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The crisis in Europe:
Depression economics – social crisis – state policy – alternatives
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The social crisis in Europe: politics of precariousness or shift to a new social model of regulation

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One year and a half after the outset of the current economic recession, generated by the financial crisis that began in USA a year earlier, all international organisations announce the beginning of recovery in Europe, but recognize that unemployment is going to rise further in the coming years due to a continuing downward adjustment of employment meant to bring labour productivity back to its pre-crisis level.

'Adjustment', 'correction' and 'clearing' mechanisms for capital to protect or redress (rates of) profits during economic crises always imply painful social consequences for the working classes, labour market (re)entrants, and vulnerable social groups. However, the extent and acuteness of such consequences differ in time and space, as a result of state intervention and national institutional settings that may reinforce or mitigate them. Finally, crises can be also moments of rupture of the prevailing social and institutional order and of major reshuffling of class coalitions, power relations, and institutional architecture at the national and international levels.

The aim of this presentation is to take stock of the social consequences of the recent crisis in Europe until today, given the policy reactions at the EU-level and in view of the different policy responses to the employment crisis at the national level. Our main argument is that although the crisis has brought about a severe deterioration in the condition of working classes and has particularly hit vulnerable groups all over Europe, the *extent and particular forms of social damage has significantly varied* among EU Member States according to the employment and welfare regimes in place and the political management of the crisis at the national level. A second argument is that, while macroeconomic, industrial and employment policy responses in most EU countries have diverged from monetarist and neo-liberal orthodoxy and exclusive focus on labour supply and flexibility measures, these should be considered *as a temporary parenthesis in a state of emergency*, rather than the adherence of ruling classes and political elites all over Europe to a new social model of regulation. A final argument is that, *EU institutions and global financial markets act as a straitjacket* to permanent policy deviation from the mainstream and 'social experimentation' at the national level. They also continue to erode labour standards and social rights, gradually cumulated during the golden era of fordism or the 'socialist' past of Central and Eastern Europe.

The impact of crisis on employment – unemployment and precariousness

The slump in output was spectacular in the current crisis. Between the second quarter of 2008 and the same quarter of 2009, GDP in the EU fell by 5% and employment by 1.7%, while the unemployment rate – though an imperfect indicator of joblessness in

its current ILO definition – increased from 7 to 9.1% between August 2008 and August 2009.

Temporary workers – either agency workers, employees on fixed-term contracts or false self-employed on project/service contracts - were the first victims of dismissals. Temporary jobs were reduced by 6.3% against a reduction of 1.3% in permanent jobs between the second quarter of 2008 and the same quarter of 2009. Across the same period full-time jobs declined by 2.1% while part-time jobs increased by 1% both because of the conversions of full-time to part-time contracts and of hires under this form of contract. As a result of the above-mentioned trends, the part-time employment rate increased while that of temporary employment declined.

The share of temporary jobs in total employment is very sensitive to the cycle and is expected to rise with the upswing of economic activity, especially during the first period of uncertainty about the robustness of recovery. The main message we can thus draw as regards the impact of the crisis on employment is that dismissals have started from the periphery of temporary workers and reached the core of permanent workers thus generating employment insecurity among the previously 'stable' workforce. Mass dismissals have profoundly destabilized internal labour markets in big firms. Bankruptcy or closure accounts for 22% while internal restructuring of firms for 70% of job losses between March 2008 and August 2009. Besides, a large number of workers have been affected by wage decreases either because of concessions in order to save jobs or because of pay freezes in the public sector decided by governments. Income precariousness has thus increased next to employment precariousness. Last but not least, the crisis has harshly undercut the pace of hires which has boosted unemployment among young labour market entrants and women returnees.

Men, youth, the low and medium-educated and non-EU nationals saw a larger increase of their unemployment rate than women, prime age and older workers, the high educated and EU nationals. It should be taken into account though that employment contraction was the highest among prime age workers while women have a higher propensity of discouragement and exit from the labour force than men.

