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Labour market policies and the crisis: What to do - and what not to do?

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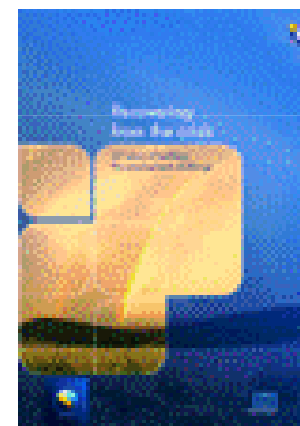
Overview

- Introduction
- The gloomy – and diverse - background
- Guidelines for successful labour market approaches
- Concluding remarks



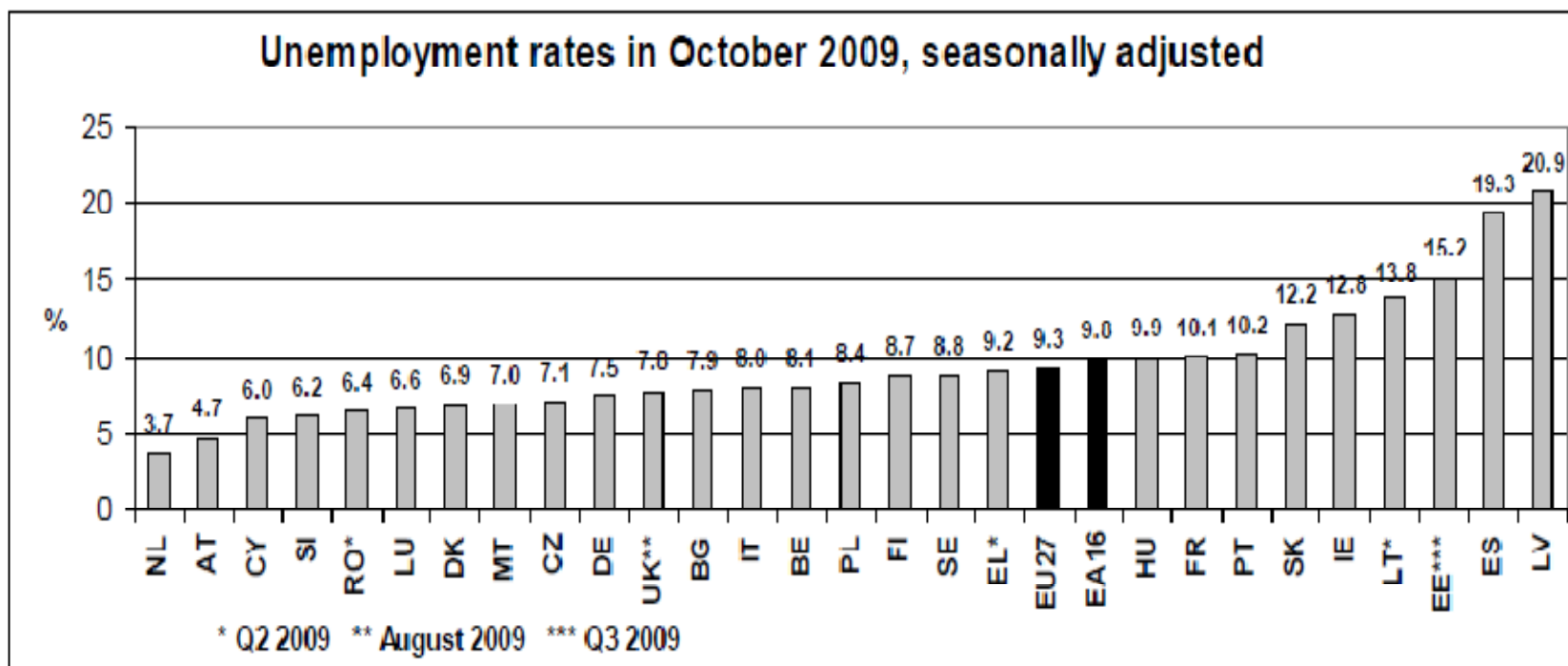
Introduction

- Labour market and employment policy is (again) high on the European political agenda
- Intense search for innovative and successful policy initiatives
- My purpose is not to present a detailed inventory of such initiatives (instead: take a look at the EEO Review Spring 2009 and at the “Crisis Booklet” from November 2009)
- But to discuss more general guidelines for successful labour market approaches for dealing with the crisis
- And to address some of the policies NOT to follow





