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from:	Employment Committee
to:	Delegations
Subject:	Joint EMCO-COM Paper The employment crisis: policy responses, their effectiveness and the way ahead (Lunch Item)

Delegations will find attached the Joint Paper, prepared by the Employment Committee and the Commission services, which will be presented and discussed at the informal lunch of the Council (EPSCO) on 7 June 2010.

JOINT EMCO-COM PAPER

THE EMPLOYMENT CRISIS: POLICY RESPONSES, THEIR EFFECTIVENESS AND THE WAY AHEAD

Introduction

The recent economic crisis has wiped out years of economic and social progress and exposed structural weaknesses in Europe's economy. Much of the steady gain in economic growth and reduction of unemployment rates witnessed over the last decade has been lost – EU GDP fell by 4.1% in 2009, industrial production dropped back to the levels of the late 1990s and 23 million people, close to 10% of the economically active population, are now unemployed.[1]

The crisis has seen a historically unprecedented response in terms of policies aimed at reducing the unfavourable implications for financial markets and product and labour markets, including direct support to sectors of the economy, businesses and households. The European Economic Recovery Plan of December 2008 detailed an impulse in the 2009 and 2010 real economy totalling € 200 billion. The public response has turned out stronger; eighteen months later estimates show that European governments have spent almost € 350 billion on crisis measures.

The European Commission has assisted Member States since early 2009 in monitoring and assessing these measures.[2] This has allowed Member States to see how their measures compare with those in other countries and what can be learned from other countries' experiences on the design of crisis response measures. This note draws on country experiences designing and implementing the crisis measures as well as analytical work, seeking to articulate lessons learned since autumn 2008. It is organised as follows: section 1 provides a short overview of labour market performance at EU-level, section 2 includes an overview of recent crisis measures taken by Member States since end 2009 as an update to earlier reporting (see footnote 2) complemented with, if and where relevant, evaluations and considerations regarding effectiveness of these measures. Section 3 presents an outlook on expected economic and labour market trends in 2010-2011 and discusses implications in view of exiting the crisis, based on some of the lessons learned.

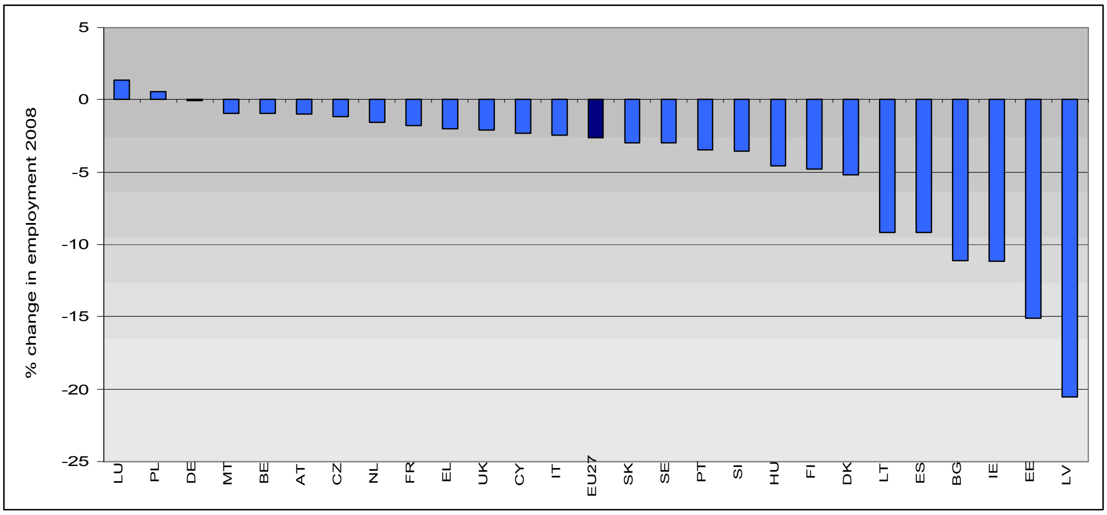
1 EU-27 first quarter 2010: seasonally adjusted unemployment rate 9.6%.

2 For earlier work monitoring and assessing crisis measures, cf. Joint Employment Report 2009/2010 (EMCO/15/170210/EN), November 2009 EPSCO background paper (EMCO/42/271009/EN), EMCO/18/180310/EN, First Draft of the Joint OECD/European Commission report on the employment and social policy response to the economic downturn – 2010 update, Short-time working arrangements in the European Union (EMCO/30/150410/EN).

