aggregate demand.
- Support for (large) companies in traditional industries as well as assistance for declining industries and areas should be conditional on restructuring.
- Young innovative companies and SMEs should be provided with access to finance.

Regarding individual labour-market related measures, the following aspects could be considered:

- A more general access to training support (that is, not limited to short-time working and short-run courses) would be desirable. To that end, a focus should be placed on skills and competences that will be needed in the labour market in future. One example of this is 'green jobs'. Available data has shown that, in spite of the emphasis placed on the issue at European level, the majority of Member States are only to a very limited extent engaged in effective 'green recession measures'. By supporting education and training in this field, a contribution to both economic and labour market development could be achieved.
- Such a 'future skills' orientation might require occupational change and substantial retraining. Systems such as some of the outplacement bodies described in Chapter 5 could be considered. These provide the general advantage of the costs being shared among enterprises, the affected workers and (semi-) public authorities. For the workers, they offer the possibility of an individualised, long-term training programme with a high success rate for reintegration, while employers avoid notice periods, conflicts with regard to labour law and negative effects for their image as an employer. So far, such instruments have had a comparatively limited scope.
- It is important to implement instruments to ensure that the quality levels of the instruments applied in the framework of active labour market policy are maintained – also in the current situation in which the service capacity has to be quickly expanded (OECD, 2009b).
- Wage subsidies for hiring additional workers are generally questioned concerning their effectiveness in a crisis situation. Experts assess that they have considerable 'dead weight'. In other words, many companies that would hire workers anyway without government support are able to avail of this financial assistance.
- In contrast, reductions in employers' social security contributions have been characterised by increasing effectiveness regarding the promotion of labour demand during recent decades, and it is assumed that this effectiveness may be further enhanced during economic contractions. However, these effects are supposed to materialise in the short-run, while in the long-run, the effect of reducing employers' social security contributions on employment is likely to be much more limited (OECD, 2009b).

An important challenge for many Member States will also be to find a justified balance between supporting individuals and companies and adding to the burden on the state budget.[34] Furthermore, a strategy to cope with the intense competition for government revenues among the different instruments

[34] This would, once more, encourage the use of 'multi-stakeholder financed instruments' like the outplacement bodies described above.

has to be found (OECD, 2009b). This requires, among other issues, the establishment of an evaluation system, allowing for a continuous and timely monitoring of the cost–performance ratio of the different instruments and the flexibility of the support structures to be adapted to changing framework conditions and the evaluation results.

Even the policy implications of the current recession for central elements in the European Employment Strategy depend crucially on the depth and duration of the recession. The quite probable bad-case scenario should prompt some thought towards a possible reorientation of the activation measures in the Employment Strategy. Active labour market policy (ALMP) does not really create jobs; this is primarily the role of macro and industrial policy. The role of ALMP is to ensure workers can fill the available job vacancies created in firms. In a recession, the activating role of ALMP in general, and training in particular, may be useful in terms of mitigating the effects of long-term unemployment on individuals and society. These active individuals may then be able to return to work when times improve. However, with mass unemployment and few jobs in sight, participants may experience very specific job training as meaningless or even punitive and endless rounds of training for a job that will never appear can be just as demoralising as long-term unemployment. Some Swedish experiences may be instructive here. In the early to mid-1990s, Sweden experienced mass unemployment for the first time since the 1930s, and it became obvious that training the unemployed to fill non-existent jobs did not make sense. The biggest single individually oriented policy response was the Adult Education Initiative, which, at one point, had as many adult participants as there were schoolchildren in upper secondary school. This provided formal school education for poorly educated adults and there was not even an implicit promise of subsequent job. It was presumably interesting and meaningful for participants, or at least more so than training that obviously would not lead to a job. Evaluations of this massive programme have shown, on balance, rather positive results.

Ideally, it would be preferable to ensure that measures to address the immediate problems caused by the recession are aligned with long-term goals. Indeed, it might be that the only positive aspect of the recession would be that the necessary political will to invest in long-term objectives be harnessed. The strategic goal of the Lisbon Agenda is ‘to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion’. A massive education programme targeted at unemployed youth and adults will at least coherently address not only the major immediate problem of the recession but also this strategic Lisbon goal.