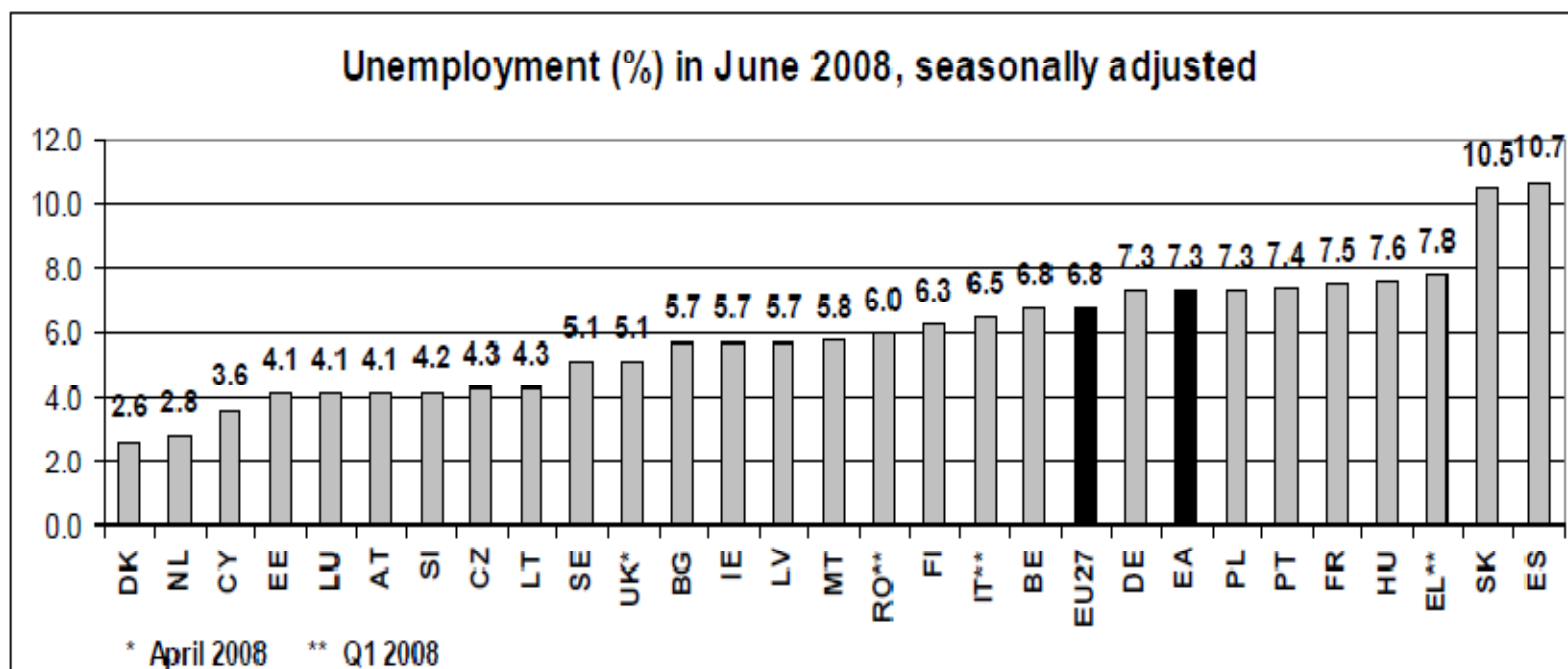
Unemployment



Source: Eurostat



And in the Summer of 2008



Source: Eurostat



Different turning points

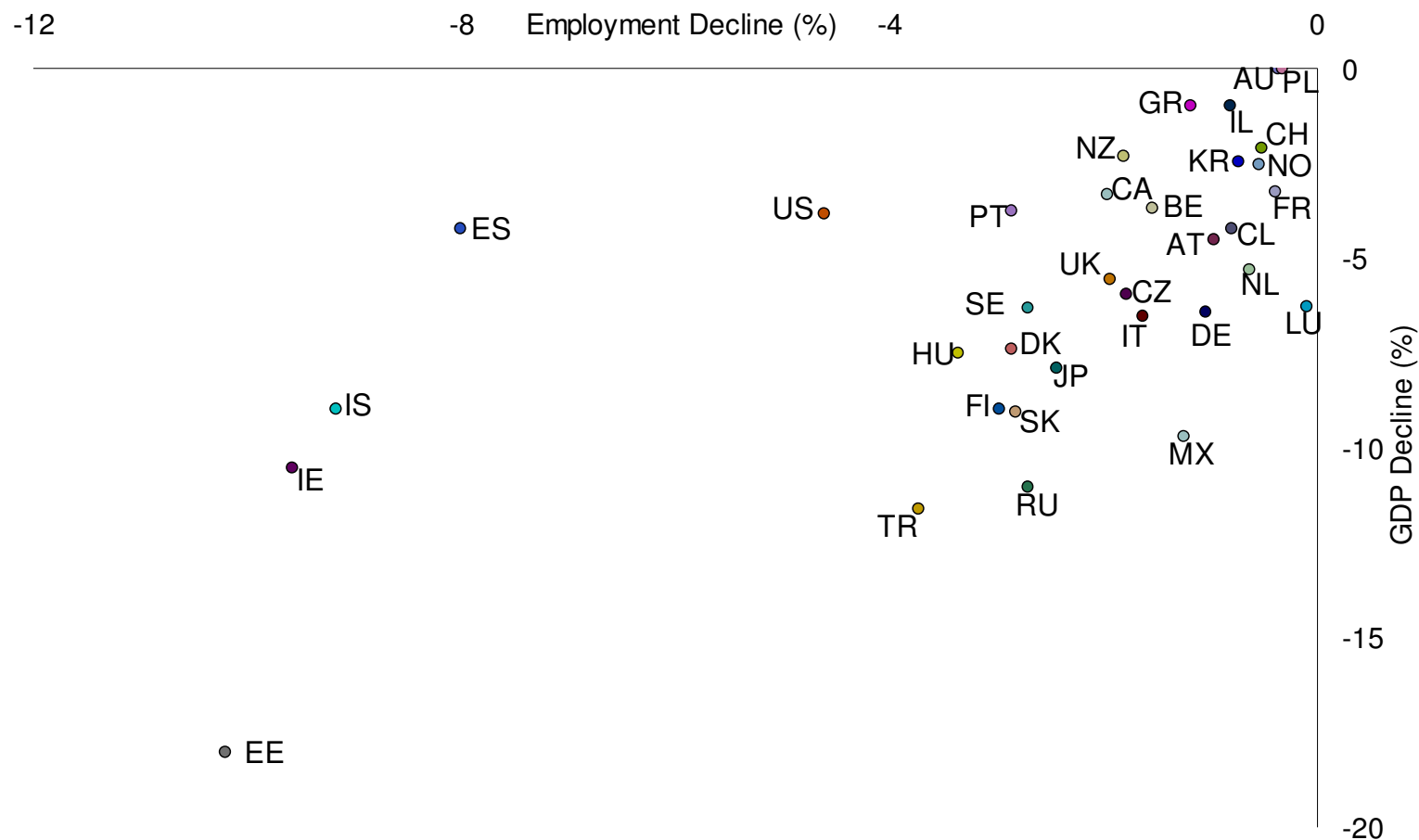
Country	Turning point
	2007
Spain, Italy	May
Ireland	August
Luxembourg	September
Latvia, Lithuania	November
	2008
France	February
EU 27	March
Estonia, Finland, United Kingdom	April
Belgium, Greece, Portugal, Romania	May
Denmark, Austria, Sweden	June
Cyprus	August
Czech Republic, Malta, Poland, Slovenia, Slovakia	September
Hungary	October
Bulgaria, Germany, The Netherlands	November

Source: Weiler (2009) The 'turning point' is the month with the lowest unemployment rate in recent years.



And different reactions to fall in GDP

(country-specific GDP-turning points)

