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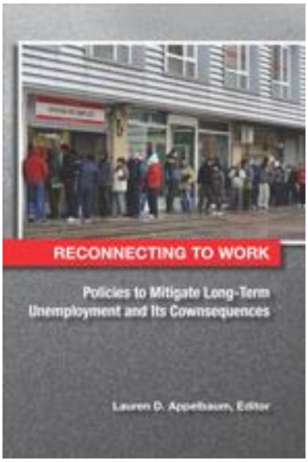
Labor Market Measures in the Crisis and the Convergence of Social Models



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Reconnecting to Work

Policies to Mitigate Long-Term Unemployment and Its Consequences

Lauren D. Appelbaum
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Labor Market Measures in the Crisis and the Convergence of Social Models

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FRAMING THE ISSUE

Following the GDP decreases resulting from the severe economic crisis, EU member states experienced, each to a different extent, higher levels of unemployment. However, the implementation of so-called anticrisis measures limited such increases in unemployment—in some cases they were not as high as expected—in the majority of EU member states. Intending to minimize the impact of the downturn in social terms and support both companies and employees, the EU took a number of actions to drive the economic recovery and coordinate EU member states' public interventions, with member states either adapting existing labor market policies or introducing new ones (European Commission 2008).[1] In this context, the majority of member states launched ad hoc and comprehensive "anticrisis packages" consisting of a variety of measures to cope with the recession and resulting in a wide range of public policy tools aimed at reducing the impact of the crisis on the labor market.

During the economic downturn, some countries have performed much better than others. We set out to determine whether this happened by chance or if it was a consequence of the national social model and the choices governments made in applying specific labor market measures. In fact, the purpose of our study is to identify whether there were particular legal devices and policies that helped some EU member states to face and withstand the crisis better than others. Studying the different measures implemented by the member states and considering the national legal framework and labor regulations, this chapter offers some possible interpretations of the different national reactions to the crisis. These interpretations take into account EU member states' different labor market policy combinations and their social protection systems and employment protection legislation, which is also viewed as a combination of flexibility and security tools. The study has an interdisciplinary approach, though it is not an economic analysis. However, it aims to give suggestions and make some hypotheses on the effectiveness of labor market policy combinations and social models (including the relevant legal framework) in tackling the crisis, which economists may then prove through their analyses.

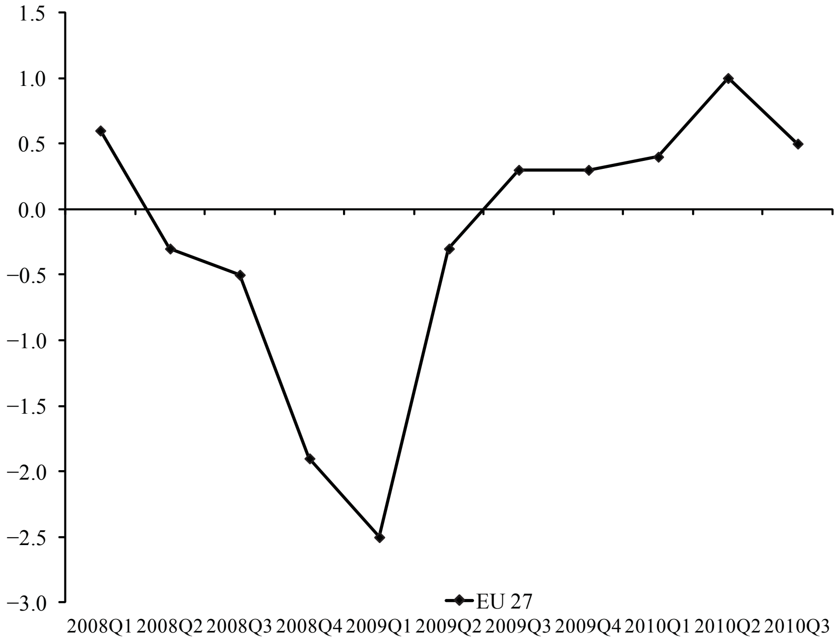
THE CRISIS IN FIGURES

The starting point of the study is the set of figures describing the changes in the European labor market from the beginning of the crisis (see Figures 7.1–7.3 and Table 7.1). Between the second quarter of 2008 and the second quarter of 2009, the real GDP in the EU (27 member states) fell by almost 5 percent.

The fall in GDP caused a reduction of labor demand and, accordingly, an increase in unemployment and a decrease in employment. But, if you compare the two series of data—GDP and employment change from the previous period (Table 7.1)—the degree of the reduction is different, and in particular job losses are limited by comparison with the decrease of real GDP. As is well-known, in fact, GDP growth and employment generally evolve differently (Bell and Blanchflower 2011), since employment reacts to economic developments with a certain time lag (Hijman 2009; Mandl and Salvatore 2009).

The figures show a considerable difference in the impact of the crisis on the 27 EU member states, particularly if we compare unemployment rates in July 2008—that is, before the crisis—and July 2010. Although Spain and Ireland were regarded as emerging economies before the downturn, they reported significant increases in unemployment. More