Wage reductions, foregone earnings/ income loss due to unemployment, and the exclusion of large groups of the labour force from unemployment benefits and/or severance pay (first job seekers, temporary workers with low contribution records, short part-timers whose jobs are exempted from social security contributions, false self-employed etc.) have reduced wage income and increased the risk of poverty among wage earners and working class families.

Recovery does not mean that the crisis is not over – macroeconomic policy matters

Although the signs of timid recovery in most European countries are real, this is not bound to endure in view of the persistence of the structural flaws and imbalances that generated the crisis and the imminent changes in the orientation of macroeconomic policy in EU Member States. Expansionary monetary policy and fiscal policies since the beginning of the recession helped mitigate its impact on growth and employment in many EU countries. Public deficits passed from -0.8% in 2007 to -6.9% in 2009 on average, while the fiscal stimulus was the largest in Ireland, the UK, Spain, Greece, Lithuania and Latvia. However, in its last decision of December 2, 2009, the Ecofin

Council set Greece's fiscal policy under strict surveillance for excessive deficit and called on Belgium and Italy to reduce their deficits below the 3% of GDP threshold by 2012, the Czech Republic, Germany, Spain, France, the Netherlands, Austria, Portugal, Slovakia, Slovenia to do so by 2013, Ireland by 2014 and the UK by 2014-15. This means that 14 out 27 EU-Member States will apply restrictive macroeconomic policies in the next three years, which may plunge the European economy in a new downturn and employment crisis and further undermine social protection systems and the provision of public goods and services.

Political management of the crisis - low elasticity of employment to output

An interesting feature of the current crisis compared with the recessions of the mid 1970s and early 1980s and 1980s is the low elasticity of employment declines to GDP in the first year. This reveals a different management of adverse employment repercussions by governments in the current crisis than in pervious recessions, minding to avoid a collapse in demand along with social turbulence. This does not imply that the full negative impact of this crisis on employment will be weaker but that it will spread out in more years than in previous recessions. Firms are expected to gradually adjust employment until the pre-crisis level of productivity is reached, by eliminating surpluses or delaying hires, thus augmenting unemployment. However, it is certain that by preventing a greater job loss, especially in the big EU economies, national governments have prevented – for the time being – a downward spiral of demand and production that would transform the severe recession to a real depression.

National patterns of adjustment - employment vs. working time or pay

Although the crisis has brought about a severe deterioration in the condition of working classes and has particularly hit vulnerable groups all over Europe, the *extent and particular forms of social damage has significantly varied* among EU Member States according to the employment and welfare regimes in place and the different management of the crisis by national governments.

It is important to note in this respect that, between the second quarter of 2008 and the same quarter of 2009, rises in unemployment rates have been marginal in Germany, Belgium, Italy, the Netherlands, and Austria. These were also the countries with the lowest decline in employment in spite of drops in GDP ranging from 4.2 to 5.9%.

The elasticity of employment to GDP contraction is an indicator of the intensity of effort undertaken by firms and governments to maintain employment. Elasticity is the highest in Spain, Ireland, Greece, Latvia, Portugal, Estonia, Hungary and Cyprus, indicating the apathy or inadequacy of governments to take the challenge and the great freedom enjoyed by firms in these countries to dismiss workers. For instance, Spain has the highest rate of temporary workers in the EU and alongside Greece, Italy and Portugal large pools of informal workers and pseudo-self-employed who can be fired on the spot with zero costs. At the other extreme, Germany, Austria, Belgium, the Netherlands, Slovenia, Slovakia, the Czech Republic, Italy and Malta display extremely low elasticity of employment to GDP contraction. The Nordic countries, France, the UK, Bulgaria and Lithuania lie in between the other two groups.

Another important difference between EU countries is the extent to which the reduction of working time has been used to prevent dismissals. Estonia, Austria, Germany, Slovenia, Slovakia and the Nordic countries, with a great tradition in negotiated working-time flexibility at the plant level are the EU Member States with the greatest reduction in weekly working hours of full-time employees. At the other extreme, Luxembourg, Latvia, Hungary, Portugal, Cyprus, Greece, Malta, the Netherlands and the UK have seen the least reduction or even an increase in the working time of full-time employees. Since there is a trade-off between employment and work-time for the same volume of activity, it seems that firms and governments in the first group of countries have made large use of working time reduction to avoid dismissals. The question is what income loss the employees involved have incurred. We will deal with this question further below.