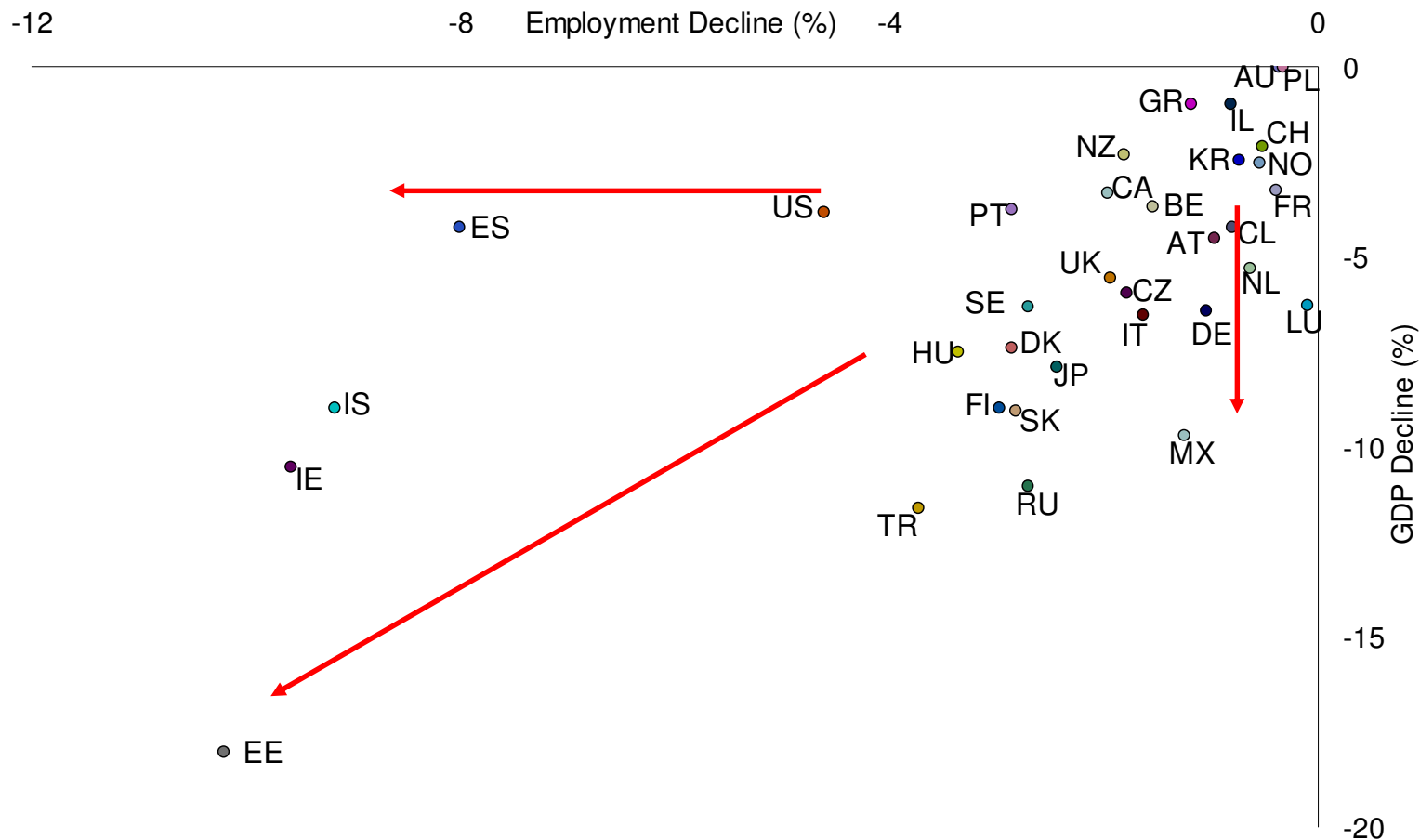


Source: Eichhorst & Tobin (2009)



And different reactions to fall in GDP

(country-specific GDP-turning points)



Source: Eichhorst & Tobin (2009)

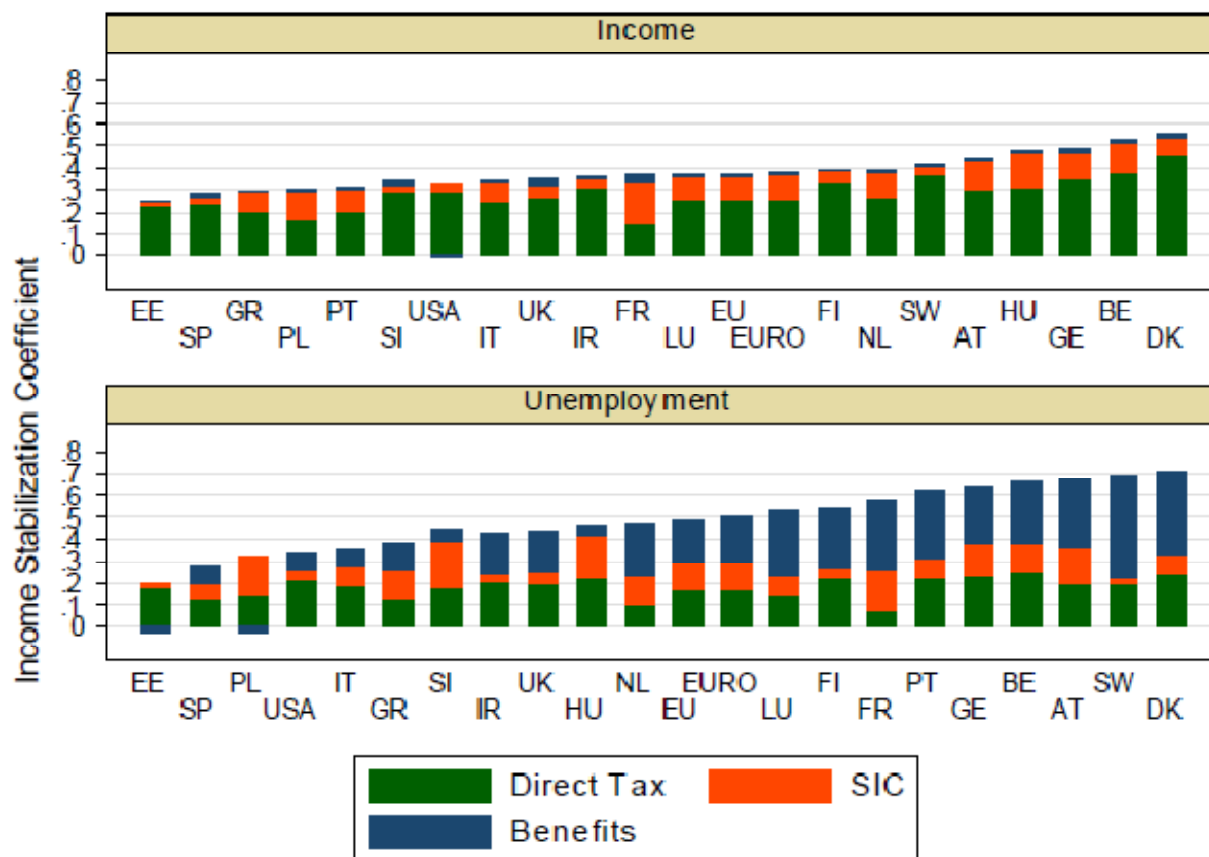


Due to.....

- The structure of the economy – share of vulnerable sectors (e.g. construction)
- Size, timing and structure of fiscal stimulus packages
- Automatic stabilisers
- Labour Market institutions
 - Employment protection legislation (EPL)
 - Other forms of flexibility (working time, wage flexibility etc.)
 - Active Labour Market Policies (volume, composition and degree of automatic responsiveness)