Figure 7.1 GDP Percentage Change from Previous Period

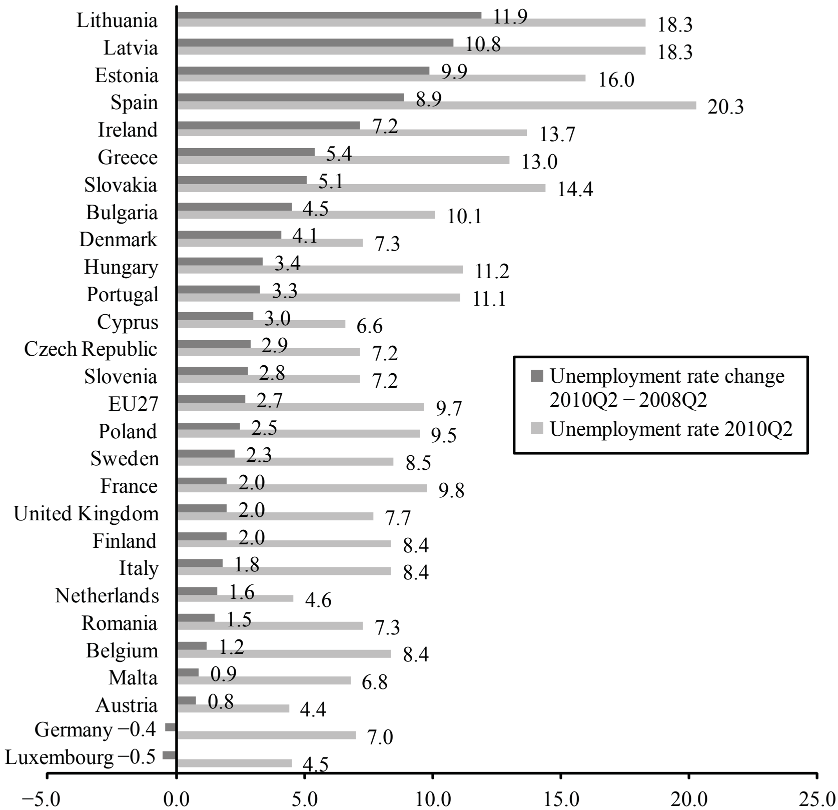


SOURCE: Eurostat, seasonally adjusted and adjusted data by working days.

specifically, the levels of unemployment almost doubled in a two-year span, an issue that has become a matter of serious concern. The same happened in the Baltic states (Estonia, Lithuania, and Latvia), which experienced the highest rates of unemployment in Europe (Figure 7.2).

Looking at the trends in Figure 7.3, Latvia, Estonia, Lithuania, Ireland, and Spain also had the highest decrease in employment rates. A case in point of the negative impact of the economic crisis on employment was Denmark. Before the crisis, Denmark had a low level of unemployment and has experienced a worsening of its labor market situation during the economic downturn. Despite Danish unemployment levels (7.3 percent in July 2010) remaining lower than the EU average (9.7 percent), Denmark experienced a critical increase in unemployment, which doubled over a two-year period. At the same time, the employment rate dropped by 4.2 percent, which was more than the EU average.

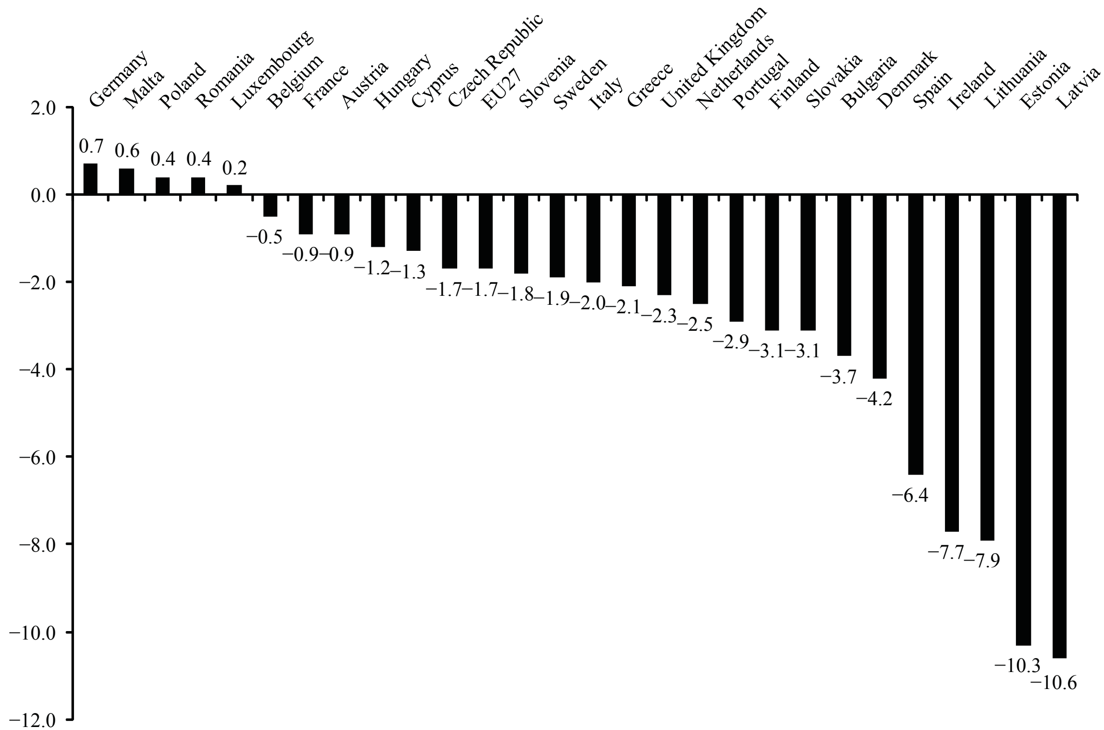
Figure 7.2 Unemployment Rate Change and Unemployment Rate, 2010Q2



SOURCE: Authors' elaboration of Eurostat data.

The labor market is less worrisome in countries like Germany, Austria, Belgium, the Netherlands, and Italy, where the rise in the unemployment rate was in no case higher than 1.8 percent and the decrease in the rate of employment was not as significant as in the countries mentioned above. Indeed, Germany represents a unique case: after a very limited increase in unemployment (0.4 percent in July 2009 compared to July 2008), an unexpected reduction was reported in 2010, with the levels of employment experiencing a growth (ILO 2011a). Such vari-

Figure 7.3 Change in Employment Rate 2010Q2 − 2008Q2



SOURCE: Authors' elaboration of Eurostat data.