Section 1 WEAK EU LABOUR MARKET PERFORMANCE IN THE CRISIS

By the end of 2009 employment in the EU had contracted by 6 million (2.6%) compared with the pre-crisis level of the second quarter of 2008, when it last peaked. The recent contraction reflects a broad deterioration across almost all sectors, with declines particularly pronounced in construction and industry. Labour market performances deteriorated across all Member States, but most notably in the Baltic States, Ireland and Spain. In contrast, in certain Member states such as Luxembourg, Belgium, Poland and Germany employment levels continue to remain relatively resistant to the effects of the crisis, in part due to extensive recourse to short-time working arrangements and other measures (Chart 1).

Chart 1: Change in employment in EU Member States from 2008q2 to 2009q4 (%)

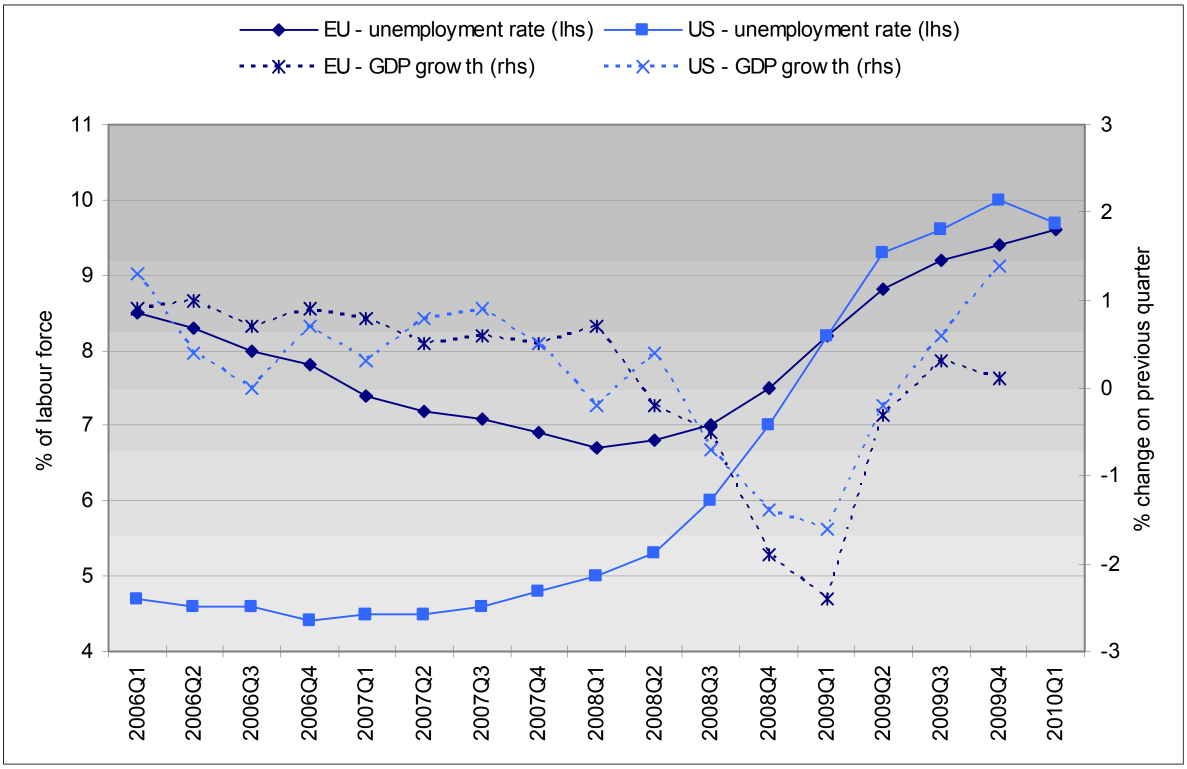


Source: Eurostat, national accounts. Data seasonally adjusted except for BG, CY, MT and SE.

In spite of the difficult labour market conditions the EU average activity rate has essentially remained unchanged since the crisis began, staying very close to the 71% level throughout the period from the second quarter of 2008 (70.9%) to the end of 2009 (71.0%). This indicates that the effects of the crisis on the supply side of labour have been rather limited to date, with no significant withdrawal from the labour market. As a consequence, the crisis (and the subsequent employment contraction) appears not to be resulting in a noticeable reduction in overall labour market participation, neither for men nor for women, but mainly in the strong unemployment increase.

Overall, the European labour market has generally held up relatively well to the economic crisis. Although unemployment has risen it has done so by much less than might have been feared given the strength of the recession and the sharp declines in confidence. For example, despite the sharper economic downturn and stronger falls in business confidence in the EU compared with the US, increases in the EU unemployment rate during the crisis have been less dramatic on average although hard felt in some countries (Chart 2).