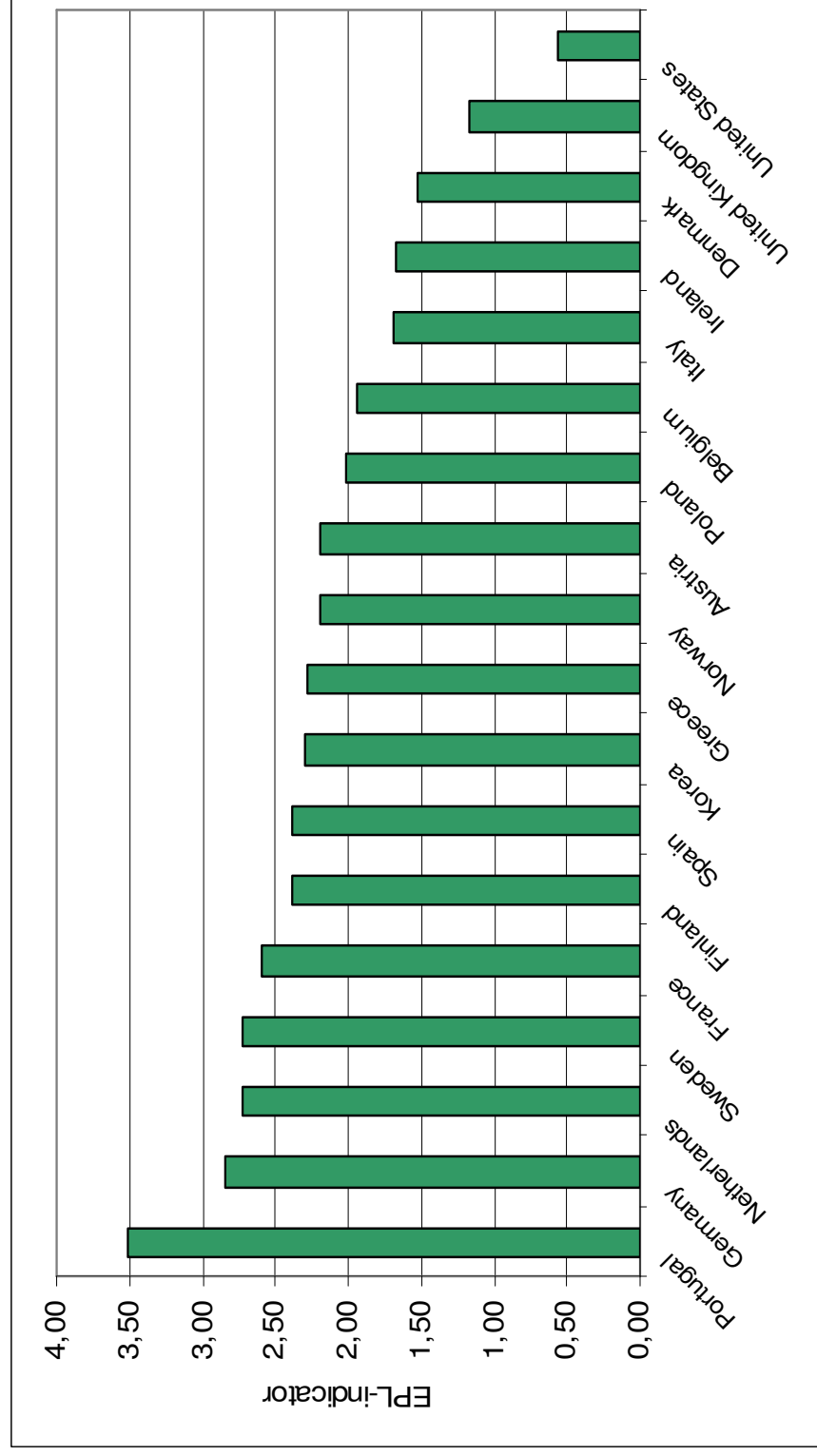
Automatic stabilisation in the EU



Source: Dolls, Fuest and Peichl (2009)



Protection of workers on a permanent contract

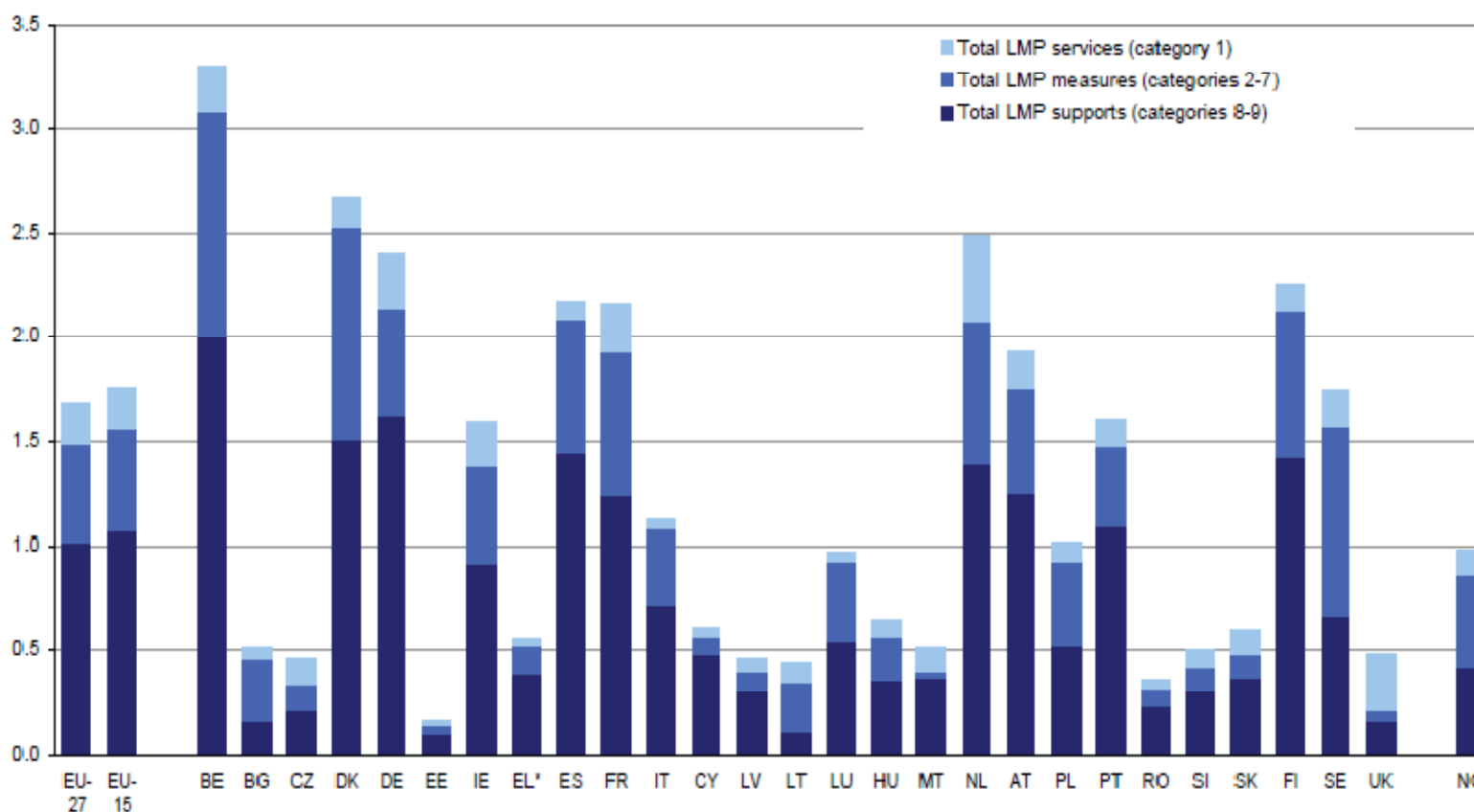


Source: Venn (2009)



LMP-expenditures 2007

LMP expenditure / GDP (%)



Source: Eurostat (2009)



Different types of labor markets

		Employment protection (core)	
		Strong	Weak
Labor market policies	Important	1 (Continental corporatist countries, DE)	3 (Flexicurity countries, DK, NL)
	Less significant	2 (Mediterranean/ Roman/Latin countries, ES)	4 (Anglo-Saxon countries, UK)