Wage concessions by employees to employers to save their jobs at the company level indicate the increased power on labour that the crisis has conferred to capital. Examples of negotiated pay-freezes or cuts can be found all over Europe, but most of them come from the UK and Ireland.

Policy responses to the employment crisis

The deleterious effects of the financial crisis on the real economy through the slump in demand and output obliged EU Member States and EU authorities to allow a temporary deviation from the monetarist and neo-liberal principles and their institutional configurations. The deviation consisted in direct credit facilities provided by the ECB to national banks, expansionary fiscal policy at the national level in breach with the Growth and Stability Pact and state aid to economic sectors and big firms particularly hit by the crisis distorting competition in the Internal Market. Macroeconomic and industrial policy measures had a more important impact on employment than labour market policies, but unemployment benefits and other social benefits distributed to low-income groups acted as economic stabilizers while employment preservation measures had a direct positive impact on employment.

Four important points should though be underlined. First, the resources allocated to the financial sector were incomparable to those spent to promote employment. Second, job creation in the public sector has been a marginal tool of employment policy. Third, public policies have mitigated but not prevented job and income losses for millions of European workers and the spectacular rise of youth unemployment. Fourth, with the first signs of economic recovery the ruling classes and political elites in the EU call for the return to the monetarist and neoliberal order: restrictive fiscal policies, horizontal industrial policies that do not distort competition in the Internal Market, activation labour market policies and flexicurity measures.

EU-level response

The first response was the European Economic Recovery Plan, which called for fiscal stimulus at both the Member State and EU level, but out the overall €200 billion package only €30 billion corresponded to EU spending. The Plan also recognized that beyond the aggregate demand support provided by macroeconomic instruments, there might also be a case for temporary government support targeted at sectors where demand had been disproportionately affected by the crisis and could cause important

dislocations. Temporary public support could help prevent unnecessary and wasteful labour shedding and the destruction of otherwise viable and sound companies.

A second response was the decision of the 2009 Spring European Council on the three key policy priorities to address the employment crisis and gear accordingly the resources of the European Social Fund and the European Globalization Adjustment Fund. The priorities were a) maintaining employment and creating jobs, b) upgrading skills and c) increasing access to employment for vulnerable groups.

The new element in this anti-crisis EU employment policy framework was the emphasis on maintaining labour surpluses in firms by subsidizing labour costs. This was conceived as a temporary policy direction meant to avoid an abrupt fall in aggregate demand in the economy, a permanent loss of knowledge and skills by firms, and the escalation of industrial conflict and social protest due to mass redundancies. However, unless accompanied with a training obligation, temporary lay-off and short-time working allowances can be classified as "passive measures", since functional equivalents to unemployment benefits, and their provision is contradictory with the EU flexicurity agenda calling for easing dismissals of employees on permanent contracts. This explains why this policy direction was not integrated in the European Employment Strategy (EES), dominated by the activation and flexicurity rationales.

National responses

The introduction for the first time or the improvement and extension of existing temporary lay-off schemes or short-time working arrangements in firms with substantial fall of production is by far the most important development regarding the policy instruments used to avoid redundancies and control unemployment during the current crisis. The employment relationship is temporarily maintained but at the cost of more or less important income loss. Today compensation rises from 60% to 100% of foregone earnings, depending on the country and the workers' participation to training during the hours not worked. It goes without saying that income loss is greater in the case of temporary lay-off than in the case of short-time working while income replacement is roughly equivalent to that of unemployment benefits.

Italy had a special fund (CIG) providing benefits to workers laid off temporarily or working short time in factories undergoing temporary difficulties since 1947, but extended its coverage to apprentices, employees on fixed-term contracts and the false self-employed (parasubordinati) last January. At the end of July 700 to 800 thousand workers were receiving such benefits. In France, where temporary lay-offs have also a long tradition, the benefit increased from 60 to 70% of the wage last year. Belgium made temporary lay-offs applicable to white-collar workers last June; before this scheme could be used by firms only for blue-collar workers. In Sweden temporary lay-offs were first introduced in manufacturing by collective agreement last year and employers put pressure on white-collar unions to sign a similar agreement.