Table 7.1 GDP and Employment Change between 2008Q2 and 2009Q2

Member state	GDP	Employment	Member state	GDP	Employment
EU27	−5.1	−1.9	Lithuania	−16.0	−6.0
Belgium	−4.1	−0.2	Luxembourg	−7.8	1.2
Bulgaria	−4.6	−1.8	Hungary	−7.4	−2.3
Czech Republic	−4.8	−0.9	Malta	−4.4	−0.1[a]
Denmark	−7.3	−2.2	Netherlands	−5.1	−1.2
Germany	−5.5	−0.0	Austria	−5.4	−1.0
Estonia	−16.5	−9.9	Poland	+1.4	+0.8
Ireland	−7.7	−8.3	Portugal	−3.0	−2.7
Greece	−2.0	−0.7	Romania	−8.3	−2.0[a]
Spain	−4.4	−7.0	Slovenia	−9.5	−1.4
France	−3.1	−1.3	Slovakia	−4.9	−1.5
Italy	−6.4	−1.4	Finland	−10.2	−2.9
Cyprus	−1.7	−0.4[a]	Sweden	−6.3	−2.2[a]
Latvia	−17.3	−13.2	United Kingdom	−5.9	−2.1

[a]Not seasonally adjusted data.
SOURCE: Eurostat, National Accounts.

ability among European countries, and the fact that the recession had little impact on some of them, seems not to be coincidental. There is some empirical evidence that the different performance levels within national labor markets could result from the diversified legal framework of labor regulation and existing labor market policies and institutions, along with new measures taken by governments to combat the crisis.

ANTICRISIS MEASURES ACROSS EUROPE

The combination of several factors at the national level produced, in fact, 27 different ways in which the economic downturn hit the EU member states. In addition, there were 27 different responses to the crisis. Each country has adopted a set of measures—not a single action—among which it is possible to identify the most frequently implemented ones (European Commission 2009). Moreover, it is necessary to take into consideration that labor market policies adopted by national governments vary considerably, especially in terms of issues concerning the role played by social partners in each country. Each country's participation in the development and implementation of anticrisis measures and with the adjustment of existing labor market tools differs across Europe. Differences are also found when one considers the level and the extent of the involvement of each EU member state in public policy design. Policy development and implementation depend on the diversity of functions performed by the social dialogue at the time, and the power of each government.

In Austria, Belgium, Italy, Germany, and the Netherlands—countries with a well-established social partnership—agreements between social partners contributed considerably to the creation of stimulus packages. With regard to collective bargaining, opening clauses allowed company-level agreements to deviate from sectoral collective agreements in order to cut costs and safeguard employment (i.e., deviation from the general framework). These agreements usually envisage an extension in working time without full compensation in pay, cuts in working time, cuts in benefits, or delays in agreed pay increases (ILO 2011b).

In order to assess the effectiveness of the adopted policies, it is necessary to review existing legislation and classify measures implemented by every European country in accordance with a simple scheme. The classification of policy measures is a preliminary step for verifying whether there is a relationship between patterns of labor market policies adopted by member states and the trends of the national labor market during the crisis. To date, key reports from the European Commission (Arpaia et al. 2010; Hurley et al. 2009; Mandl and Salvatore 2009), the OECD (2010), and EU institutions (Employment Committee [EMCO] and the European Commission [EC] 2010) have analyzed public interventions in the labor market. In particular, the Eurofound has provided a useful classification of crisis-related measures implemented in the EU member states (see Table 7.2) (Hurley et al. 2009; Mandl and Salvatore 2009). This classification is based on three different types of interventions: 1) measures to create employment or to promote reintegration, 2) measures to maintain employment, and 3) income support measures for the unemployed.

Table 7.2 Classification of Labor Market Measures

Measures to create employment or to promote reintegration	Income support measures for the unemployed	Measures to maintain employment
Job matching, counseling, career guidance: • Improving public employment services • Support for workers to find a job	Unemployment benefits • Eligibility criteria • Amount • Duration of support for entitlement groups of workers	Support of short-time work or temporary layoff • Wage subsidies • Social security contributions
Incentives for companies to employ additional workers • Wage subsidies • Reduction of/exemption from non-wage labor costs • Nonfinancial incentives	Other instruments • early retirement payment • child benefits • housing/heating	Training support • Advice/consultancy to enterprises • Contribution to training costs • Wage subsidy
(Re-) Training of the unemployed: • Income support while in training • Advice/consultancy, skill assessment tools • Provision/organization of training • Contribution to training costs		Reduction/deferral of nonwage labor costs • Social security contributions • Taxes
Mobility grants • Tax incentives • Travel/accommodation allowances • Repatriation allowances		Direct enterprise support • risk-capital schemes, guarantees, direct subsidies • reduction of company taxes

Support of self-employment • Advice/consultancy, training • Start-up grants • Reduction/deferral of social security payments	Indirect enterprise support • Public investment • Incentives for consumers' purchases

Measures to Create Employment and to Promote Reintegration

Measures to create employment (Mandl and Salvatore 2009) aim to promote the hiring of employees by means of economic incentives, mainly consisting of a reduction of nonwage labor costs and wage subsidies or public sector job creation. In some countries (Germany, France, Italy, Portugal, Slovenia, and Sweden), the economic incentives for companies are provided for hiring special target groups. Support measures for self-employment, based on the provision of consultancy and training (the U.K. and Bulgaria), or the reduction/deferment of social security payments also falls within this category. Several member states (Austria, Lithuania, Italy, Portugal, and the U.K.) have introduced or extended subsidies for business start-ups.

Measures to promote reintegration into employment (Hurley et al. 2009), put into action by employment services, try to enhance the transition from unemployment to employment by addressing job mismatch, supporting job matching by means of counseling, career guidance, search assistance, activation measures, and by increasing employability through training. Efforts have been made to improve and adapt public employment services in order to manage the higher number of "clients" (for example, hiring additional staff, as in Germany, Norway, Spain, and the U.K.) and to economically support private employment agencies through economic and/or normative incentives (the Netherlands and Italy). In the same vein, and with the goal of making workers more willing to accept a new job, mobility grants are envisaged (Slovakia, Lithuania, and the Czech Republic). In Belgium, for instance, employees who agree to relocate in order to accept a job offer obtain tax benefits.