Source: Adapted from Eichhorst & Tobin (2009)

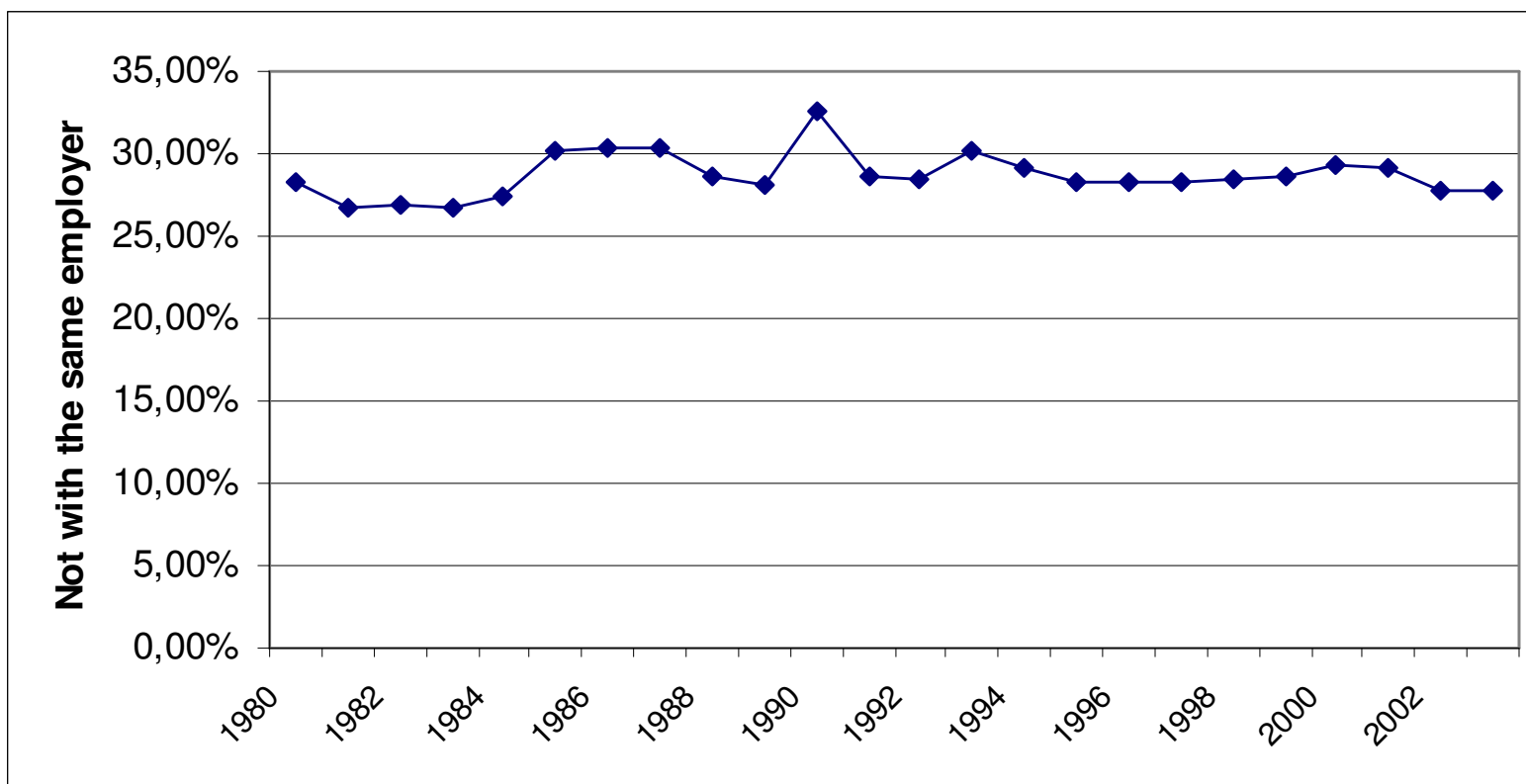


What to do?

- Don't protect jobs – protect mobility!
- Increase labour supply (in the long run)
- Keep (structural) unemployment down
- Active macro-economic policy is the tool for job-creation
- Policy integration and focus on positive interdependencies between policy areas
- Reinforce skills development
- Design efficient implementation structures



Job-openings are found also during the crisis



Job openings on the Danish labour market 1980-2003.

Source: Bredgaard et al, 2009.



Transition rates in Europe

Table 6: Transition rates in the EU, by country and over time (%)

	U_E				I_E			
	2002-07	1996-01	1990-95	change	2002-07	1996-01	1990-95	change
UK	47.4	40.7	35.0	12.4	15.9	15.8	15.3	0.6
ES	44.3	37.7	31.6	12.7	8.6	5.6	5.0	3.6
PT	40.7	40.3	38.8	1.9	6.7	6.9	6.1	0.6
DK	39.3	36.3	37.6	1.7	15.4	20.7	23.2	-7.8
CZ	37.4	41.0	NA	-3.6	6.2	9.9	NA	-3.6
EE	36.7	31.4	NA	5.2	8.7	9.3	NA	-0.7
EU-8	31.5	31.2	28.8	2.7	9.8	9.4	7.7	2.1
HU	30.7	31.5	NA	-0.8	5.5	6.0	NA	-0.5
SE	29.4	35.4	NA	-6.0	16.3	18.5	NA	-2.2
IT	26.7	28.3	25.2	1.5	4.5	5.2	4.8	-0.4
FI	26.6	26.7	28.2	-1.6	14.0	13.9	15.0	-1.0
DE	25.2	26.1	25.1	0.1	13.1	13.2	8.9	4.2
RO	25.05	NA	NA	NA	8.04	NA	NA	NA
GR	24.4	23.6	29.2	-4.8	3.0	3.2	3.5	-0.5
PL	23.0	28.5	NA	-5.5	5.6	7.3	NA	-1.7
BE	16.9	17.4	26.1	-9.2	6.3	5.0	3.9	2.4
FR	NA	33.1	33.6	-1.7	NA	8.4	17.6	-9.3

Source: DG EMPL calculations using EU LFS.

Notes: The column 'Change' measures the difference between the averages of 2002-07 and 1990-95, or the difference between 2002-07 and 1996-2001 for those countries for which data for the latter period is not available. Only for France, the difference between 1996-2001 and 1990-95 is displayed.



Don't protect jobs – protect mobility

- Training and retraining measures for the unemployed and those at risk of unemployment
- Adequate levels of income support to the unemployed
- A well functioning system of public employment services that support matching both in the short and the long run.



The need to increase labour supply is still there

- The present policy dilemma: Lack of jobs in the short run, but lack of hands in the long run
- Important to avoid policies that permanently reduce labour supply
- Options are:
 - Flexible leave schemes and working time arrangements (but risks of hampering mobility)
 - A focus on education, because a better educated workforce also leads to a higher labour supply in the long run



The old gets older...