Chart 2: Unemployment rate and GDP growth for the EU and US



Source: Eurostat, national accounts and series on unemployment. Data seasonally adjusted.

By March 2010, the unemployment rate in the EU had risen to 9.6%, up 2.9 percentage points (pps) or 7.1 million people, compared to the low in March 2008. Note the similarity with EU employment, as this had declined to around 221 million by the last quarter of 2009, down by a seasonally adjusted 6.0 million compared with the second quarter of 2008, when it peaked. This compares with prior employment expansion of around 17 million between mid-2000 and mid-2008.

Looking at groups in the labour market, males, the young, migrants, the low-skilled and those with a short-term contract have been most affected by the increase of unemployment. Apart from men, these are traditionally the most disadvantaged groups in the labour market, and the current downturn has just made their relative situation even worse. Clearly the relative situation of young people has worsened most during the downturn as their unemployment rates started to rise earlier and increased particularly steeply in the first quarter of 2009. By the fourth quarter of 2009 the youth unemployment rate was up 5.2 percentage points (pps.) compared with the second quarter of 2008, a much higher rise than for other age groups. As unemployment rates for young people were already substantially higher than those for other age groups before the onset of the crisis, the strong deterioration for this age group is of particular concern. The constant rise in the numbers of those becoming unemployed, combined with fewer opportunities for a speedy return to employment has aggravated the risk of a sharp rise in long-term unemployment in the near future.

Section 2 MEASURES TAKEN AND THEIR EFFECTIVENESS

A. Stimulating labour demand: Job subsidies and reductions in non-wage labour costs

Since mid-2009, job subsidies were introduced or scaled-up in a number of countries or targeted more clearly at specific groups. For example, hiring subsidies for the long-term unemployed were introduced (Austria, Estonia, Cyprus, Portugal) or made permanent (Sweden). Youth were targeted by additional hiring subsidies (Austria, Finland, Estonia, Portugal). Furthermore, wage subsidy programmes were introduced (Lithuania) or scaled-up for youth (United Kingdom, Finland, France, Greece), newly redundant persons (Bulgaria) and older workers (France). New job subsidies were made available to save jobs which are under specific threat of being terminated (Ireland). Latvia expanded public-sector job creation for unskilled municipality jobs.

Indirect ways of stimulating labour demand has come in different guises, in particular through 'car scrapping' schemes and 'local development and construction' impulses. However, these measures have the risk that jobs are saved in sectors which in the long run may not need help or on the contrary are at risk of being threatened due to global competition. Some sectors, including construction, suffer from 'business cycle oversensitivity' – relative to others they loose more activity now but will gain more later and have gained more in the past – while others, perhaps including the automotive sector, need to move out of structural overcapacity.

Many Member States see reducing non-wage labour costs (NWLC) as helpful to support vulnerable groups (low skilled, young and older workers) to enter or stay in the labour market. A number of countries have implemented additional measures to reduce NWLC The NWLC reductions enacted in response to the downturn fall into two distinct groups: general reductions in employer social security contributions that apply to both continuing workers and new hires (and which may or may not be targeted at particular groups of new and continuing workers); and those targeted solely at new hires.

In France, small firms are fully exempted from employer social security contributions for new hires at the minimum wage and contributions are progressively increased to reach the standard rate at 1.6 times the minimum wage. In the case of Hungary employer social security contributions fell substantially – from 24% to 21% of total labour costs – as part of a permanent reform of the tax system implemented in 2009 for employers of low-wage workers and in 2010 more broadly. Ireland has exonerated employer social security contributions for one year for new hires (in addition to existing staff) of people unemployed for 6 months or more. The new job must last for at least 6 months, otherwise the firm must pay back the subsidy. Participation is capped at 5% of the existing workforce. Employer social security contributions for all workers also fell in Portugal – from 19% to 17% of labour costs – but only for employers with less than 50 employees or for new employees aged 45 years and over. Employer social security contributions were also cut for new hires of certain groups of disadvantaged jobseekers in Portugal. Contributions for new hires of long-term unemployed on permanent, full-time contracts were eliminated completely for the first three years of employment (or for the first two years in addition to a 2000 EURO hiring subsidy) for firms that have net hiring over a three-year period. A 50% reduction in employer social security contributions applies for new hires of people aged 55 years and over who have been unemployed for at least six months. In this case, there is no requirement for a permanent contract or net hiring, but the scheme prevents abuse since employers must not rehire their former employees (those with whom they have had an employment relationship in the previous three years). Measures to reduce employer social contributions for new hires were introduced or extended focusing on groups such as youth (Belgium), older workers (Poland), both youth and older workers (Slovenia), mid- to longer-term unemployed (Hungary) and peripheral regions (Finland). Public finance issues have forced the Czech Republic to terminate temporary reductions in non-wage labour costs targeted at low-wage workers.