Income Support for Unemployed People

Income support for unemployed people (Hurley et al. 2009; Mandl and Salvatore 2009) mainly consists of unemployment benefits, provided to reduce the socioeconomic consequences of job loss. Unemployment benefit systems exist in every EU member state, even though amendments (in some cases temporary) have been made at a national level to their regulations in order to respond to the increased number of unemployed people resulting from the crisis. Relevant changes have been particularly concerned with the following areas: eligibility criteria, amount, duration of entitlement, and beneficiaries. More specifically, some countries relaxed the rules for entitlement to unemployment benefits (France, Finland, and Sweden), while others extended the duration: Romania has envisaged an extension of 3 months, Latvia extended the unemployment benefit receipt period to 9 months, and in Poland it moved from 12 to 18 months. In the Czech Republic, the government has opted for an increase in the amount of funds, while Italy introduced (on a temporary basis) special benefits for quasi-subordinate workers.

Measures to Maintain Employment

Measures to maintain employment are intended to prevent dismissals and preserve existing jobs. Among these instruments, the main ones are short-time work (STW) arrangements and compensation.

Short-time work schemes

Short-time work may take the form of a temporary reduction in working time or a temporary layoff. In both cases, the employment relationship between employer and employee persists and the arrangements have a limited duration (Arpaia et al. 2010). In the case of STW, compensation for income loss is usually envisaged in the form of social security payments. This compensation is either publicly funded—by means of taxes—or based on social security contributions. Nevertheless, STW compensation systems across Europe differ considerably from each other in terms of procedures, degree of involvement of trade unions, "back-to-normal" plans, coverage, compensations amount, and eligibility criteria. Moreover, it is possible to distinguish between well-established systems and new schemes introduced to face the crisis (Table 7.3).

In the first case (which includes Germany, Austria, Belgium, France, and Italy, among others), the compensation system is part of the unemployment benefit (insurance) system, in that employers and employees pay social contributions to a fund or to the UI system so that in the event of STW or temporary layoff, employees are covered by this fund for the lost income as a consequence of a working hours reduction. Conversely, in member states (such as the Netherlands, Poland, Hungary, and Slovakia) that introduced, whether temporary or not, STW compensations as

Table 7.3 Different Systems of Short-Time Work

Group I—Existing and/or adapted systems (Germany, Austria, Belgium, France, Italy, etc.)	Group II—Systems introduced to face the crisis (the Netherlands, Poland, Hungary, Slovakia, etc.)
STW arrangements are part of the unemployment benefit/insurance system	STW arrangements are not part of the unemployment benefit/insurance system
The employer and (in some cases) the employees pay social contributions to a fund or to the UI system	STW arrangements are funded by taxes
In the event of STW or temporary layoff, employees are covered for the lost income	

a new measure during the crisis, such new arrangements are not part of the UI system and therefore they are funded by the state through taxes.

STW compensation systems may also be classified on the basis of their function (Arpaia et al. 2010). In some national systems, they are part-time unemployment benefits. This means that employees working reduced hours or on temporary layoff are regarded as people working on a part-time basis seeking full-time employment. In some cases, they may have to be available for a new job despite the fact that the employment contract with their current employer is still in force. Regardless of function, in the majority of EU member states, this is true even if STW schemes envisage lost income compensation within the unemployment insurance system. Indeed, STW schemes represent a form of job protection against dismissal.

With reference to this measure, it is possible to point out that it might be beneficial to different actors involved in the national economic arena. Needless to say, employees benefit from STW schemes since measures of this kind avoid dismissal and help maintain existing jobs, at the same time ensuring income support by compensating lost income. However, STW schemes also have many advantages for employers. First, these arrangements allow companies to preserve human capital and skills that will be necessary in the recovery phase. Second, they reduce potential costs related to personnel turnover, dismissal, the recruitment process, and training. Governments view STW compensation systems as convenient measures, as they help maintain social peace and cohesion in that employers and employees share the impact of a downturn. Finally, such arrangements represent a flexible tool for governments, such that they are able to control, to some extent, the adjustment of the labor market.

THE EFFECTIVENESS OF LABOR MARKET MEASURES

This research tries to identify the system and policies that provide a higher level of effectiveness in tackling the crisis and unemployment, and to collect information that could be useful on a general basis while deciding which labor market policies to implement and which legal framework to apply. It is generally acknowledged that it takes time to evaluate the effectiveness of labor market measures. However, in a joint paper, EMCO and the EC provide some evidence for the effectiveness of the main labor market policies adopted and implemented by EU member states during the crisis, and, more generally, they review evaluations of the effectiveness of similar measures implemented in the past (EMCO and EC 2010). The OECD, on the other hand, gives evidence for the effectiveness of STW schemes applied during this recession (OECD 2010).

Considering the three different types of labor market policies examined in this chapter (measures to create employment or to promote reintegration, measures to maintain employment, and income support for unemployed), measures to maintain employment in the form of STW arrangements, wage subsidies, or nonwage cost reductions are deemed to have been most successful in limiting the decrease in employment rates (Governatori et al. 2010) and the rise of unemployment, by preventing layoffs. Among measures of this kind implemented by the member states, some of them—particularly STW schemes—have proved more effective than others in preserving jobs (EMCO and EC 2010; OECD 2010). Nevertheless, researchers point out critical issues related to STW arrangements, such as the fact that they may artificially maintain employment in declining industries instead of allowing for an efficient reallocation of employment. There is general agreement about the potential negative impact—the deadweight loss—from distortions due to this policy (OECD 2010). However, countermeasures can be taken to address these distortions. In particular, STW schemes can be provided for a shorter period of time and can be arranged on the basis of more precise eligibility criteria.