Table 1.20: Projected age structure changes in the EU between 2008 and 2050

Shares in %	0-19		20-64		65-79		80+		population in millions	
	2008	2050	2008	2050	2008	2050	2008	2050	2008	2050
EU-27	22	19	61	52	13	18	4	11	495.4	515.3
BE	23	21	60	53	12	16	5	10	10.7	12.2
BG	20	17	63	52	14	22	4	10	7.6	5.9
CZ	21	17	65	52	11	22	3	9	10.3	9.9
DK	25	22	60	54	11	15	4	10	5.5	5.9
DE	19	16	61	52	15	18	5	14	82.2	74.5
EE	22	19	61	53	14	18	4	9	1.3	1.2
IE	27	23	62	53	8	16	3	7	4.4	6.5
GR	19	18	62	51	15	20	4	11	11.2	11.4
ES	20	18	64	50	12	21	5	11	45.3	53.2
FX	25	23	59	52	11	15	5	10	61.9	71.0
IT	19	17	61	51	15	20	5	13	59.5	61.2
CY	25	20	63	57	10	16	3	7	0.8	1.3
LV	21	17	62	54	14	20	4	10	2.3	1.8
LT	23	16	61	54	13	19	3	11	3.4	2.7
LU	24	22	62	55	11	14	3	9	0.5	0.7
HU	21	17	63	53	12	20	4	9	10.0	9.1
MT	23	17	63	54	11	19	3	10	0.4	0.4
NL	24	20	61	53	11	16	4	11	16.4	16.9
AT	21	18	62	53	13	17	5	11	8.3	9.1
PL	23	16	64	53	10	22	3	10	38.1	33.3
PT	21	18	62	52	13	20	4	10	10.6	11.4
RO	22	16	63	53	12	22	3	9	21.4	18.1
SI	20	17	64	50	13	21	4	12	2.0	1.9
SK	23	15	65	53	9	22	3	9	5.4	4.9
FI	23	21	60	52	12	16	4	11	5.3	5.4
SE	24	22	59	54	12	15	5	10	9.2	10.7
UK	24	22	60	55	12	14	5	9	61.3	74.5

Source: Eurostat, EUROPOP2008 convergence scenario.



The old gets older

- In 2050: 11 percent of all Europeans will be 80 years or older (today: 4 percent)
- In 2050: 29 percent of all Europeans will be 65 years and older (today: 17 percent)
- In 2050: 52 percent of all Europeans will be aged 20-64 years (today: 61 percent)
- In 2050: 19 percent will be 19 years and younger (today: 22 percent)

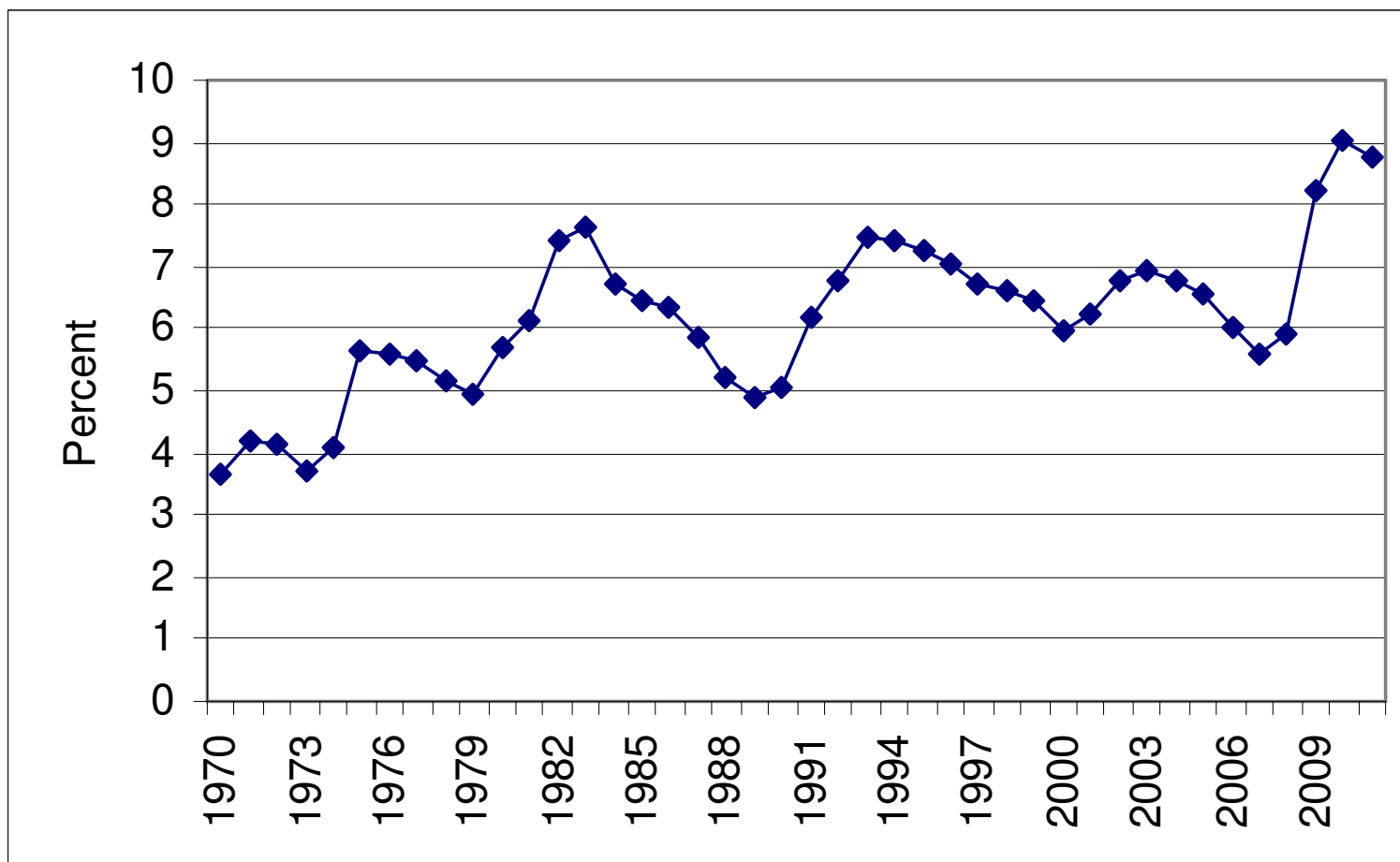


Unemployment reduces labour supply

- The ratchet effect: Unemployment goes more easily up than down, because unemployment leads to marginalisation from the labour market (hysteresis)
- On the other hand will a tight labour market support the integration of persons at the margin of the labour market
- Therefore unemployment should not be left to rise and stay at a high level for a longer period of time