Temporary NWLC reduction is a very direct approach leading to a direct positive influence on the labour demand and thus on saving jobs. The costs involved can be substantial making it a difficult choice in MS with public finance difficulties. Targeting can help here. If NWLC are reduced for all existing jobs (the most costly option) some or even a majority of jobs will receive subsidy while they would have survived without the subsidy causing deadweight losses. These costs are reduced considerably if only selected jobs would be eligible, for example: new jobs or added jobs (net new hires) or jobs for certain (age) groups. Of a smaller scale, but even within these selections deadweight losses may occur.

The instrument of NWLC reduction can be targeted rather precisely allowing for 'redistribution' of employment opportunities between groups, reaching a more preferable, or equal, distribution of employment and unemployment ideally. Besides fairness, also economic efficiency is served when NWLC are reduced for new hires as subsidy will flow automatically to stronger developing parts of the economy; helping the stronger, expanding, and not the weaker sectors, according to economic viability.

B. Maintaining employment: Short-time work arrangements

With rising cyclical unemployment, internal flexibility is an essential instrument to preserve jobs: in 2010 short-time working arrangements (STWA) remain important for many countries to maintain the employment of workers who would otherwise be laid off, including in SMEs. These schemes can mitigate the social impact of the crisis in the short term, save considerable firing and (re)hiring costs for firms, prevent the loss of firm-specific human capital and enhance workers' security by providing them with (temporary) guarantee of income security. However, these arrangements must be designed in an economically sound and sustainable way. Over the past year, a number of countries have introduced short-time work schemes (Bulgaria, the Czech Republic, Hungary, Lithuania, Latvia, the Netherlands, Portugal, Poland, Slovenia and Slovak Republic) or extended existing programmes. Replacement rates have been increased (Finland), durations extended (Austria, France, Italy) or additional groups of workers (Belgium) are given access to short-time work arrangements. In other countries, support for short-time work schemes is being wound back. In Germany, the first temporary extension of duration of short-time work subsidies from 6 to 24 months expired at the end of 2009 and was replaced by another temporary extension from 6 to 18 months during 2010. Hungary suspended applications to two of its three short-time work schemes at the end of 2009. No other countries have reported termination of short-time work arrangements to date. However, many additional measures introduced during the crisis (such as extended duration, eligibility or generosity of subsidies) are due to finish at the end of 2010.

Combining short-time working with training is generally considered to have positive effects on the future employability of workers. Table 1 shows that participating in training is compulsory for workers on short-time work in the Czech Republic, Hungary[3], the Netherlands, Portugal, Malta, Cyprus and Slovenia. While training is not compulsory it is publicly-subsidised for short-time workers in many countries. In general, however, few short-time workers have participated in training during the current crisis where it is not compulsory: less than 10% in Belgium, Finland, Germany; and 10-25% in Austria and Luxembourg.

Table 1. Short-time work: training, evaluation and impact

Workers in short-time work are required to undertake training	Hungary, Slovenia, Czech Republic, Netherlands, Portugal, Malta, Cyprus
Training for workers in short-time work is government-subsidised	Finland, Belgium, Lithuania, Austria, Portugal, Poland, Germany, Hungary, Slovenia, Malta, Ireland, Cyprus
Evaluations of short-time work schemes are available	Denmark, Netherlands, Bulgaria
Evaluations of short-time work schemes are planned	Austria, Hungary, Czech Republic
Countries own estimates of number of jobs saved by short-time work schemes ('000 jobs)	Hungary (140), Germany (350), Slovenia (20), Netherlands (37), France (60), Bulgaria (13), Italy (800)

Empirical evidence tells us that countries using STWA during this crisis have so far experienced lower employment losses and bigger working hours reductions, in comparison with other Member States. This implies that these arrangements have been effective in preventing lay-offs and spreading out reductions in economic activity over a wider base of workers. This has reduced the social and psychological costs of job loss for workers and their households, firing and hiring costs for firms, while in macroeconomic terms it has prevented some of the root causes for long term unemployment and hysteresis, i.e. job loss in times of economic crisis.