On the other hand, Germany, Austria, Hungary, Slovenia, the Czech Republic, Slovakia, Bulgaria, Luxembourg and the Netherlands introduced or amended short-time working arrangements during the current crisis. In Germany and Austria allowances are now payable for a maximum of 24 months while in the Netherlands

and the Czech Republic training is compulsory for receiving the allowance. Last June 1.4 million of workers were receiving short-time working allowances in Germany.

Rebates on social security contributions and hiring subsidies to boost labour demand were the second most popular employment policy instrument used during the current crisis. Rebates for particular groups of labour force participants have been introduced in Belgium, Spain, France, Hungary, Portugal, Sweden and Slovakia, while job subsidies were re-introduced in the UK after their abandonment in the early 1980s. These measures are consistent with the activation rationale of the EES, but their effectiveness in producing sustainable outcomes is debatable; even more so in times of crisis when job creation depends on forecasts of the evolution of demand rather than on production costs. On the other hand, social contribution rebates certainly erode the long term sustainability of social security systems and if applied on a wide scale are equivalent to “social dumping” practices among EU Member States.

Last but not least, although active labour market policy measures employed to curb youth unemployment were reinforced – especially apprenticeships and work experience schemes – they were too limited in scope in times of severe reductions in hires, to produce any substantial effect on unemployment statistics and youth unemployment rate has marked the largest relative increase. The anticipated downward adjustment of the firm’s permanent staff and their reluctance to hire, unless on temporary or part-time contracts, is going to aggravate and generalize over Europe the precariousness that youth experienced in most EU countries before the crisis.

A final observation is that direct creation of permanent jobs in the public sector was not used by EU Member States as an employment promotion policy tool – at least officially -, in line with the prevailing long-standing neo-liberal attitude for the need of retrenchment of public sector activity and employment. However, public investment has been used as a job creating tool in the private sector through tendering.

Closing the parentheses – Return to order – Business as usual

Predictions about the future concerning the social consequences of the crisis are gloomy since the ‘clearing effects’ of the crisis and their impact on employment and wage income have not yet unfolded and even the timid recovery that appeared in the third quarter of 2009 is still very fragile. Gloomy predictions are further reinforced by the anticipated gradual neutralization of all policy instruments used in the last one and a half year and corresponding to a demand-side management of the crisis.

The decisions of the last Ecofin and European Councils do not leave the slightest doubt. A binding timetable for the exit from fiscal stimulus policies has been set for all Member States that have produced “excessive deficits” under the definition of the Stability Pact and Greece is the first to experience a strict EU surveillance in an unprecedented scale. State austerity measures such as pay freezes, cuts in social security budgets, in healthcare and education, have been applied or are prepared in Latvia, Estonia, Lithuania, Hungary, Ireland, Greece and Belgium. A social security reform is prepared in Greece transforming the pay-as-you-go and defined benefits system to a capitalization based and defined contribution system, inspired by analogous reforms in Sweden, Italy, Hungary and Slovakia in the 1990s and 2000s.

