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PART 5/10

**COMMISSION STAFF WORKING DOCUMENT**

**Employment and Social Developments in Europe 2014**

**Chapter 1:  
The legacy of the crisis: resilience and challenges**

**Volume 3/3**

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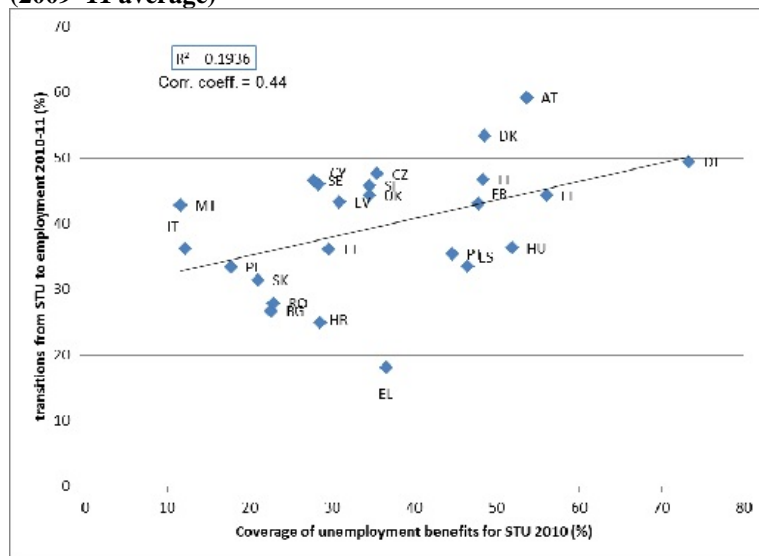
#### 4.4. The development of unemployment benefits and short-time working arrangements

##### Reforms of unemployment benefit systems have included both positive and negative changes

Unemployment benefits serve a dual purpose: they provide direct support for those who suffer a loss of income during a period of unemployment (which also serves as an automatic financial stabiliser for the economy as a whole), and they help maintain the individual's continuing employability thus supporting their re-employment efforts. Nevertheless, the type, effective coverage and amount of income support received by the unemployed vary across Member States, and it does not generally enable them to maintain similar living standards to those they had when they were in work.

When people lose their jobs the first level of protection is unemployment benefits, which are contributory (insurance-based) schemes in most EU Member States. However, variations in eligibility criteria and average time spent in employment, combined with differences in take-up, result in very different levels of receipt of unemployment benefits for the short-term unemployed across Member States, ranging from less than 20 % in Italy, Poland, Slovakia, Bulgaria and Malta to more than 50 % in Belgium, Finland and Germany (Chart 3). In general the receipt of unemployment benefits has a positive relationship with the exit rates out of short-term unemployment.

**Chart 1 — Coverage rates of unemployment benefits (2010) and exits out of short-term unemployment (2009–11 average)**

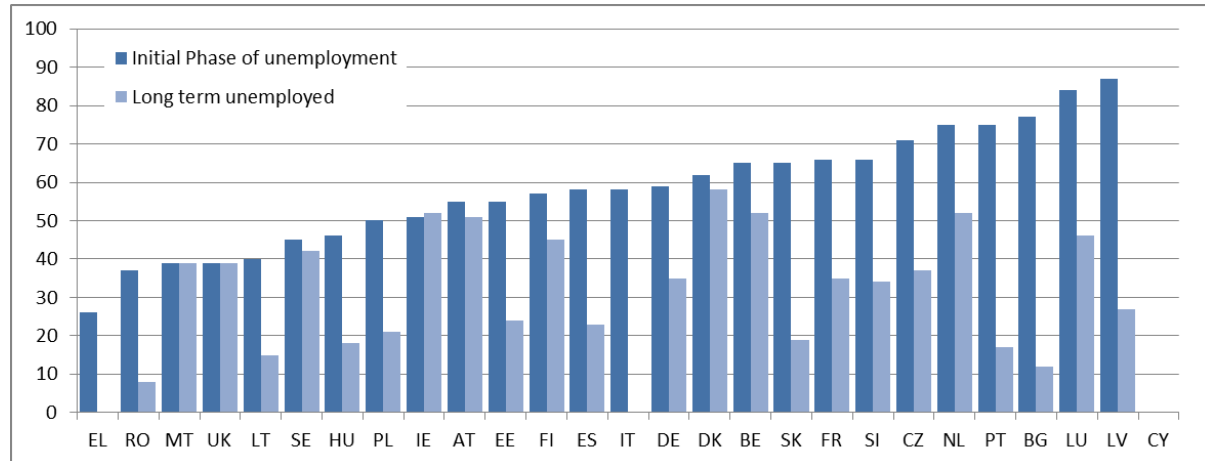


Source: EU-LFS, DG EMPL calculations. 2012 value used for coverage of UK in 2010.

Chart 2 illustrates the amount of benefits received by a single person during the early stages of unemployment, and after they have been unemployed for more than 12 months, which shows how replacement rates vary with the duration of unemployment. Such variations between countries are even greater for very long spells of unemployment with many Member States providing only limited support while others maintain high levels of income replacement. Likewise, entitlement rules vary greatly across Member States, whatever the

level of benefits, and the share of the unemployed who actually receive unemployment benefits, as reported through the EU-LFS, illustrates this diversity.

**Chart 2 — Net replacement rate of unemployment and additional benefits for an unemployed, single person without children, during the early stage of unemployment and long-term unemployment\*, year 2012.**

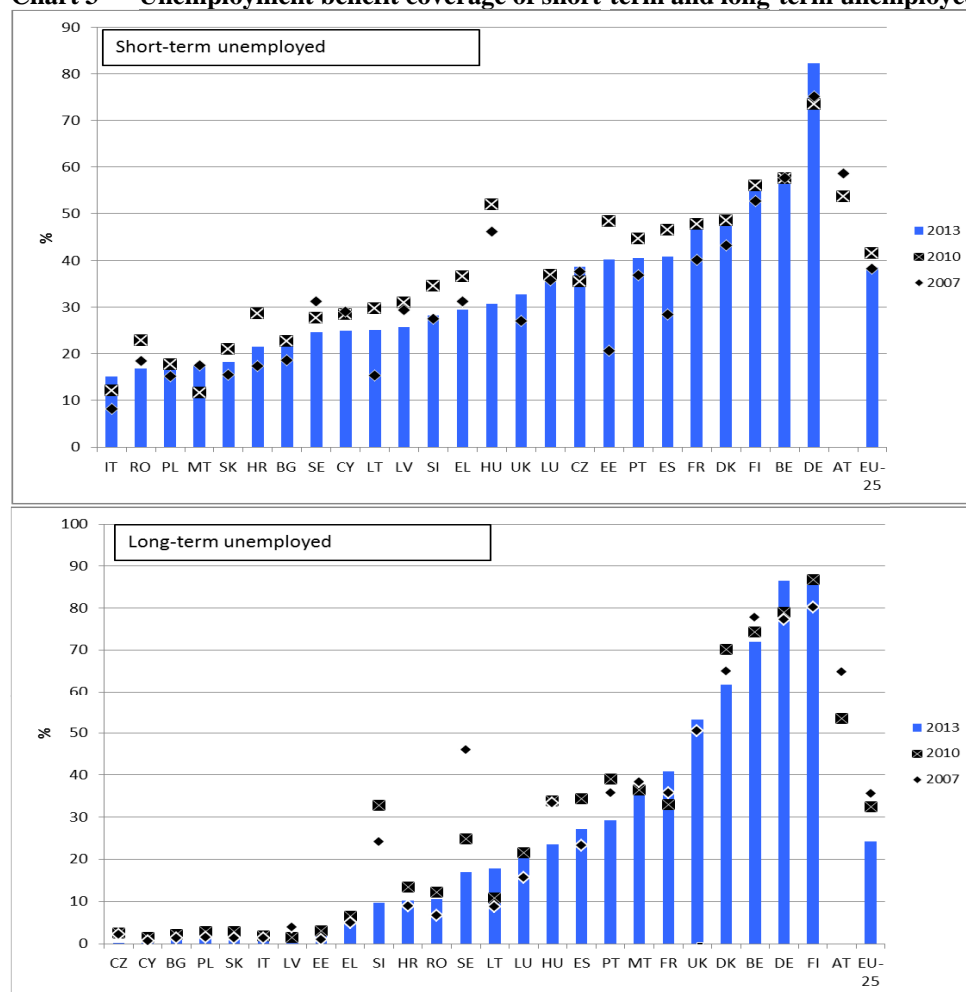


*Source:* OECD, tax-benefit model. *Note:* After tax and including unemployment benefits, social assistance, family and housing benefits in the 60th month of benefit receipt. Also note that Italy, while not having unemployment benefits for LTU at the national level, has a number of social benefits operated by municipalities.