These results, however, entail costs. EU-wide, billions have been spent on these arrangements impacting public finances. Moreover, STWA-replacement rates also tend to be below 100%, so participation means workers are paying a price in terms of lost income in return for retaining employment. Not all spending achieves its goals. This is often due to the difficulty to assess and anticipate the economic prospects. Thus, a portion of government spending on these arrangements typically 'leak' out to firms or workers receiving subsidies without the intended effect or need; perhaps the jobs would have survived even without the subsidy, perhaps the jobs saved with the subsidy will get lost the moment the subsidy stops, or perhaps jobs are saved while there is no productive value for them in the future economy. OECD estimates indicate that as much as 50% of STWA-spending is 'lost' in this way.[4]

3. Participation in training is compulsory for workers taking part in the short-time work scheme financed by the European Social Fund. Training is not compulsory for short-time workers financed by national funds. Nationally-funded schemes were suspended at the end of 2009. In total, around 25-50% of short-time workers have participated in training in Hungary during the current downturn.

4 Refer to OECD Employment Outlook 2010

Countries are trying to reduce this 'deadweight' by the use of criteria that firms and/or workers must meet in order to participate. By far the most frequently used criteria is a minimum reduction in production and/or business activity (Finland, Czech Republic, Slovak Republic, Austria, Germany, Belgium, Poland). Obtaining explicit agreement from social partners at the firm or sectoral level about reducing hours is also often required (Austria, Slovak Republic, Slovenia, Netherlands, France). This criterion makes use of valuable inside-firm information and social partners are closely involved in the decision to participate. Involvement of the social partners is all the more important as using STWA indicated that specific jobs are deemed in need of support and thus potentially 'unviable' which in turn may be perceived as a negative connotation, and seen as a precursor of possible future restructuring.

Other criteria used include the condition that no firing is allowed during or directly after participation in short-time work schemes (Netherlands, Hungary), that the number of employees can not be decreased during participation (Austria), limitations to certain sectors of the economy only (Bulgaria), the development of recovery plans for firms involved (Poland) and restrictions on paying bonuses to management (Slovenia).[5] All these criteria tend to reduce the deadweight losses of the STWA.

The STWA in particular reinforces job security of permanent workers during the crisis. However this implies (other things equal) that new hiring is lower than would have been the case without STWA, especially in a subsequent economic up-turn. In this sense, STWA could harm the opportunities outsiders would have had during the up-turn. This further strengthens the need to focus labour market policies on these outsiders.

C. Re-employment measures: Job search assistance and activation measures

The economic crisis has placed much greater demands on Public Employment Services (PES) and tested their institutional adaptation and activation capacity, whilst also putting them centre stage in the fight against unemployment. Despite serious budgetary constraints as a result of the economic downturn, many EU governments have invested resources and expanded the size of the PES workforce in order to deal with the increase in case load and to help the unemployed to find a job. Italy introduced a bonus system for PES successfully placing disadvantaged workers. Statistics show net rises of 10% or more in terms of staffing levels over the past three years in Cyprus, Estonia, Germany, Hungary and Poland. In spite of these additional resources, the caseload increased in most countries, more than doubling between 2007 and 2009 in Latvia (+260% on 2007 levels), Lithuania (+130%) and Estonia (+130%).[6] In contrast, caseloads fell slightly in Germany where an increase in staffing accompanied a decline in registered jobseekers.

5 Another way to reduce deadweight loss is to invite firms to 'self-select' into participation by making them share the cost of participating in STWA.

6. Growth in the caseload is proxied by the growth of the ratio of registered jobseekers (or registered unemployed in Estonia, Poland, Romania, Slovenia and the Czech Republic) to total PES staff. Data only available for 18 Member States, based on replies to joint 2010 EC-OECD questionnaire on recovery measures.

Forecasts indicate that Member States expect to further strengthen PES resources over the course of 2010. This will be key in the months ahead as pressure mounts on PES to deliver enhanced services to a more diversified customer base. Overall, PES have demonstrated a clear level of adaptation and flexibility in their operating strategies.

Over the past year, several countries have implemented additional measures aiming at earlier interventions. Assessment and intake procedures for job search assistance have been brought forward in the unemployment spell (Finland) and, helping some workers into new jobs before they have lost their current job (United Kingdom). Furthermore, job search services are being delivered in phases with increasing levels of commitment required from job seekers (United Kingdom). Furthermore since mid-2009, PES have been carrying out more targeted job search assistance strategies to particular groups such as youth (Finland, Austria, Greece), immigrants (Finland), people with short-term contracts (Belgium), newly redundant persons (Bulgaria) or people not receiving benefits (France, Italy). Several countries have expanded the role of private employment agencies to provide much-needed additional capacity (Italy, Poland, France). A number of PES organisations have been reorganised, for example into mobility centres, merging several actors involved in providing re-employment or other support services (Finland, Netherlands).