Regarding measures to create employment, job subsidies consisting of hiring incentives or the reduction of nonwage labor costs are effective in terms of job creation, but they are costly measures that can lead to negative consequences in terms of the deadweight effect. At the same time, public sector job creation is less likely than other policies to provide positive impacts (Kluve 2006, 2008).

With respect to measures that promote reintegration, training has a modest positive impact on employment. This kind of impact is more likely to be associated with times of high unemployment. But, in general, positive training effects become evident in the long run, and it is not clear whether there is a positive or negative relation between the economic cycle and the effectiveness of this kind of measure. Therefore, it is difficult to state how effective training programs may be during the economic crisis (Kluve 2008). On the other hand, job search assistance and activation measures have a positive impact on employment and are effective in the short run, but they need an economic context characterized by a growing or stable labor demand. In fact, only if there is labor demand is it possible to support job search and matching and help with reintegration into the labor market. For this reason, such measures are mainly appropriate in the recovery phase.

Generally speaking, income supports for the unemployed may have a negative effect on unemployment (OECD 2006) since their generosity (replacement rate and duration) discourage job search and reintegration into the labor market. In order to reduce the negative effects in terms of efficiency, some adjustments can be and have been made, such as decreasing the amount of benefits and reducing the period through which such support is provided. In addition, unemployment benefits have to be made conditional on availability for suitable work and participation in active labor market policies (ALMPs) and activation policies (OECD 2010). The majority of EU member states have moved in this direction, since in their systems, as shown in Table 7.4, unemployment benefit recipients are required to actively search for work (in 18 cases out of 27), to be immediately available for suitable work (almost all member states) and accept suitable job offers, and to be ready to

Table 7.4 Obligations of Unemployment Benefit Recipients

Country	Active job search	Participation in ALMP	Available for suitable work
Belgium	x		x
Bulgaria		x	
Czech Republic			
Denmark	x	x	x
Germany	x	x	x
Estonia	x		x
Greece		x	x
Spain	x	x	x
France	x	x	
Ireland	x		x
Italy		x	x
Cyprus		x	x
Latvia	x		x
Lithuania	x	x	x
Luxembourg		x	x
Hungary	x	x	x
Malta			x
The Netherlands	x		x
Austria		x	x
Poland			x
Portugal	x		x
Romania	x		x
Finland	x	x	x
Slovenia	x	x	
Slovakia	x	x	x
Sweden	x	x	x
United Kingdom	x	x	x

participate in the ALMPs (in 17 cases out of 27) commonly agreed on in an individual action plan or client contract. The plan or contract is established between the unemployment benefit recipient and the public employment service and identifies the rights and duties of both parties. Moreover, in the view of assuring the effectiveness of this conditionality, sanctions are applied to recipients in cases of noncompliance with the above-mentioned obligations.

THE ROLE OF EMPLOYMENT SERVICES IN THE IMPLEMENTATION OF ALMPs

Public employment services are generally able to implement labor market measures. Therefore, they play a key role in supporting the (re)integration of the unemployed into the labor market and, in the end, employment levels. It is well known that the effective implementation of labor market policies depends on the efficiency of public employment services (EC 2002). However, they may achieve their goals not only by acting directly through their organizations, but also through cooperation with other actors and stakeholders (i.e., other public organizations, social security institutions, social partners, other service providers, or education and training providers). From this perspective, European institutions themselves encourage the collaboration of public employment services with other service providers (Council of the European Union 2001, 2002; EC 1998). This relationship may even take the form of subcontracting services to private employment agencies, which generally allows public employment services to better deliver specific services for particular target groups among the unemployed (Anderson et al. 2009).

Employment services also play an important role with regard to the effectiveness of the conditionality of unemployment benefits on participation in ALMPs and on accepting suitable job offers. Looking at public employment services, the purpose of a consistent strategy is to facilitate the return of the unemployed and unemployment benefit recipients into the labor market. To achieve this, public employment services and social security institutions must cooperate closely, which may develop into a merger between the two (Anderson et al. 2009). Indeed, in a number of EU member states (see Table 7.5) there is a single institution responsible for the provision of employment services and unemployment benefits. This trend is confirmed by recent mergers in France and the Netherlands in 2009.

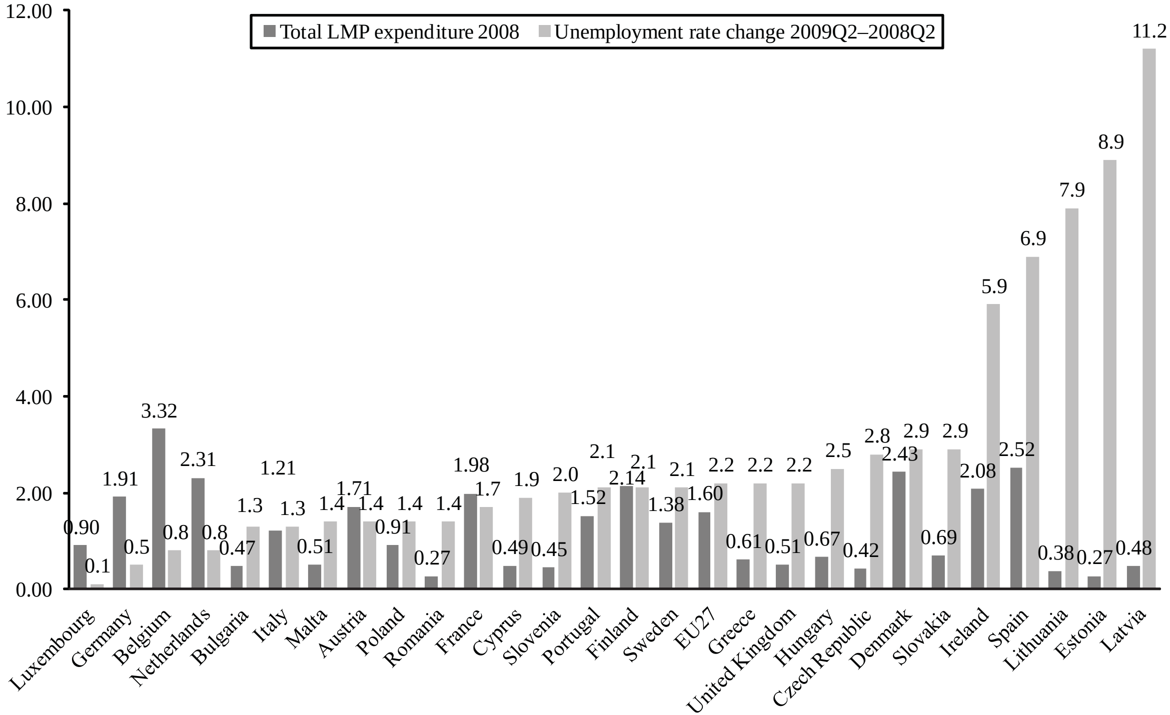
Table 7.5 Institutions Responsible for the Provision of Employment Services and Unemployment Benefits