The level and efficiency of the support provided by unemployment benefit schemes depends on their design and the degree to which they are conditional on engaging in activation measures. Between 2011 and 2013 almost a third of Member States (including BE, ES, IT, HR, SI and UK) modified their unemployment benefit arrangements primarily by: tightening eligibility requirements, reducing the amount of benefits received, introducing means testing, making them conditional on undertaking active job searches and linking the level of benefits to the duration of unemployment (EMCO 2014).

These changes impacted more on the long-term unemployed than on the short-term unemployed (Chart 3) with coverage rates in 2013 for the long-term unemployment across the EU as a whole being some 11 pps below pre-crisis levels, although this average outcome resulted from reductions in 12 Member States against increases in 13 Member States. This compared with no overall change for the short-term unemployed in the EU as a whole but, again, these results reflect reductions in 8 Member States and increases in 17 others. Member States with the most generous length of unemployment benefits, such as Belgium, Germany and Finland, saw increased take-up by the unemployed, with increased coverage for the long-term unemployed as they became aware of the possibilities and the need to utilise them due to their prolonged unemployment duration.

**Chart 3 — Unemployment benefit coverage of short-term and long-term unemployed**



Source: Eurostat, EU-LFS, DG EMPL calculations. Note: IE, HR and NL: not covered. No data for UK in 2010. STU stands for short-term unemployed (less than 12 months) and LTU stands for long-term unemployed (unemployed 12 months or more). EU-25 = EU-28 minus NL, IE, UK (and AT in 2013). \* The coverage rate is the ratio of the unemployed who received unemployment benefits or assistance and those who did not receive them in each category of unemployment duration (STU and LTU).

Low coverage rates, and low benefit rates, not only reflect a lack of effectiveness of the unemployment benefits scheme in protecting people against income shocks, but also imply a limited stabilisation impact on the economy. Likewise, the level of income support will also impact on the effectiveness of activation schemes.

Expansionary measures that increased the opportunity to claim unemployment benefits have included a reduction in the required period of contribution in order to be eligible (e.g. LV) and the extension of unemployment benefits to new categories such as non-regular workers (e.g. DE), the self-employed (e.g. AT), or those who would otherwise have exhausted their rights (e.g. LV, ES; ILO, 2014a). Some Member States increased the levels of benefits or provided one-off benefits to some groups (e.g. FR, UK). Partial unemployment benefits in order to maintain people in their existing jobs were also introduced (e.g. FR, DE, NL and PL), often following collective bargaining negotiations. Given that these countries are among those whose labour markets proved relatively more resilient to the recession, they highlight the contribution of well-designed unemployment benefit arrangements. In particular, the introduction of partial unemployment benefits is seen to have been an important policy innovation that helped many Member States weather the recession (ILO 2014a; more detail in Section 0).

On the other hand, contraction measures taken during the recession included: tightening entitlement conditions for unemployment benefits (e.g. IE, UK); an increase in the number of contributions needed in order to qualify (e.g. IE); reductions in the maximum length of period for receiving unemployment benefits (e.g. CZ, PT); and reduction in their levels (e.g. RO) (ILO 2014a).

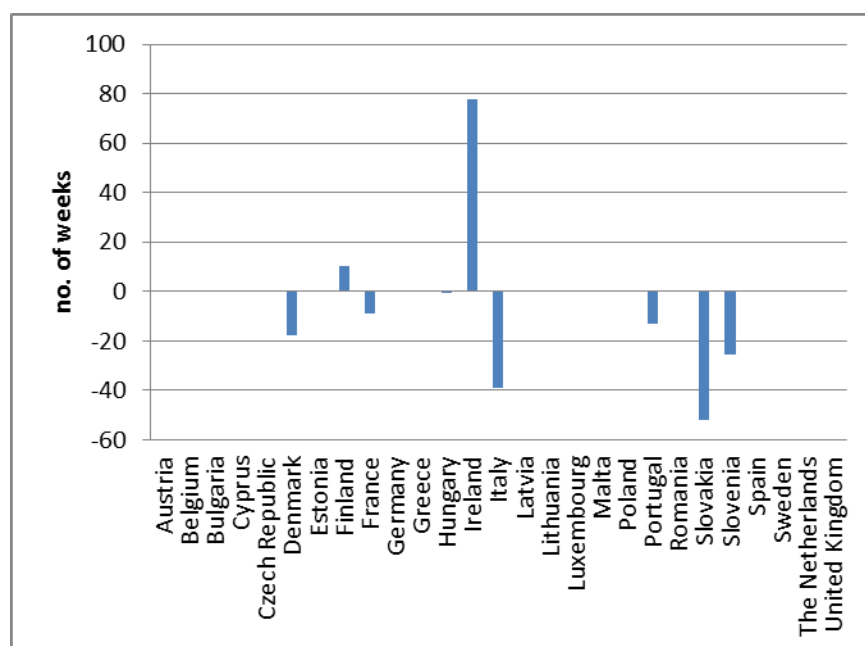
Some Member States also decided to link the payment of unemployment benefits more closely to activation through ALMP in order to help and encourage those affected to return to employment quickly. The changes included introducing job seeking obligations (e.g. ES, UK), compulsory participation in training and other ALMP for certain categories (e.g. ES, UK), and stricter sanctions for those who refused offers (e.g. IE) (ILO 2014a).

The eligibility criteria and the minimum and maximum duration periods are among the important design features affecting outcomes. These criteria can be tailored to address different objectives. In the UK, for example, changes went in different directions for different aspects — increasing one-off benefits for some categories, and tightening eligibility and strengthening conditionality for others.

A key aspect determining the coverage, stabilisation, protection and investment functions of unemployment benefits concerns eligibility criteria. In some Member States eligibility requirements for obtaining unemployment benefits were relatively relaxed before the recession (especially in FI, EL and SE), while in others these had been quite strict (in particular in LT, PT and SK). A majority of Member States did not change the criteria during the crisis, but in DK, FR, HU, IT, PT, SK, SI the criteria were somewhat relaxed, while they were tightened in IE and FI.

Across the EU as a whole the proportion of the long-term unemployed receiving unemployment benefits fell slightly during the recession, although this overall result was mainly due to substantial reductions in coverage rates in Sweden, Slovenia and Hungary. The overall proportion of short-term unemployed persons receiving benefits remained more or less the same during the crisis, but with substantial reductions in Hungary (–15pps) and Sweden (–7pps) against considerable increases in Estonia (+20pps), Spain (+12pps) and Lithuania (+10pps).