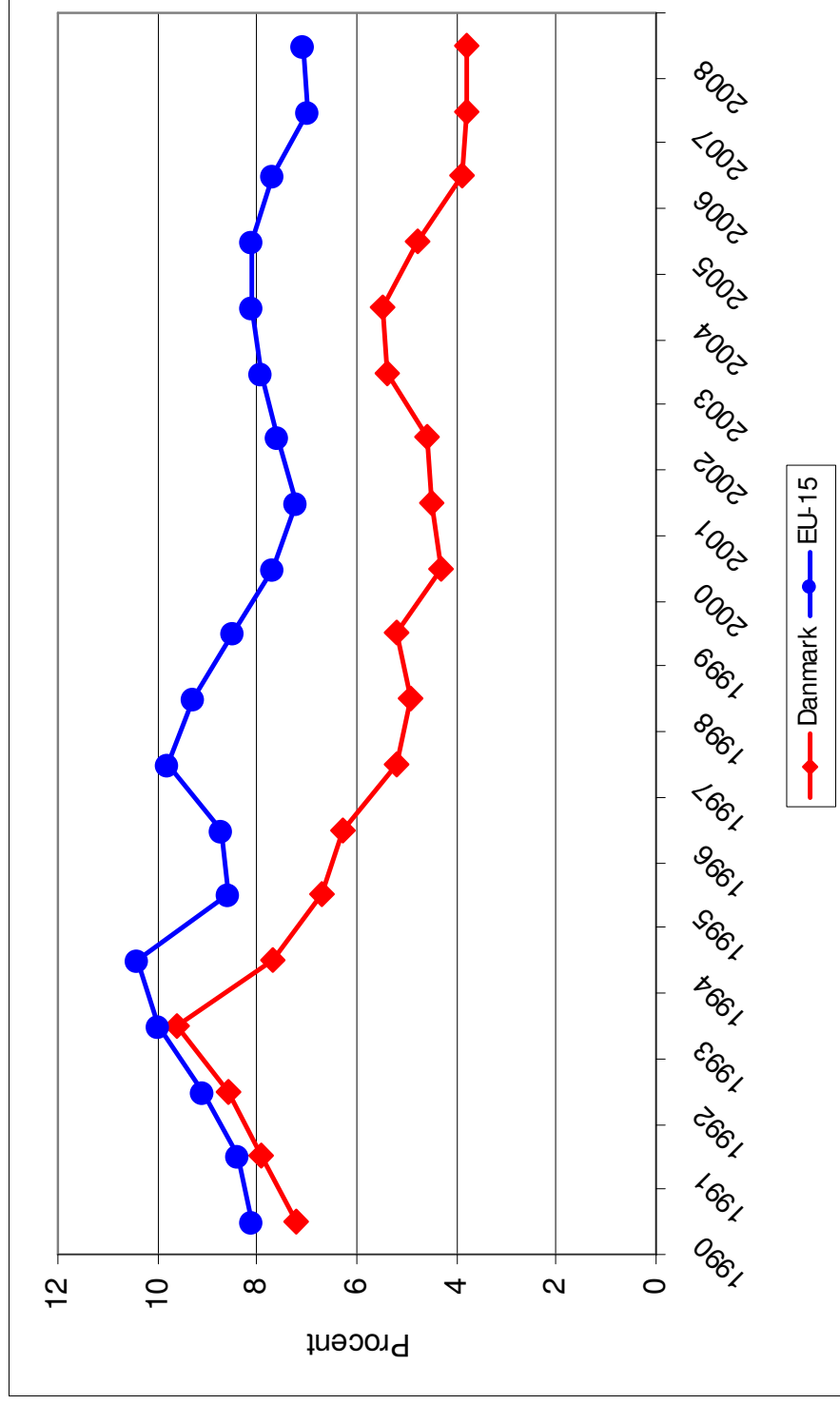
Easier up than down



Unemployment rate in the OECD 1970-2011



But things can be different



Kilde: Eurostat



Macroeconomic policy must create the demand for labour

- In the *short run*, labour market policy cannot create jobs
- Strong arguments for public investments
 - Direct and strong effects on employment
 - Can be flexibly adjusted to the business cycle
 - Lots of beneficial investment projects can be identified (infrastructure, public buildings, energy saving)
- Also arguments for immaterial public investments in R&D and human capital to support job creation in the longer term
- Benefits from coordinated policies in the EU

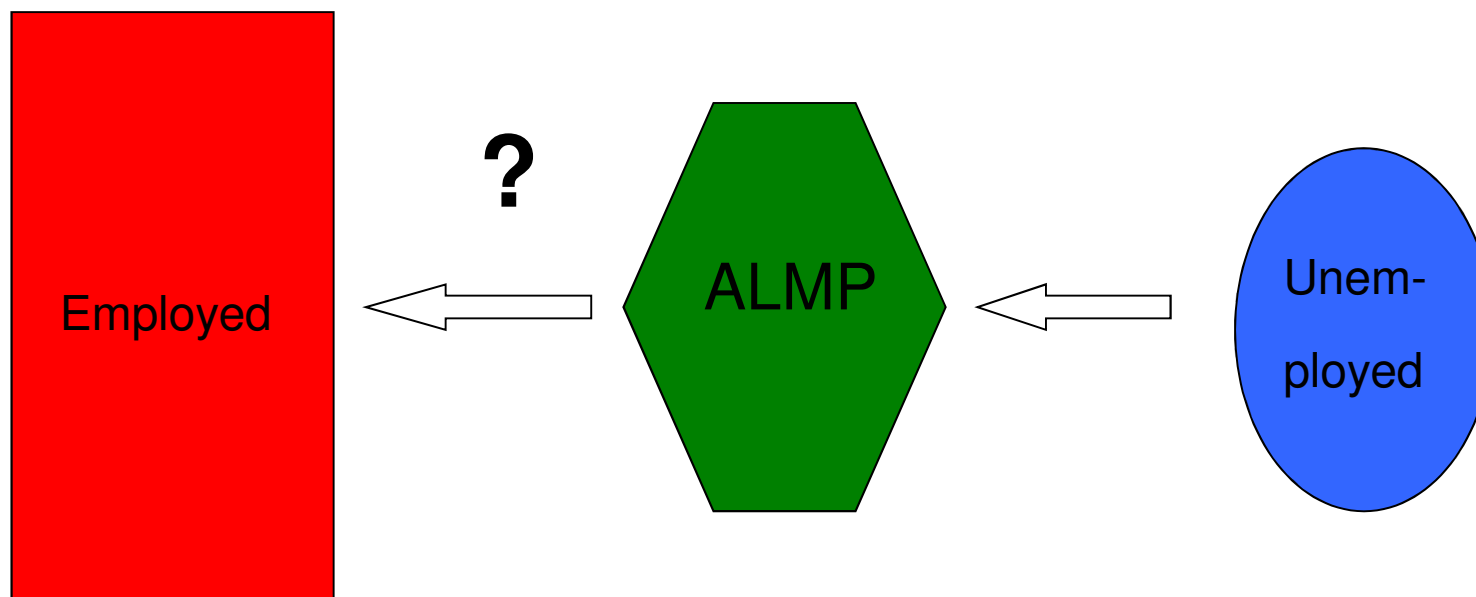


The need for policy integration

- Support positive interactions in the form of virtuous circles between different policy elements
- Job-rotation as an example of an integrated policy
- Many other examples of flexicurity policies that are relevant in times of crisis