Austria	Arbeitsmarktservice (AMS)
France	Pôle emploi: (ANPE + Assedic)
Germany	Bundesagentur für Arbeit (Federal Employment Agency)
Estonia	Eesti Töötukassa
Greece	Greek Manpower Employment Organization (OAED)
Luxembourg	Administration de l'emploi (ADEM)
Slovenia	Employment Service of Slovenia
The Netherlands	Location for Work and Income: Centre for Work and Income + Uitvoeringsinstitut werknemersverzekeringen (Employee Insurance Agency)
United Kingdom	Jobcentre Plus (merger of Employment Service and Benefits Agency, 2002)

PUBLIC EXPENDITURE ON LABOR MARKET POLICIES

The question of effectiveness of labor market policies is fundamental not only with regard to crisis-related measures, but also for EU member states because of a rise in budgetary constraints. European institutions have reported that in 2009 EU countries increased their expenditure on labor market interventions and income supports by 0.7 percent of annual GDP, while before the crisis, public expenditure on labor market policies had experienced a decline (EMCO and EC 2010). In fact, in 2008, public expenditure on labor market policies in the EU amounted to just 1.6 percent of total EU-27 GDP, although there was considerable variation between member states (see Figure 7.4).[2] For this reason, EU governments need to be aware of the most effective policy mix in order to direct the public expenditure. It is interesting to compare data on labor market policy expenditures and trends in unemployment rates among the different EU countries during the crisis. The data on public expenditures for all countries are available only 18–20 months after the reference period, and as a result, Eurostat provides, at the moment, only data for 2008.

Figure 7.4 Total LMP Expenditure and Unemployment Rate Change 2009Q2–2008Q2



SOURCE: Authors' elaboration of Eurostat data.

In any case, considering that the impact of labor market policies (LMPs) on the labor market requires a period of time to become evident, it seems reasonable to compare data on public expenditure for 2008 and unemployment rate growth over the last two years. Member states that had the lowest increases in unemployment rates in 2009 compared to 2008 were those that spent the most on labor market policies in 2008. As Figure 7.4 shows, Belgium, Germany, the Netherlands, and Austria spent more than 1.8 percent of their GDP on LMPs and saw very small levels of unemployment growth or even declines in unemployment during this period. Figure 7.5 shows that this trend is confirmed even if we compare the growth in unemployment rate between 2008 and 2010 and the labor market policies expenditure for 2008.

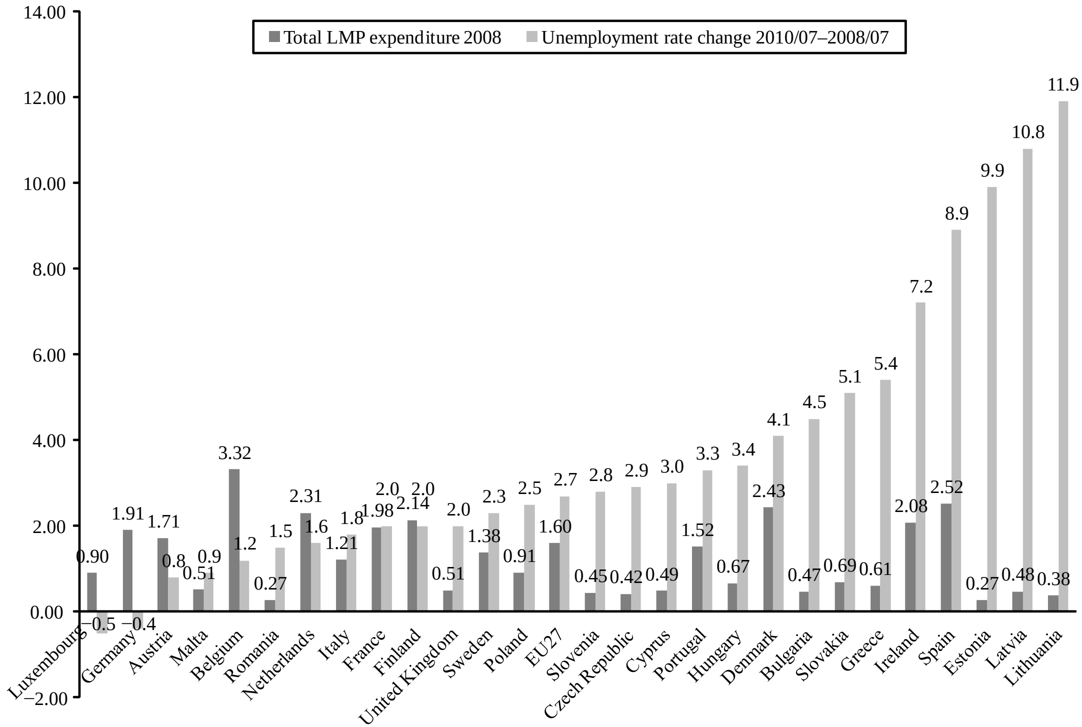
When the data on public expenditures for 2009 are available for all countries, it will also be interesting to verify if and to what extent the increase in unemployment affected public expenditure.