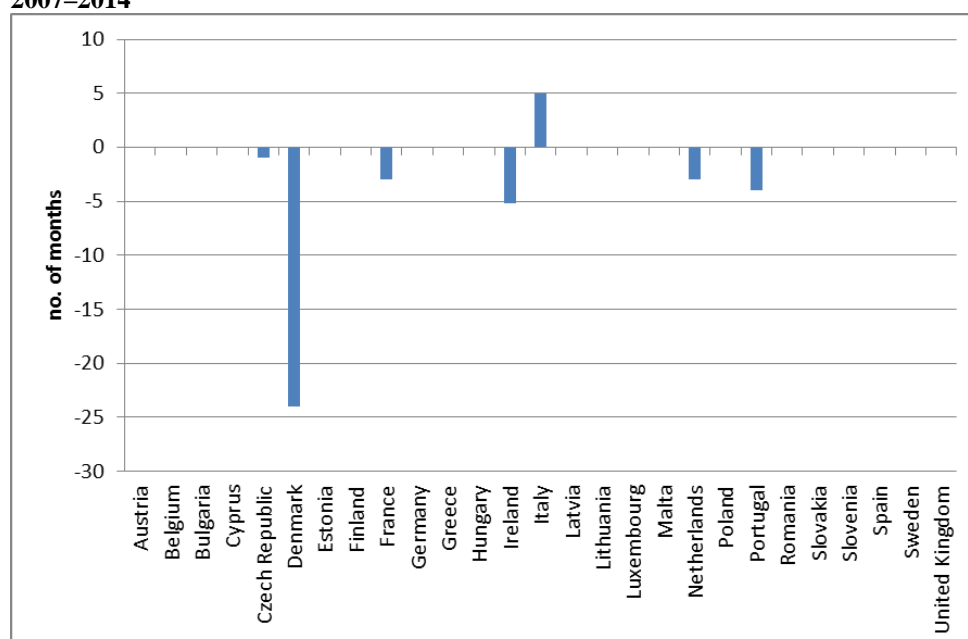
**Chart 4 — Change in the qualifying conditions for unemployment benefits, 2007–2014**



Sources: MISSOC

In most Member States the duration of unemployment benefits for the people with the lowest entitlement (either because of periods of contribution, type of contract or age) has not changed since the onset of the recession. Nevertheless, in a number of countries the minimum duration for the most vulnerable and those with the lowest entitlement was further reduced (Chart 5). Only in Italy was the minimum duration of unemployment benefits extended for the most vulnerable unemployed categories.

**Chart 5 — Change in the duration of unemployment benefits for persons with the lowest entitlement, 2007–2014**

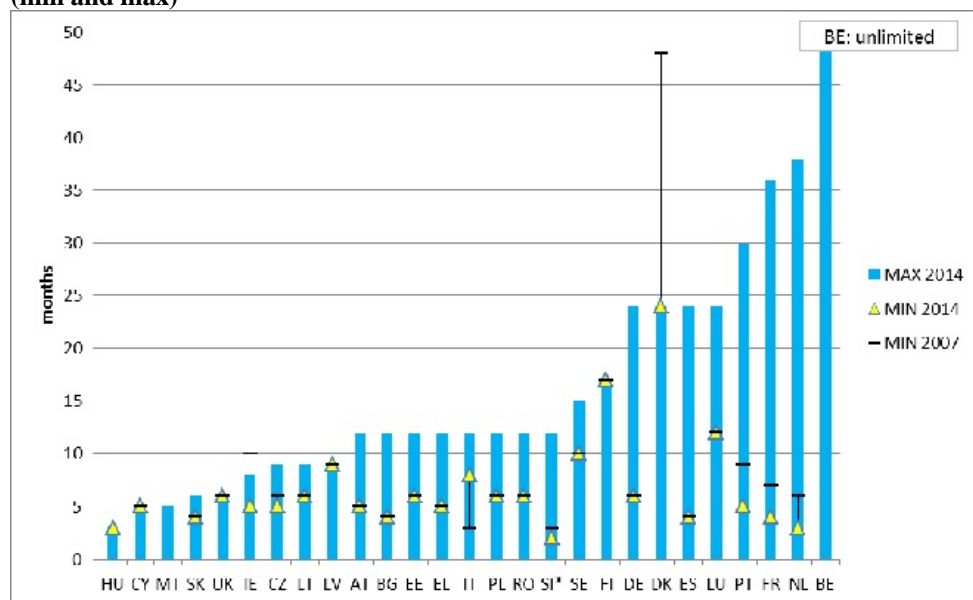


Source: MISSOC. \*Note that in the case of Slovenia the minimum duration has changed due to a new category being introduced, so the coverage of the least entitled actually increased.



The increased coverage of the unemployed with unemployment benefits in Italy in the 2010–13 period (Chart 3) was most likely a result of the relaxing of eligibility requirements and of an increase in the minimum duration of benefits during the crisis. Others who also relaxed their eligibility requirements but reduced the duration of their unemployment benefits experienced a reduction in coverage (e.g. PT and SK) <sup>(1)</sup>.

**Chart 6 — Maximum duration for the least and most entitled groups of unemployed, 2007 (min) and 2014 (min and max)**



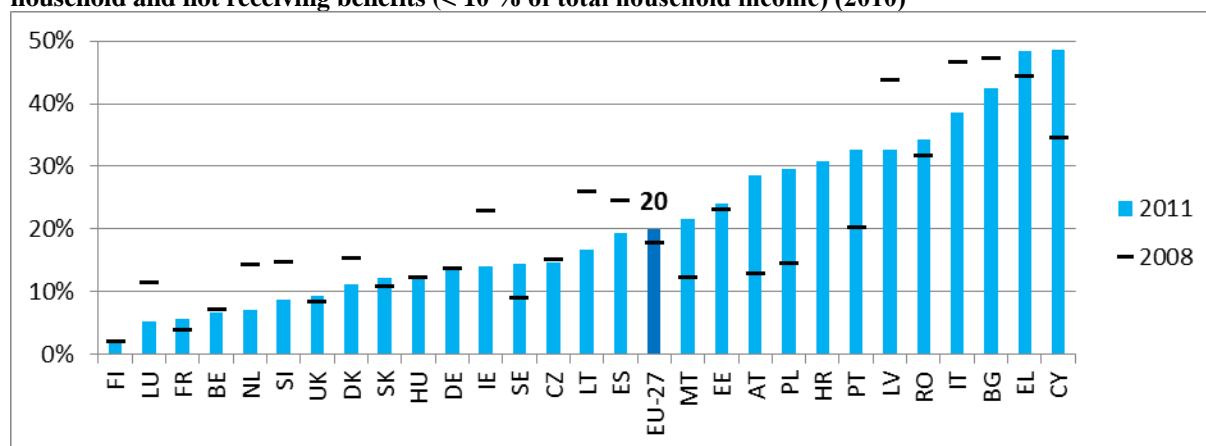
Source: MISSOC. Note: When calculating the minimum duration, the longest duration for the least entitled group was taken, whereas for maximum, the longest specified duration for the most entitled group was taken, not including those with disability status or with special status due to being over the age of 55. \*Note that in the case of Slovenia the minimum duration has changed due to a new category being introduced, so the coverage of the least entitled actually increased.

The longer people stay out of employment, the more entitlements they lose. In nearly all Member States additional schemes of social assistance are available, in the form of means-tested benefits, to help them sustain living standards, albeit minimal in some Member States. However, social assistance schemes are increasingly associated with activation schemes (job-search support, access to training, individualised support) to encourage and support a return to employment wherever possible.

Unfortunately, in some Member States, a significant share of people in need of income support (working-age people in jobless households that are also poor) do not receive standard benefits (unemployment benefits, social assistance) and are at greater risk of long-term exclusion (Chart 7). Despite the fact that all countries have now introduced links to activation in national legislation, the coverage of social assistance remains very low in some countries, which is likely to undermine efforts supporting the return of the most excluded to work.