The earlier interventions and increased capacity from PES-side go hand in hand with greater emphasis on job seekers' responsibilities. This reflects that the value of creating matches in the labour market has increased during this period of increasing unemployment and decreasing numbers of job vacancies. Regarding these activation requirements, jobseekers' benefits will be reduced if, for no justified reason, they refuse to accept a suitable job (Poland) or training (Ireland). Job seekers are also facilitated (Lithuania) or required (Finland) to look for jobs in wider geographical areas. In other MS obtaining certificates showing qualification levels is being subsidised in order to stimulate mobility (Austria, Netherlands). Immediate activation into training or work experience places is implemented for youth directly upon registering for social assistance (Netherlands, Denmark), while in Malta a pilot scheme is launched where long-term unemployed must do community work or lose their benefits.

Recognition and certification of qualification levels is an instrument which deserves more attention. The crisis caused an increased labour market dynamic; increased numbers of people moving out of jobs and applying for jobs. This has also increased the need of recognition and certification of qualifications. For example, if a worker gets laid off, the value their old employer put on their experience and skill levels gets lost, while later on a new prospective employer may have difficulties assessing the value of the applicant's experience and skill levels. The same holds for (PES provided) training activities; they will be more clearly of value when a recognised completion certificate can be provided. Training activities, lay-offs and applications will be more frequent during a crisis, increasing the value of a recognised system certifying qualifications.

D. Investing in skills: Training and work experience programmes

Most countries reported an increase in resources devoted to active labour market measures including business start-up incentives, training and work experience. Several Member States also reported measures to provide training to existing workers at risk of job loss or support for apprentices. Many measures were focused on the most hard hit or disadvantaged groups of jobseekers – youth, the low-skilled and workers in industries most affected by the downturn – with a view to prevent unemployment from becoming structural. Training measures have been further intensified over the past year and PES have played a more prominent role in their delivery.

Among others, these are taking the form of subsidising more training places (Cyprus, Poland, Sweden, Ireland, Estonia), creating quicker access after being registered as job seeker (United Kingdom, Finland) or in the shape of pre-employment training. In some countries, new training places are aimed more specifically at those at risk of being laid off (Latvia, Cyprus), the self-employed (Estonia) or youth (Austria, United Kingdom, Malta, Portugal), while in France, firms are required to provide career plans, including training activities, for older workers. Training measures focus more on sectors with potential high growth prospects, such as health and social care (Belgium, Austria, United Kingdom) or green industries (Greece). Training vouchers have been made available for employed and unemployed (Italy, Bulgaria).

Since mid-2009 additional work experience, internship and/or apprenticeship places have been created through subsidy measures or other financial incentives for employers such as hiring or completion grants (Poland, Cyprus, Malta, Lithuania, Romania, France, Germany, Denmark, Latvia, Greece). Also, more sectors of the economy are eligible to offer these subsidised places (Ireland). The United Kingdom has focused in particular on creating apprenticeship places in the social and health sectors. These subsidised places have been made available sooner after registering as job seeker (Ireland, United Kingdom) and are allowed to last longer – up to nine months in Ireland.

Apprenticeship- and work experience programmes are possibly amongst the most cost effective measures to increase labour market functioning. Time is invested in improving access of new entrants to the labour market so as to provide them with the help they need at the beginning of their careers. As this most often involves young people with potentially long careers ahead of them, pay-offs can be huge if successful. However if initial entrance into a job fails the benefits foregone are also significant.[7] Because of this, continuing these schemes is particularly relevant; they have led to low youth unemployment rates in some Member States.

The nature of these types of measures is such that effects will take a long time to materialise and are often difficult to quantify ex-ante. It takes time to create work experience places, then the participants will have to be selected and they will have to take part in the 6 to 9 months experience or apprenticeship place. Only after that the 'improved access' to his or her first paid job is realised. In short, results can be valuable but will take time to materialise – time which may be more abundant in the current situation for some groups on the labour markets.

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7 Literature on ALMPs shows this. Refer to Employment in Europe 2006, chapter 3.4, and subsequent literature.

Related, but of a different nature, is the lack of incentives to participate in apprenticeship- and work experience programmes. The biggest investment is made by the participant in the scheme as he or she will be working in the programme in return for no or a low compensation only. At the same time he or she will be the one to potentially reap the biggest rewards after successful completion. One complication is that these benefits, the incentive, are hidden in time and as a result cannot provide the much needed steer towards participation. More visible incentives to participate, financial or otherwise, may be considered to boost take up of places.