POLICIES ADAPTED OR ADOPTED BY THE EU MEMBER STATES

By analyzing the different measures implemented by the EU member states, it is possible to observe a relationship between different combinations of labor market measures applied by EU countries and their social models. From this perspective, it is necessary to consider *in toto* the set of labor market policies—both new and amended—that the EU member states put into action to face the crisis. Table 7.6 represents, without the pretention of being exhaustive, the measures adopted or adapted (if already existing) by each EU member state against this background. The EU countries have been identified by their levels of unemployment rate growth (considering the difference between July 2010 and July 2008), ranked from the best to the worst in terms of performance. It should be pointed out that those countries with the most significant increases in unemployment rates are those that did not envisage or did not amend existing STW schemes.

On the other hand, EU member states with good labor market performance, such as Germany, Luxembourg, Belgium, Austria, and, to some extent, Italy, already had measures of this kind in their labor mar-

Figure 7.5 Total LMP Expenditure and Unemployment Rate Change 2010/07–2008/07



SOURCE: Authors' elaboration of Eurostat data.

ket systems. Furthermore, these countries made such labor market policies more flexible over the past few years, in consideration of the needs of the moment, and improved or adapted these policies by combining them with training and/or activation measures. Other well-performing countries, such as the Netherlands and Romania, have introduced (even on a temporary basis) STW schemes to face the recession.

The next step is to contextualize these different combinations of policies in the wider regulatory framework of national labor markets. In this view, two main social models are taken into consideration: the welfare system model and the flexicurity model (Table 7.7).

The first system is characterized by rigid employment protection legislation (particularly in the event of dismissal), an ungenerous unemployment benefit system, and a minimum level of implementation of ALMPs and activation of policies through public employment services. It is noteworthy that the welfare system model developed over the years an active component, which in the past was very limited or absent. On the other hand, the flexicurity model is based on a nonrestrictive dismissal protection legislation, a generous unemployment benefit system, high levels of implementation of ALMPs and activation policies, and efficient public employment services. Examples of the first model can be found in countries like Germany, Austria, Belgium, and Italy, while Denmark has always been the model for flexicurity, together with Finland, Sweden, Norway, and the Netherlands.

THE EFFECTIVENESS OF SOCIAL MODELS

By looking at the labor market performance of the EU member states, and by considering their social models, some interesting remarks and comments are possible.

Regarding growth in the unemployment rate during the crisis, Germany, Belgium, Austria, and to some extent Italy, are considered to be the countries with the lowest increases. The social model of all these EU member states is classified as a welfare system. On the other hand, Denmark, which, as mentioned, is regarded as a role model of flexicurity, experienced a high increase in unemployment. This country has been and still is, in fact, an interesting case with reference to the per-

Table 7.6 Policies Mix

	Change in unemployment rate 2010Q2–2008Q2	STW compensations	Training activities during the time off/training support for employees	Reduction/ deferral of nonwage labor costs	Public expenditure
Luxembourg	−0.5	+	+		
Germany	−0.4	+	+	+	
Austria	0.8	+	+		
Malta	0.9		+		
Belgium	1.2	+	+	+	
Romania	1.5	new		+	
Netherlands	1.6	new	compulsory	+	
Italy	1.8	+	+		
Finland	2.0				
United Kingdom	2.0		+		
France	2.0	+	+		+
Sweden	2.3			+	
Poland	2.5	new			
EU 27	2.7				
Slovenia	2.8	new	compulsory		
Czech Republic	2.9	new	compulsory	+	
Cyprus	3.0		+		
Portugal	3.3	+	+	+	
Hungary	3.4	new	compulsory	+	
Denmark	4.1				
Bulgaria	4.5	new		+	
Slovakia	5.1			+	
Greece	5.4		+		
Ireland	7.2		+		
Spain	8.9				+
Estonia	9.9				
Latvia	10.8		+		
Lithuania	11.9		+		

Income tax cut	Incentives to employ additional workers	Direct enterprise support (loan guarantees, low-interest loans)	Mobility grants	(Re-)training of unemployed people	Improving employment services	Unemployment benefits (amendments)
				+		
	+	+			+	
				+		
			+			
		+			+	+
	+	+		+	+	
				+		
				+	+	+
	+				+	+
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+		+		+		+
+		+		+		+
+		+	+			

Table 7.7 Welfare and Flexicurity Systems Comparison

Systems	Employment protection legislation	Unemployment benefit system	STW and layoff compensations	Active labor market policies (ALMPs) public employment services (PES)
Welfare systems (Central and Southern Europe)	Stringent dismissal protection legislation (individual and collective)	Nongenerous: Short duration Low replacement rate	Yes	Low level of activities and implementation of few ALMPs
Flexicurity systems (Northern Europe)	Nonrestrictive dismissal protection legislation	Generous: Long duration High replacement rate	No or very limited as partial unemployment benefit	High level of activities and implementation of many ALMPs

formance of the labor market during the crisis. Before the crisis, this system ensured a low unemployment rate and a quick reintegration of jobseekers into the labor market. During the crisis, however, this system proved to have some shortcomings. In fact, by September 2009, Denmark had doubled its level of unemployment: from 3.2 percent in July 2008 to 6.5 percent in September 2009 (Denmark reached its highest level of unemployment, 7.4 percent, in April 2010).