<sup>(1)</sup> No conclusion available for Ireland and the Netherlands due to no data on coverage of unemployment benefits. Denmark managed to increase its coverage whilst also reducing the very long length of its unemployment benefits.

**Chart 7 — Non-coverage of social benefits: share of working-age people that are poor, living in a jobless household and not receiving benefits (< 10 % of total household income) (2010)**



Source: EU SILC, DG EMPL calculations. Note: Family/child benefits not included. For IE and BE 2011 value used instead of 2012.

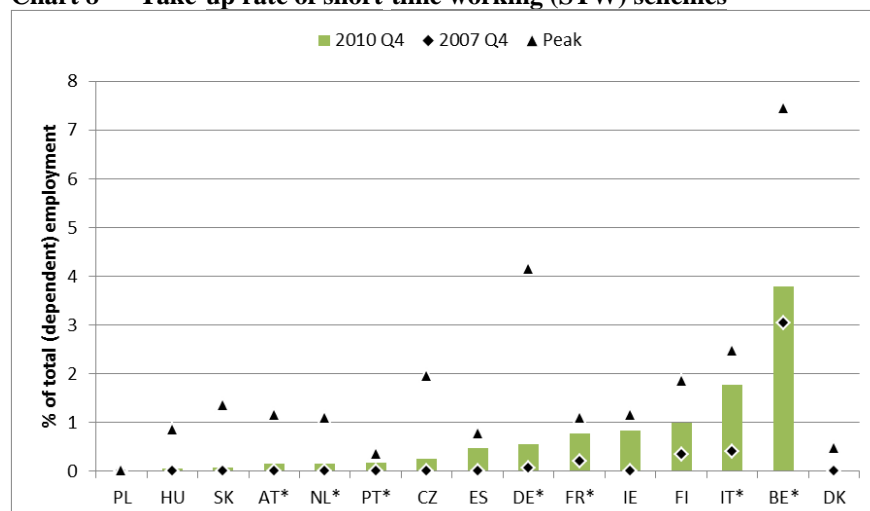
### Short-time working arrangements and partial unemployment benefits helped

Short-time working schemes (STW) are publicly funded schemes intended to allow firms facing reduced demand to temporarily reduce the working hours of their workers and organise a form of work-sharing, while providing income-support to the workers affected. The aim of STW schemes is to prevent the excessive loss of jobs that are viable in the long-term during an economic downturn (Hijzen and Martin, 2013).

Such schemes were quite extensively used in some Member States during the recession and were seen as successful in helping maintain employment and contain unemployment (Hijzen and Venn, 2010; Eurofound, 2010; Boeri and Bruecker, 2011; Cahuc and Carcillo, 2011; Hijzen and Martin, 2013) especially when combined with partial unemployment benefits (Arpaia et al, 2010), thereby reducing the hysteresis effect of the downturn. There is also some evidence that the requirement to participate in training as part of such schemes also improved the employability of those concerned (Eurofound, 2010).

Short-time working arrangements went from being largely absent or almost unused by the employed in most Member States in 2007 (with the exception of Belgium) to being more intensively employed during the recession (Chart 8). Several Member States introduced STW schemes for the first time during the recession including the Czech Republic, Slovakia, the Netherlands and Poland (Boeri and Bruecker, 2011). At their peak, take-up rates ranged from 7.5 % of dependent employment in Belgium, 4 % in Germany to around 1–2 % in Austria, Czech Republic, France, Ireland, Italy, the Netherlands and Slovakia.

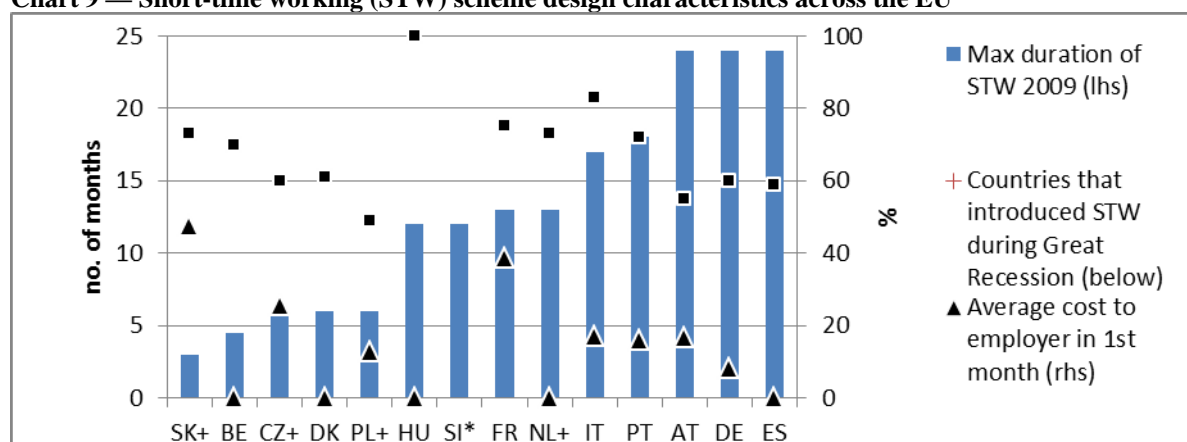
**Chart 8 — Take-up rate of short-time working (STW) schemes**



Source: Chart made using data from Hijzen and Martin (2013). Data on STW accompanied by partial unemployment benefits from ESSPROS. No data available for LV, LT, RO and SI.

The design of STW schemes varied across Member States with their maximum duration ranging from 3 to 24 months (unlimited duration in Finland), with the cost to the employer for each worker taking part ranging from 0 % to 47.5 %, and with the level of benefit received by the workers concerned (compared to their previous last wage) going from 49 % to 100 % (Chart 9).

**Chart 9 — Short-time working (STW) scheme design characteristics across the EU**



Source: Chart made using data from Boeri and Bruecker (2011). Note: Cost to employer = percentage of normal total labour cost for a single worker without children who usually earns the average wage; STW net replacement rate = benefit from STW schemes as percentage of last wage; Maximum duration = maximum duration of STW schemes in months. The information refers to the year 2009. No data available for LV, LT, RO and SI.

STW schemes covered a range of different workers but in several Member States those in training (e.g. apprentices and trainees) or in management positions were not allowed to take part (Eurofound, 2010), and most countries did not allow workers on temporary contracts to participate; even when they did, their numbers were very small (OECD, 2010).

Some schemes required the STW to be supported by a collective agreement. In some cases worker councils initiated the scheme (e.g. Germany) and in others only workers eligible for unemployment insurance were allowed to take part (Boeri and Bruecker, 2011). In general the participation of the social partners in the design and introduction of the STW schemes was

seen to be an essential success factor for ensuring a fast and timely implementation (Eurofound, 2010; European Commission, 2011c).

Firms taking part in STW schemes were usually required to prove that their need for public funding was a result of reduced demand. Several Member States also required the employer to provide training (e.g. CZ, HU, NL and PT), to have a restructuring plan (e.g. BE, IT, LU, PL and ES), or not to make dismissals during the period that the scheme was in operation (e.g. AT, FR, HU, NL and PL) (Boeri and Bruecker, 2011).

As might be expected, the higher the costs for employers and the stricter the eligibility conditions, the lower the take-up rates were, while higher levels of STW net replacement rates served to encourage workers to take part (Boeri and Bruecker, 2011). Nevertheless, many Member States reduced the strictness of their requirements and/or extended the maximum duration and net replacement rate of their STW schemes during the recession including Austria, France, Germany and Latvia (Boeri and Bruecker, 2011).

It is clear that STW schemes needed to be carefully designed in order to ensure sufficient uptake while avoiding deadweight costs in the sense that the jobs would have been saved even without the scheme, or that they prevented a necessary relocation of workers (Boeri and Bruecker, 2011) or inefficient low average hours worked (Arpaia et al, 2010). As such, these schemes were seen to be essentially temporary in their nature (Arpaia et al, 2010).