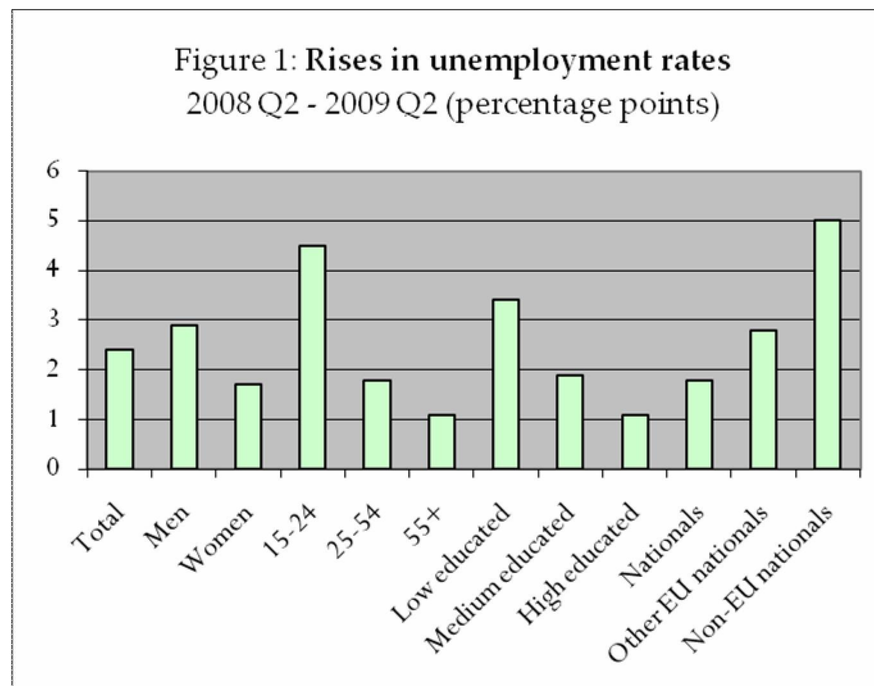
As for the employment policy framework, the last European Councils have stressed the need to refocus labour market policy to activation and flexicurity initiatives

We should also not forget that next year collective bargaining on wages will be much more difficult, since 2009 wage increases had been decided through pre-crisis negotiations whose outcome was in general respected. However, state-defined minimum wages have already been freezed in some countries e.g. Hungary, while in other countries, such as Sweden, there is a pressure by employer organizations to change the whole system of collective bargaining if unions do not consent to pay freezes or moderation in their wage claims.

Overall, after a short parenthesis of implementation of an heterodox policy-mix to face the crisis in the EU and given the incapacity of working classes and their representatives at the social and political arena to organize not only common resistance but also and foremost propose credible alternatives at the EU and national level, we are quickly heading towards the re-establishment of the hegemony of neo-liberalism, financial markets and capital interests as usual. In such circumstances, the role of the EU as a straitjacket for the alignment of national governments and European people to such interests will be reinforced.

Table 1: Growth of GDP and employment in the EU-27
% change compared to same quarter of previous year

	2008	*2009*		
	Q4	Q1	Q2	Q3
GDP	-1.8	-4.9	-5.0	-4.3
Employment	0.2	-1.1	-1.7	-2.0
Temporary			-6.3	
Permanent			-1.3	
Part-time			1.0	
Full-time			-2.1	
Average weekly hrs worked by full-time employed			-0.7	



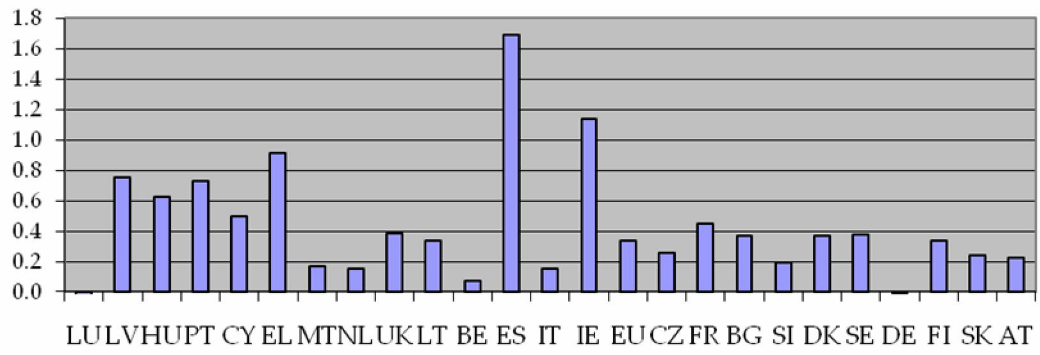


Figure 2. Elasticity of employment to GDP
1.8
1.6
1.4
1.2
1.0
0.8
0.6
0.4
0.2
0.0
LU LV HU PT CY EL MT NL UK LT BE ES IT IE EU CZ FR BG SI DK SE DE FI SK AT