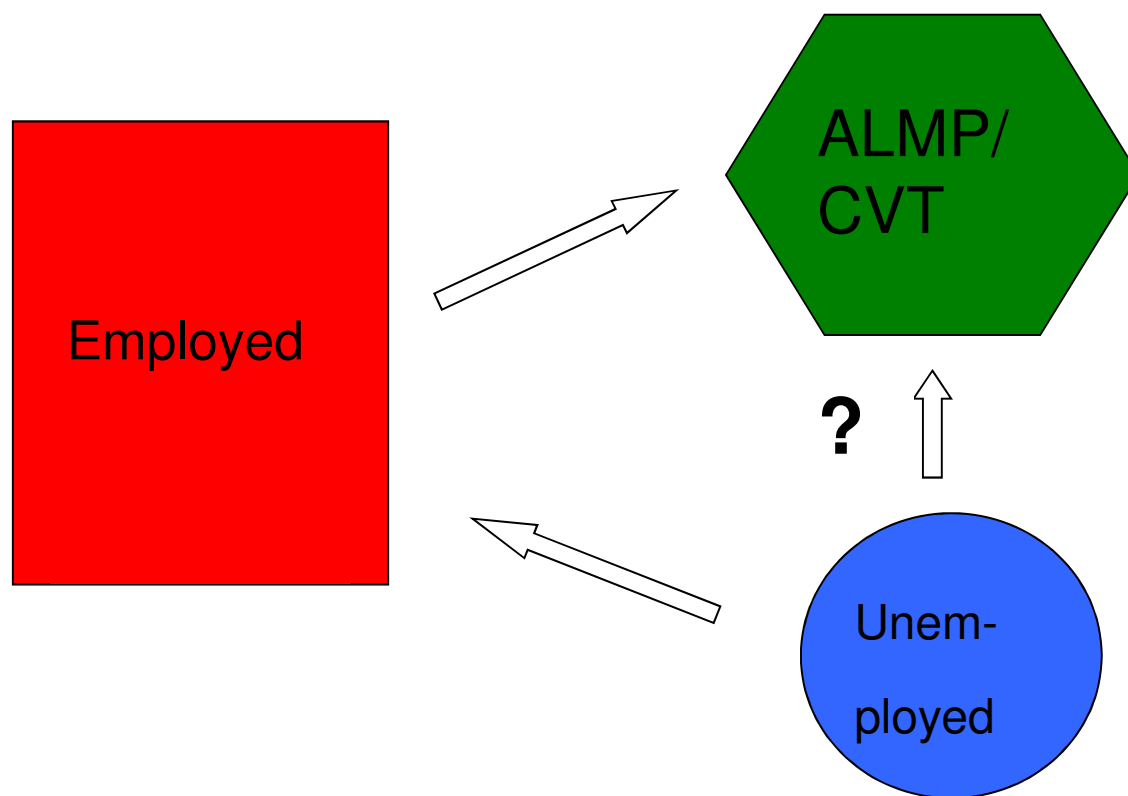


Traditional approach to ALMP





Job-rotation





Flexicurity policies and the crisis

	Job security	Employment security	Income security	Combination security (care and work)
Numerical flexibility (hiring and firing)	Temporary placement in other firm	Worker pools	Use of benefits as wage subsidy or educational support	Mortgage support
Working-time flexibility	Shorter working hours, Work-time accounts	Joint employership	Part-time UB, Reduced working hours	Leave schemes
Functional flexibility (between job functions)	Job rotation	Internships in other firms, retraining	Retraining for new job	Accreditation of prior learning
Wage flexibility (variable pay)	Adjustment of wages	Supplement wage in new job	Extra UB as compensation	Increased family allowance

Source: Adapted from presentation by Ton Wilthagen at the conference on "Implementing flexicurity in times of crisis", Prague, March 25, 2009



Focus on upgrading skills

Crisis as a **threat** to skills formation:

- Erosion of the skill of the unemployed
- Firms reduce training due to financial constraints
- Barriers for apprenticeships leads to higher youth unemployment and future lack of skilled workers



Focus on upgrading skills

But the crisis is also an **opportunity**:

- Idle capacity for training and education both among the currently employed and the unemployed
- Training of the unemployed implies a lesser risk of “locking-in” effects in times of high unemployment
- Restructuring to be supported by (re)training



Implementation structures are important

- Apply policy integration with respect to for instance labour market policy, educational policy and environmental policy.
- Include relevant actors like the social partners in the design of the responses to the crisis in order to improve policy design and support ownership.
- Insist on common guidelines, but allow also for flexible adaptation to local needs and conditions.
- Spend the necessary economic resources on the implementation of policies

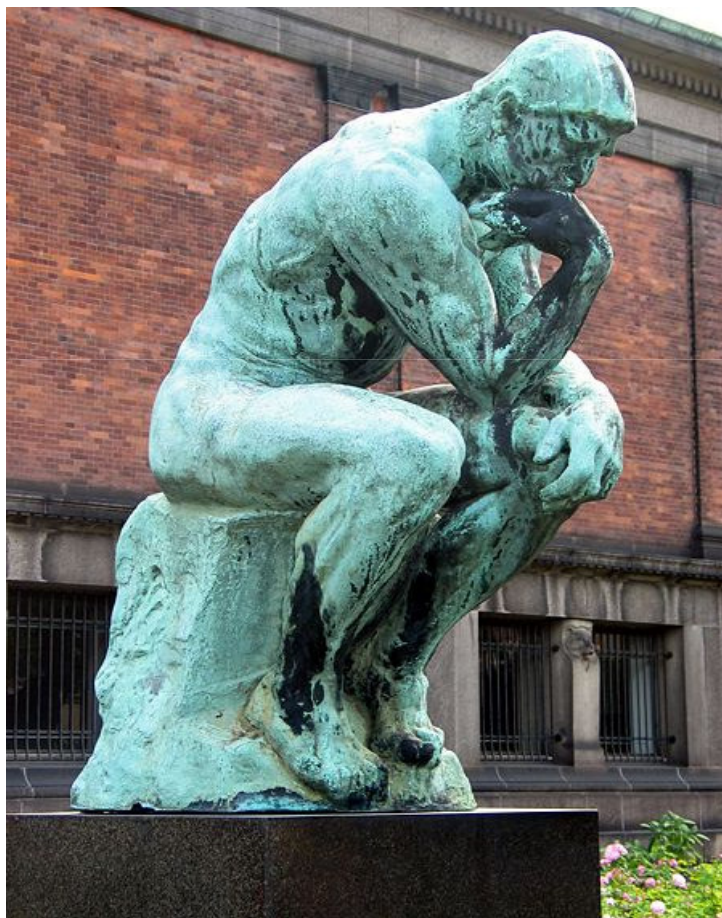


Concluding remarks

- Acting together at European level makes a lot of economic sense because of the strong integration of the economies of the Member States
- Rapid action is needed to avoid negative effects of structural unemployment and labour supply
- We have been there and done it in the early 1990ties. We can do it again.



So there is a lot to worry about



Auguste Rodin: The Thinker (1880)



Thank you for your attention





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