Nevertheless, when they are used, it appears that they are most likely to be effective when accompanied by adequate levels of support, as was often the case with increased spending on partial unemployment benefits during the recession (see below). However, care should be taken since some countries did not use partial unemployment benefits as part of the arrangement, opting instead to combine STW schemes with public works participation (e.g. Lithuania; Boeri and Bruecker, 2011).

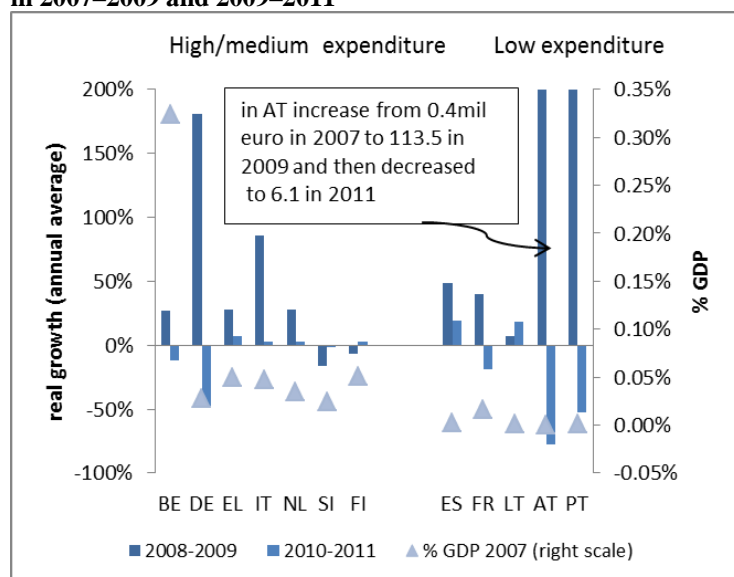
Less than half of the Member States use partial unemployment benefits and their usage only increased in those Member States that had used them before 2008 (Chart 10). In the first phase of the recession, expenditure for partial unemployment benefits increased in most Member States with this type of benefit in place <sup>(2)</sup>, particularly in Austria, Portugal and Germany. While their overall cost and contribution was small relative to other support expenditures (accounting for 8 % of all unemployment support at its peak use in 2009) <sup>(3)</sup>, partial unemployment benefits were seen not only as an effective tool for strengthening the resilience of the labour market and economy, but also as a commitment by governments and social partners to tackle the economic and social aspects of the crisis together.

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<sup>(2)</sup> Before 2008, expenditure for partial unemployment benefits was particularly high in BE and, to a lesser extent in DE, EL, IT, NL, FI. Partial unemployment benefits were also in place, with a low level of expenditure, in ES, FR, LT, AT and PT.

<sup>(3)</sup> Eurostat LMP database

**Chart 10 - Real growth partial unemployment benefits in Member States where they exist, annual average in 2007–2009 and 2009–2011**



Source: ESSPROS. Notes: Triangles corresponds to partial unemployment expenditure in % of GDP in 2007. Bars represent real average annual changes in partial unemployment expenditure between 2007–2009 and 2009–2011. The left axis is cut at 200 % (see text box for AT).

While the STW schemes were recognised as having been successful in maintaining employment and containing unemployment during the downturn, the issue of the treatment of workers on temporary contracts, who were generally excluded, also highlighted concerns about labour market segmentation.

#### The stabilisation role of short-time working arrangements and automatic triggers for benefits

Some institutional arrangements have proved relatively effective in limiting the impact of economic shocks. Automatic stabilisers, in particular unemployment benefit systems, played an important role in supporting incomes in the first phase of the crisis in most Member States. Discretionary measures to temporarily increase the coverage and adequacy of benefits also proved successful, although Member States with lower coverage and lower levels of benefits were not generally among those introducing such measures.

Short-time working arrangements, supported by partial unemployment benefits, also proved successful in absorbing economic shocks in their initial stage, although they were not available in all countries (ECFIN, 2013) <sup>(4)</sup>. However, not all governments and social partners opted for short time working arrangements during the recession, just as many also resisted pressures to reduce the level of employment protection on permanent contracts on the grounds that such actions were more likely to lead to job losses than job creation. Another explanation could also be that the extensive use of temporary contracts enabled firms to unilaterally reduce their workforce without recourse to negotiations.

Evidence suggests that, in case of recessions, especially if protracted, automatic triggers of benefits and more flexible working arrangements within more stable contractual arrangements

<sup>(4)</sup> European Commission, 2013. *Labour Market Developments in Europe*, European Economy 6, 2013

could improve the resilience of systems. The indexation of benefits could also be smoothed over a longer time period in order to better distribute economic resources where most needed.

#### 4.5. The role of social partners: industrial relations and minimum wages

##### Main developments in industrial relations

The recession had a significant impact on industrial relations in Europe. There is considerable diversity in the social dialogue practices of different Member States, including different institutional frameworks with different roles and capacities of the main actors (workers' and employers' representatives, as well as the state). Nonetheless, a number of broad developments can be identified, corresponding to the different phases of the recession.

The initial impact of the crisis affected the private sector in particular. In response, social partners — often with the help of governments — cooperated effectively to limit employment losses through internal flexibility measures and short-time working schemes, as discussed. At this stage, social dialogue was generally recognised as a factor of resilience and adaptation (European Commission, 2011c).

As the crisis deepened and widened, however, social dialogue came under increasing strain. Diverging views emerged between employers and their representative organisations and trade unions regarding the most effective exit strategy. Fiscal consolidation measures gave rise to further tensions, particularly in the public sector (European Commission, 2013b).

While European industrial relations were in flux even before the crisis, the crisis appears to have increased the pace of certain developments. The decentralisation of collective wage bargaining — a secular trend since the 1980s — has accelerated since 2007. In 12 Member States, the main bargaining levels are seen to have shifted downwards, with the company level gaining importance vis-à-vis negotiations at industry or cross-industry level. The recentralisation of bargaining in Belgium and Finland is a notable exception.

Recent years have also seen important changes in linkages between bargaining levels, notably increased use of opening and opt-out clauses from collective agreements. At the same time, fewer agreements were (legally) extended to cover all workers and employers of a given level. There is also evidence of reduced horizontal coordination between bargaining units (a trend which did not necessarily pre-exist).

Industrial relations are systems, whose settings are interrelated. In this regard, it is notable that countries under financial assistance have experienced more changes than others, in a larger number of parameters of their systems (Eurofound, 2014b).

Since 2008, the share of European workers covered by collective bargaining decreased (from 66 % in 2007 to 60 % in 2012). The largest drops occurred in Portugal, Greece and Spain. Several Central and Eastern European countries experienced decreases from initially low levels. In continental North West Europe, coverage remained high and fairly stable. While national systems appeared to converge slightly prior to the crisis, this trend was reversed.

Countries where social dialogue is well-established and industrial relations systems are strong have proven most resilient during the recent downturn. We can expect social dialogue to play

an important part in the durable recovery of the European economy, promoting win-win solutions and the ownership of labour market reforms.

Watt (2009) also found, for example, that there was a higher likelihood of equity and social concerns being included in the design of fiscal reforms packages in Member States when trade unions were involved in the process. In particular, as already noted, the participation of social partners in the design and introduction of the STW schemes has been seen as a crucial factor in ensuring their fast and effective implementation (Eurofound, 2010b).

### Minimum wage and wage-setting mechanism developments

Minimum wages are designed to prevent wage competition in low-paid occupations such that wages are too low to prevent poverty and social exclusion. From an economic perspective, minimum wages can increase labour costs and thereby reduce levels of employment. Nevertheless, they can also be seen as part of a broader dynamic process that encourages firms to invest in skill formation and on-the-job-training with a view to raising labour productivity — and strengthening profits.