E. Job creation support: business start-up incentives

Business start-up incentives for job seekers and encouragement to take up self-employment, have been intensified (Bulgaria, Greece, Italy, Ireland), brought forward in time (United Kingdom) or increased in value (Poland), but contrastingly, they have been made depend on stricter eligibility rules elsewhere (Slovenia).

Business start-up incentives can be very efficient instruments to stimulate economic activity; the prospective entrepreneur's dedication combined with his very precise information about market opportunities may well lead to valuable economic activity. Guidance on developing business plans and on formalities and regulations, and for example access to business and service networks is something which can be publicly provided, improving the effectiveness of a direct financial start-up subsidy. Limiting eligibility to unemployment recipients only will mean lower costs than if all job seekers are made eligible. However, with this particular instrument it may well be that a sizeable part of the target group will have no access to unemployment benefits as they are typically self employed/entrepreneurs, hence normally without access to benefits. Apart from eligibility, the size and value of the incentive should also be substantial before it really stimulates people to move into self-employment. In this context it is important that measures supporting those who wish to become self employed should be compared to what the unemployed person would otherwise receive as unemployment or other benefits.

F. Income support for job losers and low-income earners

In most countries, spending on unemployment benefits and social assistance increases automatically during economic downturns as a response to the increase in unemployment and the raise in the number of low-income households. Not surprisingly, the number of people receiving unemployment benefits has grown in most countries since 2007. Growth was strongest in Romania, Lithuania and Estonia. However, expanding benefit recipiency has failed to match the pace of growth of unemployment in some countries, suggesting that benefit coverage of the unemployed may have fallen.

Over the past year, benefit eligibility has been expanded (Portugal, France); among others to improve access for young people (Finland, Slovenia, Italy), parents (Slovak Republic). Benefit levels have been increased in general terms (Cyprus, Austria), specifically for parents (Denmark), lay-offs (Finland, Belgium) and households with the lowest incomes (Slovenia). Contrastingly, elsewhere, benefit levels have been reduced (Lithuania, Ireland) because of pressure on public finances.

Housing support for job losers has been expanded, for example through postponement of mortgage payments (Poland, Hungary, Slovak Republic). Specific benefits to compensate for high prices of natural gas have been terminated in Bulgaria, while free health insurance was provided for some social benefit recipients in Austria. Initiatives to make work pay have been reported only sporadically. Positive examples include lower tax rates for low-income earners to encourage taking up paid work (Malta) and an increase of in-work benefit incentives (Sweden).

Whether or not income support was actually effective in generating aggregate demand, stimulating employment, contributing to the promotion of social cohesion and diminishing those at risk of poverty depends heavily on the form and the conditions of the measures implemented. As indicated above, income support may consist of unemployment benefits, social assistance or tax reliefs with the choice of expanding benefit eligibility or increasing generosity levels. Another choice to be made is to increase coverage especially for at-risk groups, such as temporary workers, or young people, or both.

Unemployment and social benefits designed with post-crisis eligibility systems, with limited duration, no extension on the long term (avoiding inactivity traps) and targeted at disadvantaged individuals and those coming out of non-standard contracts, have proven to be effective in some countries. Among other advantages these measures help to limit poverty and social exclusion. Indeed, even though unemployment benefits might be costly, they are one of the best accessible tools for fighting poverty, maintaining consumption, and general economic activity. They can be operated quickly via existing channels to reach people who need it most and who have highest propensity to spending. However, if more government spending on benefits means less immediate crisis impact for households, it also means less favourable public finance and future tax obligations for households. Similarly, to support people to get back to employment and avoid long term unemployment, which increases the general costs of benefits in the long run, spending on benefits must be balanced with adequate government efforts and incentives to strengthen active labour market measures notably through employment services.

Section 3 OUTLOOK AND THE WAY AHEAD

Nine months ago economic activity started to recover from this deep recession. However, by now it has become clear that it will take more time before the GDP recovery has a noticeable impact on reversing the negative trends in the labour market. March data shows a majority of Member States still see rises in unemployment rates; slower rises than before but still rises. Ten Member States saw unemployment rates stabilise or decline.

Looking ahead, European labour markets will continue to face headwinds. According to the latest European Commission Spring Economic Forecasts, the EU-unemployment rate is set to average 9.8% for the year as a whole. This means, given unemployment rates started this year from 9.5% in January and 9.6% in February and March, a further slow but steady increase to 10% or so can be expected towards the end of the year. This can not be seen as a favourable forecast showing recovery on the labour market.