The aim of this system is not to prevent dismissal but rather to support a quick job-to-job transition and reintegration into the labor market. Nevertheless, if the labor demand is low, then reintegration is impossible or very difficult. In addition, Denmark does not envisage a "real" STW compensation system even though companies may use STW arrangements and employees involved are eligible for part-time unemployment benefits. Employees must fulfill the contributory requirements for eligibility for total unemployment benefits and have to be available for a new working activity despite the fact that the employment contract with their current employer is still in force. However, in practice this provision is not strictly applied if the employee has the possibility of staying with his or her current company.

Finland, Sweden, and the Netherlands (plus Norway, which is not an EU member) also use the flexicurity system. While they had better labor market performance than Denmark during the recession, these countries still experienced an increase in their unemployment rates amounting to more than 2 percent (the Netherlands was the only exception, with an increase of 1.6 percent). There is an important difference between Denmark and the other flexicurity countries—employment protection legislation. Denmark has liberally oriented employment protection legislation, while the other flexicurity countries, which utilize a welfare system, have more stringent employment protection legislation (see Table 7.8). Among flexicurity countries, the Netherlands is the only country characterized by a lower rise in its unemployment rate. It introduced a temporary STW compensation, while Finland's is similar to Denmark, and Sweden does not envisage any.

On the basis of these observations, it clearly emerges that countries utilizing the welfare system model had lower increases in unemployment rates, while flexicurity countries, especially Denmark, experienced higher rises. Thus, the welfare system model appears to be more effective in facing the crisis, while the flexicurity system has difficul-

Table 7.8 OECD Employment Protection Legislation Index

Countries	OECD EPL index
Germany	2.63
Luxembourg	3.39
Malta	—
Austria	2.41
Romania	—
Belgium	2.61
Netherlands	**2.23**
Italy	2.58
Finland	**2.29**
United Kingdom	1.09
France	3.00
Sweden	**2.06**
Poland	2.41
European Union	2.41
Czech Republic	2.32
Portugal	2.84
Slovenia	2.76
Hungary	2.11
Cyprus	—
Denmark	**1.91**
Bulgaria	—
Greece	2.97
Slovakia	2.13
Ireland	1.39
Spain	3.11
Lithuania	—
Latvia	—
Estonia	2.39

ties controlling the increase in unemployment. This situation seems to depend on the presence in welfare system models of two complementary and interrelated elements: STW arrangements and a stringent regulation against (individual or collective) dismissal. However, considering social models and labor market policy combinations applied by EU member states, there is no unique "best solution" to tackle "different kinds" of economic recessions. It is also important to understand the context and the legal framework in which any possible solution has to be implemented.

CONCLUSION: LESSON FROM THE CRISIS

The financial crisis has created a sort of laboratory in which it was possible to conduct natural experiments on the functioning of different national systems, created through a combination of the social security system, employment protection legislation, the public employment services system, and labor market policies. Over the last two decades, when considering labor market policies to be implemented by European countries, the OECD and European Commission put an emphasis mainly on *active* labor market policies rather than passive ones, thus supporting mainly public interventions utilizing active measures. Therefore, before the crisis, these international institutions largely recommended flexicurity principles dominated by external flexibility and employment security based on nonrestrictive or low-restrictive employment protection legislation (and dismissal protection legislation), supported by a generous unemployment benefit system, efficient public employment services, and high levels of ALMPs. From this point of view, prevailing measures aimed to create employment or, better yet, promote reintegration, giving momentum to job-to-job transition. In fact, by launching the EU flexicurity strategy, the EU promoted internal and external flexicurity "accompanied by secure transition from job to job" (European Commission 2007).

Looking from this standpoint at policy packages applied by EU member states, at the beginning of the crisis there was a critical view of STW arrangements. In fact, observers and commentators constantly pointed out the labor market distortions and limitations associated with these schemes. One frequent criticism was that since they were income support measures, they demonstrated the passive nature of labor market policy. But more recently, and perhaps thanks to the effectiveness in tackling the crisis, authors look at these schemes in a different way. Indeed, a report from the Eurofound (Mandl et al. 2010) describing the effectiveness of STW schemes tries to link these measures to the flexicurity principle by stressing how they serve the implementation of flexicurity. Considering how STW schemes function, it is easy to see them as tools for flexicurity, combining internal flexibility and job and income security. In fact, the possibility of reducing work hours (up to zero hours) allows internal flexibility for employers (based exactly on flexible working-time arrangements). At the same time, this provision prevents dismissals and helps employees stay in their current positions, enhancing job security. Moreover, wage compensation linked to STW arrangements ensures income security for the employees, thanks to the continuity of income granted through either a wage or unemployment benefits.

Considering now the other types of labor market policy measures mentioned above in terms of flexicurity, measures to promote reintegration and to create employment are fundamental resources for guaranteeing employment security, at least through continuity of employment, although not necessarily with the same employer. On the other hand, income support for unemployed people has the obvious purpose of ensuring income security in case of dismissal and can be seen as complementary to external flexibility. Before the crisis, EU institutions pressed for welfare systems to move toward the flexicurity model. But the economic downturn raised the awareness of the fact that the EU formulation of the flexicurity strategy was suitable for a period of economic growth and to face structural unemployment, which needs particular measures to support (re-)integration by addressing job mismatch, supporting job matching by means of counseling, career guidance, search assistance, activation measures, and by increasing employability through training.

Indeed, a flexicurity strategy based on external flexibility and employment security was not able to withstand the impact of the recession. In such a situation, in fact, in order to limit the related socioeconomic consequences, policy measures to maintain employment and keep employees at work turned out to be indispensable. A lesson has been provided by the crisis: both welfare and flexicurity models underwent changes due to the adaptation or introduction of specific labor market policies to face the crisis. For example, welfare models have developed activation and training measures, while some flexicurity models adopted some kind of STW arrangements. Each model has taken up some elements of the other one, particularly those useful to tackle the crisis. This process of adjustment due to the recession resulted in a convergence of the two social models.

Notes

1. At the international level, the International Labour Conference (2009) adopted a Global Jobs pact.
2. At the moment of closing the article, Eurostat provided data for 2009 just for a few EU member states.

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