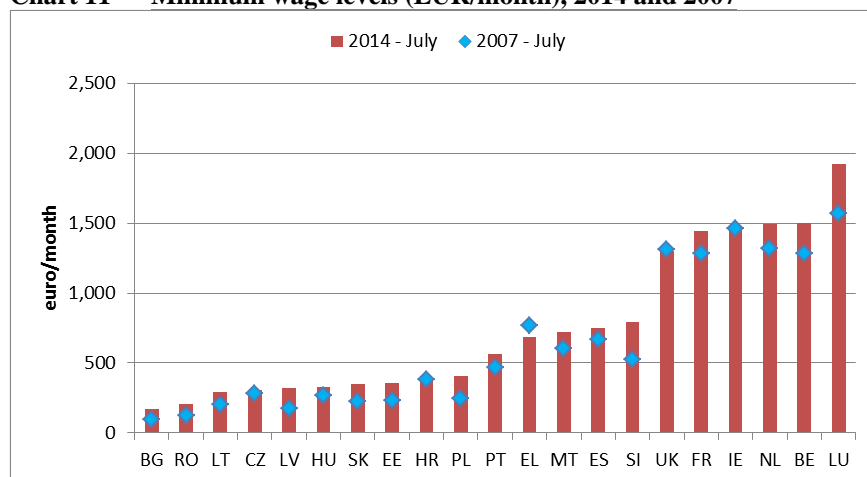
While some economists consider that minimum wages have adverse effects on employment, as do price rises in any competitive market, empirical evidence is mixed. A recent review of empirical minimum wage studies by Holmlund (2013) concluded that minimum wages have ‘negligible employment effects despite having substantial effects on wages’ <sup>(5)</sup>. Nevertheless, the possibility that a relatively high minimum wage involves the risk of ‘pricing out’ low-productivity workers from the labour market should not be excluded.

In 2014, 21 Member States now have a statutory national minimum wage. Cyprus has one covering just six occupations, while there are none in Austria, Denmark, Finland, Germany, Italy or Sweden. In these countries social partners define sector-specific minimum wages through collective bargaining agreements (which can be extended by the government to all companies and workers in specific sectors) or de facto minimum wages due to extremely high collective bargaining coverage, as in Austria. However, Germany decided to gradually introduce a statutory minimum wage of 8.5 euro per hour from the beginning of 2015 through to the end of 2016 in order to allow existing collective bargaining agreements to expire.

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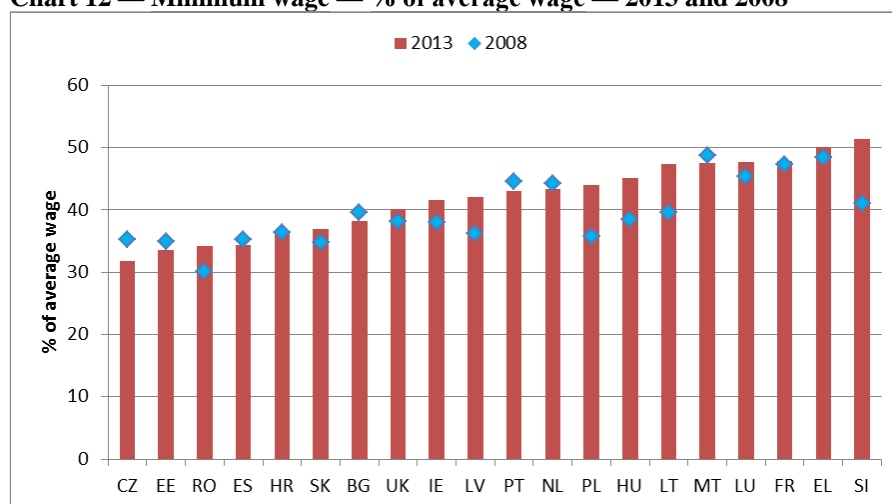
<sup>(5)</sup> Holmlund, Bertil, 2013. [What do labor market institutions do?](#), [Working Paper Series](#) 2013:23, Uppsala University, Department of Economics

**Chart 11 — Minimum wage levels (EUR/month), 2014 and 2007**



Source: Eurostat (earn\_mw\_cur), Note: for HR 2008S2 (July) instead of 2007S2 (July). Also note that changing to PPS as unit of measurement does not significantly alter the ranking of the EU Member States.

**Chart 12 — Minimum wage — % of average wage — 2013 and 2008**



Source: Eurostat (earn\_mw\_avgr2). Instead of 2013 value, 2012 value used for EE, RO, NL and FR, and 2011 value for EL. Instead of 2008 value, 2009 value used for NL.

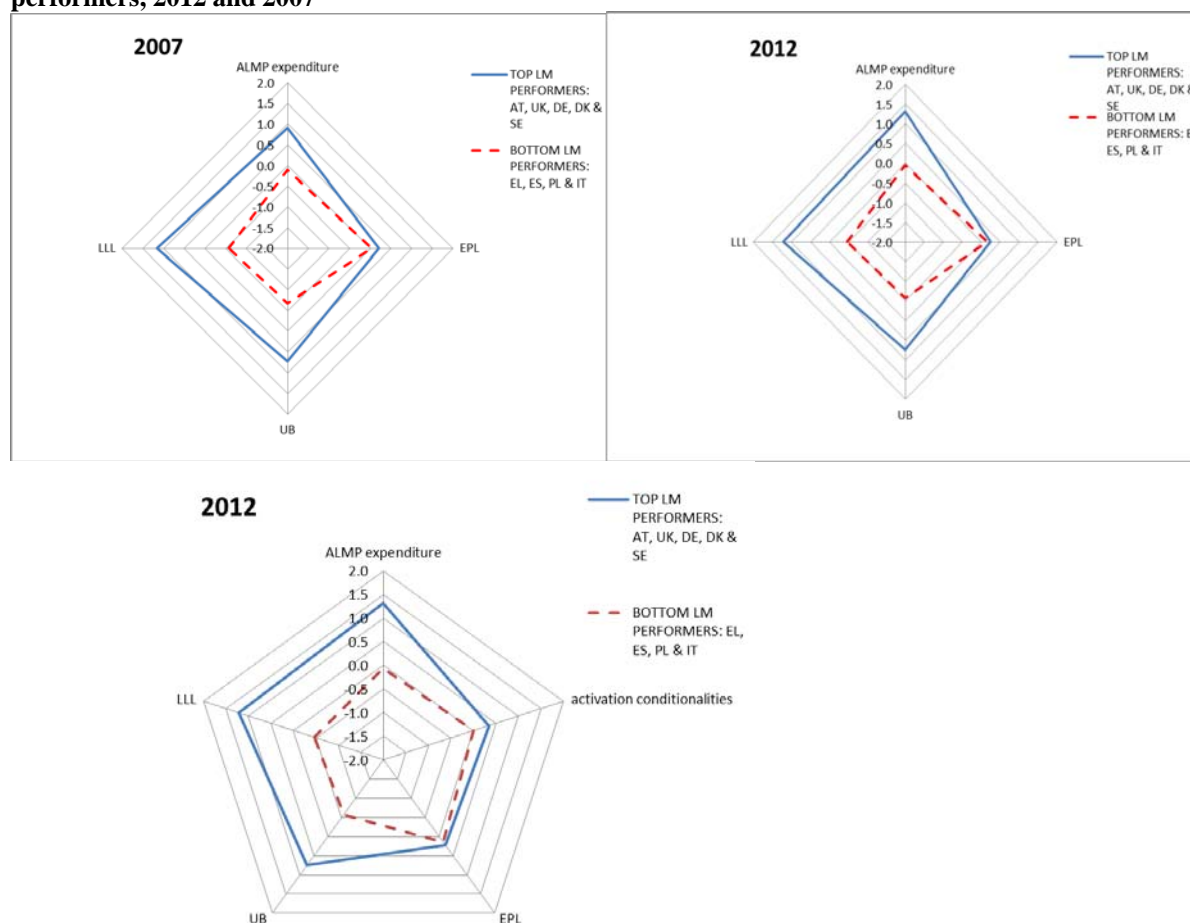
During the recession, statutory national minimum wages increased in nominal terms in almost all Member States (Chart 11) with only Greece lowering its national statutory wage. However, despite these nominal increases, in many Member States the minimum wages did not keep up with average wage levels (Chart 12).