On top of this the employment outlook is weak too. The relatively limited labour market adjustment so far as compared to previous crises, reflecting a high degree of labour hoarding, suggests a rather jobless recovery and potentially persistent high unemployment ahead. GDP recovery will initially be absorbed on the one hand by improvements of labour productivity, which collapsed in the last 18 months, and on the other hand, by people moving back to their original full time contracts. This implies new hiring will be relatively weak. As a result, for 2011 job growth of only 0.3% is forecast, while the unemployment rate is expected to be 9.7%, only very marginally down on 2010.

These forecasts indicate that now is the time to balance the need for fiscal support in the short run with the need for sustainable public finances and macro economic stability in the long run. Specifically regarding labour market policies, the Spring Council agreed that recovery measures should be gradually withdrawn only when recovery is secured. Recovery will have to be established on an individual country basis. This means Member States with further expected unemployment growth will most likely not be phasing out their measures, instead they will need to focus on improving their effectiveness. The EPSCO Council decided this March that continuation or introduction in some cases, of short time work arrangements remains justified specifically for these countries.

Member States with unemployment expected to continue to increase further this year will probably want to continue their existing short time work arrangements. Based on Member State experiences so far and their measures taken to limit their potential negative impact on labour markets, a number of findings can provide guidance:

- STWA should shift their focus away from supporting 'the worst hit sectors' in the economy. Sectors which are still loosing economic activity 18 months or more into the crisis are signifying a need for a structural change. Production factors including labour will need to be helped to move to sectors that will add real value in the years to come e.g. low carbon promoting activities. This is clearly not to say all STWA need to be stopped right away but it means no new schemes should be focused on sectors with little future potential. Criteria for firms and workers to continue to participate will have to be reviewed in light of the observations on effectiveness made above – use access criteria like explicit agreement from social partners, minimum reduction in business activities, no firing during or after participation, limitation to certain sectors only, restriction of management bonuses and share STWA-costs of participating with firms and workers.

- These Member States should also focus attention on increasing capacities of public employment services. The provision of high quality job matching services to the unemployed with recent work experience – e.g. early intervention approaches where PES and employers cooperate to intervene before actual redundancies take place – should go hand in hand with more emphasis on job-seekers responsibilities, examples of which include: benefits to be reduced if jobseekers refuse to accept jobs or community work, requirement to look for jobs in wider geographical areas or direct activation into training or work experience places upon registering for social assistance.

Countries under strong pressure for fiscal consolidation will probably have to make hard choices as desirable labour market measures may be obstructed by lack of public finances. Reductions of non-wage labour costs, for example, can provide much help stimulating labour demand and maintaining employment. The cost of eroding the tax-base however means this instrument is unavailable for many Member States with difficulties in their public finances. Such countries should probably focus their attention on the most vulnerable groups:

- The huge increase of youth unemployment justifies a clear focus on this group. Continued supply of apprenticeship, training and education activities stimulated by visible participation incentives may temporary reduce this group's labour supply now, reducing their unemployment rates, while leading to more productive young workers in times of recovery. Targeted young worker hiring subsidies can help to correct the damage they are suffering now; preventing long term 'scarring effects' of their weak labour market entrance in this period. Demand side incentives like these are to be supported by tailored PES assistance to this group.

- Those not covered by income security arrangements and active labour market policies are also considered highly vulnerable. Expanding eligibility of these arrangements may be considered favourably by Member States needing to focus and concentrate their attention for reasons of public finance.

Member States with a somewhat more favourable economic and employment outlook can consider moving back to flexicurity-inspired structural reforms that improve the flexibility and security of labour markets within a longer perspective. These reforms could include:

- Promoting labour mobility across regions and between occupations helping people move to jobs and sectors with future potential. This implies detaching the job-related security and support, replacing it with more mobile forms of security. e.g. in-work benefits which people will be able to take with them to their next jobs as opposed to STWA-subsidies attached to a specific job. Furthermore, an improved availability of recognised certificates showing the value of workers' skills and experience would mean that they can take their human capital with them to next jobs, again removing barriers to leave.

- Strengthening the effectiveness of the employment services notably through focused and tailored assistance aiming at motivating job seekers to take a pro-active approach to job search. This should help reduce the duration of unemployment spells and inactivity. These should be coupled with an expanded offer of skills upgrading and re-qualifying programmes. In particular, employment programmes should counteract exit from the labour market, notably of older workers and women.

- Secondment and job pooling schemes could help firms to facilitate worker transitions. In such schemes workers have the opportunity to move and work elsewhere, always with the option to return to the original employer if needed as the original contracts remain intact. The sending firm obtains compensation for wage costs from the receiving firm. Firms who see workers leave can use funding not spent on severance pay and firing costs to absorb the temporary lower productivity of the worker in the new job.