Annex:
The European Restructuring Monitor

The European Restructuring Monitor (ERM) defines job loss at restructuring in a similar fashion to the European Directive in that it refers to intended redundancies. However, the intended redundancies do not have to be notified to any public authority; rather, they may be 'announced' either in the media or some other public domain. For inclusion in the ERM, the restructuring must involve at least 100 jobs or affect at least 10% of the workforce in sites that employ more than 250 people. Unlike the Directive, however, there is no stipulation of a time frame within which the intended job loss is to occur.

The major advantage of the ERM is that – by recording announcements very early in the dismissal process – it will early on capture the numbers of those who leave. It will, however, almost certainly overestimate the actual number affected by the restructuring.[35] The early-warning feature of the ERM is one of its major strengths, since information is usually available long before the reduction of the work force is carried out. Another major strength of the ERM is that it is based on information in the public domain. There are no issues of privacy and the identification of specific cases allows the process of structural change to be observed at the company level.

However, the major problem with the ERM is that it is unclear whether the macro picture that it tells is representative of job loss in general. There is reason to suppose that the information in the ERM is biased with respect to job loss in a number of dimensions, as listed below.

Firm-size bias By definition, firm-size bias occurs as a result of the ERM thresholds. Moreover, even within the firm-size definitions there will almost certainly be an over-representation of big firms and large workforce reductions, since these are more likely to be reported in the media. As firm size is correlated with a number of important factors such as economic sector, size bias will lead to many types of bias. For example, the big-firm bias probably leads to a higher reporting rate in the ERM for manufacturing relative to services. The manufacturing bias may in turn lead to bias as regards region and gender. The fact that the sampling error will be greater when firms are small may lead to inconsistencies over time (if firm size varies over time) and between countries with differing firm size distributions.[36] The most obvious impact of big-firm bias impacts on small Member States such as Malta and Cyprus, since they have very few firms of the size that fall under the ERM thresholds. Indeed the ERM database provides very limited information on restructuring in these countries.

Regional bias Apart from the regional bias which follows from the big-firm bias just mentioned, regional bias is likely to occur when media coverage is not evenly spread throughout the country. While most of the designated newspapers are formally national, there may well be some national or regional capital-city bias.

Country-size bias In absolute numbers, there is obviously much more job loss in big countries. In terms of national impact, restructuring that involves – for example – 100 employees will be occur less frequently and hence be more prominent in the media in Portugal or Greece than in Germany or the UK. This suggests that the reporting frequency will be higher in small countries than in big ones. This could seriously flaw comparisons between countries (but not over time). Note that because there are more big firms in big countries this leads to better coverage in the ERM. Thus there are likely to be conflicting tendencies to bias as regards country size, leaving us with little indication on the size and direction of the bias.

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[35] Note that while the ERM does require the correspondents to update any subsequent revisions of announcements, it is likely that these revisions will be less well covered in the media.

[36] In the European context one may have reason to believe that the main small-firm bias at work both currently and in years to come will arise as a consequence of the ongoing restructuring of agriculture in the NMS. In terms of employment consequences, this is an extremely important issue and one that is typically not dealt with when the general public, academics or policymakers consider restructuring.

Type-of-restructuring bias Such bias (in terms of internal restructuring, relocation, closure etc) may also occur if the focus of both public and media focus is more concentrated on certain types of restructuring. Otherwise there is little to suggest that bias occurs in this aspect of the ERM.

The ERM also reports cases of job creation. As the major part of ERM cases are identified in newspapers, one could anticipate – in accordance with the journalistic adage that 'the best news is bad news' – a higher rate of reporting of job loss relative to job creation. This is counterbalanced to some extent, however, by the enthusiasm of the press departments of investment promotion agencies, state authorities and companies themselves in placing media stories about job expansions in new factories and offices.

Between the first quarter of 2008 and the end of the second quarter 2009, 2,998 cases of restructuring were logged and summarised on the ERM. The dataset now comprises over 10,000 cases of restructuring, collected since 2002.

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