#### 4.6. The institutional balance to recover and benefit from growth: flexibility, activation and support to prevent and tackle long-term unemployment

Resilience can be measured in terms of the capacity to resist and recover from the impact of a shock. This is, however, a particularly challenging policy given that an effective triangular relationship between employment protection measures, labour market activation measures, and systems of social support is difficult to achieve at the best of times.

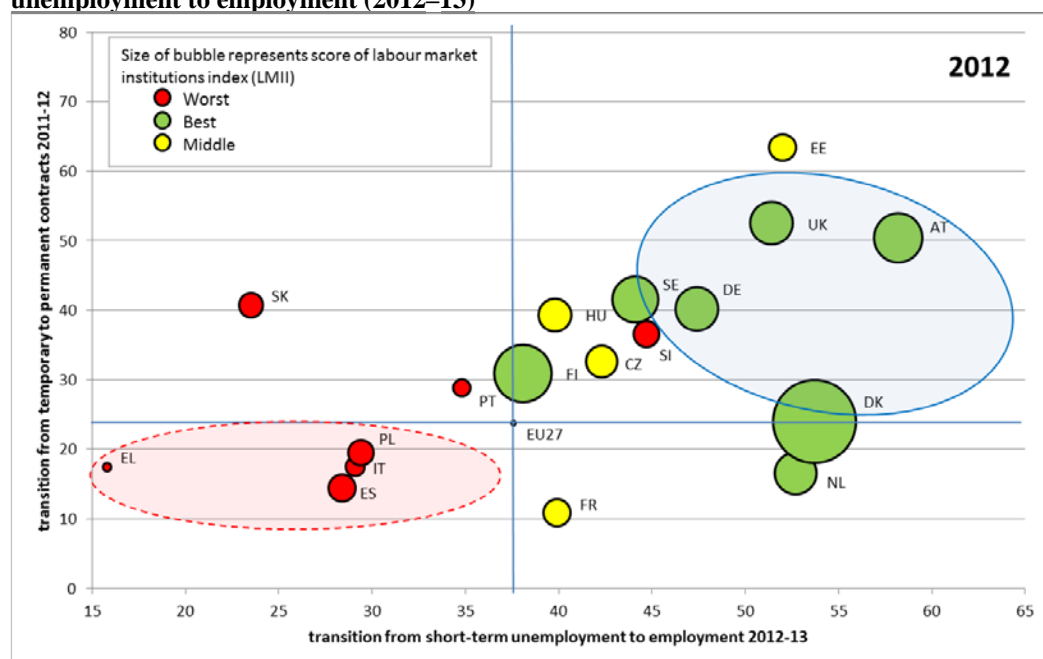


**Chart 13 – Labour market institutions index (LMII), average for the top and bottom labour market performers, 2012 and 2007**



Source: ALMP and UB spending data from Eurostat LMP database, Lifelong learning data from Eurostat (trng\_lfs\_02), data on opinions of managers (part of LLL component) is from IMD WCY executive survey and IMD World Competitiveness Yearbook 2012, eligibility requirements and job-search conditionalities for unemployment benefits are from Venn (2012) and EPL index is from the OECD database. Note: The top and bottom LM performers are ranked according to their transitions from temporary to permanent contracts and exits from STU to employment with only large countries used in both groups. The labour market institutions index is a composite Z-score index of EPL (permanent contracts and gap between permanent and temporary contracts v3), ALMP (expenditure in % of GDP and activation/job search conditionalities), lifelong learning (participation rates of total population and opinions of managers about skills from IMD WCY executive survey) and unemployment benefits (expenditure per person wanting to work in PPS, eligibility criteria and coverage). 2008 EPL values were used for 2007 due to availability of data. The EPL values were all turned into negative values so that the lowest EPL gap and lowest EPL value for permanent contracts had the highest Z-score. The eligibility requirements (part of UB indicator) and job-search conditionalities for unemployment benefits have only 2012 data available in both years. The UB spending for 2012 uses 2011 values, except for EL and UK for whom 2010 values are used. The mean value in 2012 for each indicator is that of the 2007 scores in order to be able to compare the 2012 scores with those of 2007. For 2012 ALMP expenditure 2011 values used for CY, ES, IE, LU, MT and PL, and 2010 values used for EL and UK. For EPL in 2007 for EE, LU and SI, 2008 values were used.

**Chart 14 — Transitions from temporary to permanent contracts (2011–12) and from short-term unemployment to employment (2012–13)**



*Source:* Transitions from temporary to permanent contracts from Eurostat, EU-SILC.; transitions from short-term unemployment to employment from Eurostat, EU-LFS, ad-hoc transition calculations based on longitudinal data. *Note:* Blue line marks the EU average. 2010–11 values used for CY, HR, HU, MT, PL, PT, RO, SE and SK for transitions from temporary to permanent contracts and 2010–11 value used for NL short-term unemployment to employment transition. EU-27 average for transitions from temporary to permanent from EU-SILC and for exits out of STU calculated arithmetic average.

Chart 13 and 84 use an index that is a sum of the characteristics of each Member State in terms of EPL, activation measures (ALMPs and activation conditionalities), support measures (unemployment benefits) and lifelong learning. Its purpose is to provide us with an aggregate of the performance of each Member State in terms of all of their labour market institutions.

The two charts illustrate that in terms of transitions out of short-term unemployment and transitions from temporary to permanent contracts, the countries with the highest investment in activation and support measures were those that fared the crisis better. Moreover, the countries with the highest ALMP and unemployment benefit expenditure, which have strong job-search requirements as part of their unemployment benefits, with high coverage and relatively low eligibility criteria, as well as high levels of participation in lifelong learning, also have the best labour market performance <sup>(6)</sup>. The conclusions and results hold even when taking 2009–13 averages for the transitions. Taking the average of the transitions from the 2005–08 period and comparing it with the labour market institutions index for 2007 there is also a clear positive link between better transitions and better labour market institutions.

During the crisis, countries with the lowest performance, significantly reduced the strictness of their EPL, but did not improve on the other dimensions that appear to have a higher relevance (Chart 13). ALMP spending declined a little in bottom performers over the crisis, while it increased in top performers.

<sup>(6)</sup> *Note:* Estonia is not included in the average of the top-performing countries despite its positive labour market performance because only larger Member States were taken into account in order to try and balance with the size of the bottom performers. Nevertheless, its inclusion does not substantially alter the shape of the curve or relative relationship between the curve of the top and bottom performers.

Countries which combined a less strict EPL with higher levels of activation measures and support managed to limit the impact of the recession on their labour market. There are also signs that countries which chose to improve the balance between labour market institutions during the recession are beginning to feel the benefits on their labour market performance.

On the other hand, we find support for previous findings noting that the idea of flexicurity was not always followed (European Commission, 2012f). For example, in several Member States where EPL decreased, the adequacy of unemployment benefits and ALMP expenditure per person wanting to work did not proportionately increase during the crisis.

The social partners, through bipartite dialogue or tripartite relations with public authorities, often are central actors in the design, acceptance and successful implementation of these policies. However, their role differs widely between Member States and domains, in accordance with the particular national industrial relations systems and traditions.

Finally, the analysis of the impact of changes in welfare systems on the labour market during the crisis and their interplay with many labour market institutions (Section **Error! Reference source not found.**) highlights the need for a more integrated policy approach in order to address new challenges and work towards the goals of a job-rich and inclusive growth. Establishing the right balance between the different functions of the welfare systems, and between benefit systems and labour market institutions, is crucial.

## 5. CONCLUSIONS

This chapter has taken stock of the impact of the recession on people and institutions, analysed the role of social protection systems and labour market institutions in explaining the various levels of resilience to the crisis, and assessed how well policy changes since 2008 are likely to help the EU to promote a job-rich and inclusive growth as well as being better prepared in the future.

We find that Member States have shown different levels of resilience to the economic shock experienced across the EU. While employment levels have declined and unemployment increased in most countries, some have managed to limit the worst effects, because of their initial position and/or the policies implemented in reaction to the crisis.

The design of different labour market institutions contributed to mitigate or exacerbate the impact of economic shocks on employment. The effectiveness of automatic stabilisers in sustaining incomes of those directly affected and in stabilising the economy depends on the extent to which they provide longer term support in the case of a prolonged period of weak labour demand, while not creating disincentives to work. At the same time, using the opportunity of the recession to invest in skills and ensure that they are properly used can be crucial in helping maintain an adaptable and productive workforce and speeding recovery.

In terms of the short- and long-term impacts of the recession, the following points stand out:

- The recession generated large increases in the number of unemployed, especially among some specific groups (youth, low-skilled) and long-term unemployment rose in nearly all countries, and doubled overall. The recession also impacted negatively on job quality, notably due to increasing involuntary part-time and temporary employment.
- The large variation across countries in the ability to prevent long-term unemployment (as measured by exit rates out of short-term unemployment) reflects differences both in the severity of economic conditions and in the policies implemented. Supporting the unemployed through activation, (re)training services, quality of the public employment services, and well-designed income support contributed to a faster recovery.
- Activity rates continued to increase during the recession, with fewer people leaving the labour market than might have been expected on past experience of periods of high unemployment. This contrasts quite significantly with experiences in previous recessions. It is seen to be driven by the structural rise in participation of women and older workers, supported by policy measures that have not been reversed during the recession.
- Employment rates of young people entering the labour market are currently below pre-recession levels in most countries. This is of particular concern given the known negative consequences of facing unemployment early in a career, although highly educated young people are relatively well protected against such scarring effects.
- Many young people entered or stayed in education, especially in Member States where participation had previously been low and where youth unemployment is currently high. However, the extent to which this will improve their future employment and

earnings opportunities will depend on the quality of education, which may be undermined by recent cuts in expenditure.

- Future employment growth will need to be widely shared if it is to contribute to reducing inequalities and preventing long-term exclusion. In the face of declining job opportunities, people have developed multiple strategies for finding work, going beyond the use of public employment services, such as mobilising family ties and social networks, as well as adjusting their quantity of work (part-time, on call, informal work, etc.).
- Unemployment and economic hardship has led many households to drastically adjust their expenditure and draw on savings, with many moving into debt. The weakening of social ties or the increased reliance on informal support may undermine integration in society and the labour market. Moreover, the rise of social exclusion has a very negative impact on public trust in institutions and governments, contributing to the political uncertainty that already undermines the effectiveness of policy action.

In relating the pre-crisis situation of labour market institutions and patterns of social expenditure to the post-crisis outcomes, as well as to the policy changes by Member States since 2008, the following lessons can be drawn:

- The development of social expenditure has proved to be an important factor in explaining the resilience of some Member States during the recession. Social protection expenditure increased in the first phase of the crisis, absorbing part of the shock in most Member States, thanks to 'automatic' stabilisation and to ad-hoc discretionary measures. However, as the recession has persisted, social expenditure has started to be cut back.
- The design and operational characteristics of welfare systems and labour market institutions help explain differing degrees of resilience to economic shocks across Member States. The transmission of economic shocks to employment and income was smaller in those with a lower share of temporary contracts, a greater availability and use of short-time working arrangements, a stronger investment in labour market activation measures and lifelong learning, as well as widely available unemployment benefits linked to activation, and responsive to the economic cycle.
- The relationship between employment protection legislation (EPL), labour market activation policies and income support changed somewhat during the recession. The loosening of EPL has not been so far a strong predictor of transitions out of unemployment or of general labour market performance, signalling that the effects of EPL reforms during periods of low labour demand may have limited impacts and that they may require longer than the short- and medium-term to have an effect.
- The analysis highlighted that EPL alone cannot explain labour market outcomes but is just one of several labour market institutions whose reform may need to be utilised to combat unemployment and a dual labour market. Countries displaying the best returns to employment from short-term unemployment and transitions from temporary to permanent contracts in 2012 were those that had the most developed and balance set of labour market institutions. The best performers combined significantly higher spending in ALMP, stronger activation conditionality, higher participation in lifelong learning and higher coverage and adequacy of unemployment benefits than the countries with the lowest labour market performance. During the crisis, countries with

the lowest performance reduced the strictness of their employment protection legislation, but they did not improve the other labour market institutions.

- Short-time working schemes accompanied by partial unemployment benefits were extensively used during the early phase of the recession and were successful in maintaining employment and containing unemployment.
- Investments in lifelong learning can play a crucial role in both supporting a recovery and ensuring long-run competitiveness. There is a strong positive relationship between the participation rates of the unemployed in education and training, and their chances to go back to work. Even when controlling for differences in education levels, Member States with the highest levels of participation in lifelong learning and whose employers value and invest in human capital achieve higher levels of competitiveness than those who do not.
- Faced with a prolonged recession and the increase in long-term unemployment most countries did not, or could not, strengthen the automatic stabilisation dimension of their welfare systems, thus undermining the effectiveness of social protection. This argues for increasing the responsiveness of unemployment benefits to the economic cycle, by allowing a temporary increase in the duration of benefits and a relaxation of the eligibility criteria during recessions. Other measures, such as minimum income schemes linked to activation and a more responsive indexation of family benefits and pensions may also support these efforts. In times of growth, the eligibility and duration of unemployment benefits can be readjusted, just as the pressures to increase labour market flexibility may decrease, in order to limit possible employment disincentives and support the financial sustainability of social expenditure.
- The sustainability of social expenditure is influenced by the structure of its financing arrangements. The apparent move away from financing through social security contribution to financing from general taxation may open the way for a more inclusive system, but the design of benefit systems also need to be appropriately adjusted.
- A number of Member States are progressively moving towards a social investment model that supports all those who wish to participate in the labour market by helping them achieve their full employment potential throughout their lifetime. In this respect, for example, expenditure on childcare is supporting the active participation of women in the labour market, with countries starting from low levels benefiting the most.
- The evidence from the complex, and mixed, experience of the Member States during the recession has underlined the importance of ensuring balanced and purposeful reforms of both labour market institutions and welfare systems. It showed that, in contrast to experiences in previous recessions, recent policy reforms in areas such as pensions and childcare have helped prevent a massive withdrawal of older workers and women from the labour markets. It showed the successful complementarity of short-time working arrangements and partial unemployment benefits during the crisis. It also highlighted the important role that social partners can play in the successful design and implementation of such schemes.

Adequate levels of social investment, investment in lifelong learning, a greater responsiveness of social expenditure to the economic cycle, and integrated welfare reforms supported by well-functioning labour markets can contribute to better prepare people and societies to face any future crises, as well as provide the necessary foundations for more productive economies

and societies. In this respect, recent efforts to stimulate labour demand, such as the reduction of the tax wedge and incentives to entrepreneurship, can also serve to strengthen the impact of reforms in pursuit of job-rich and inclusive growth.

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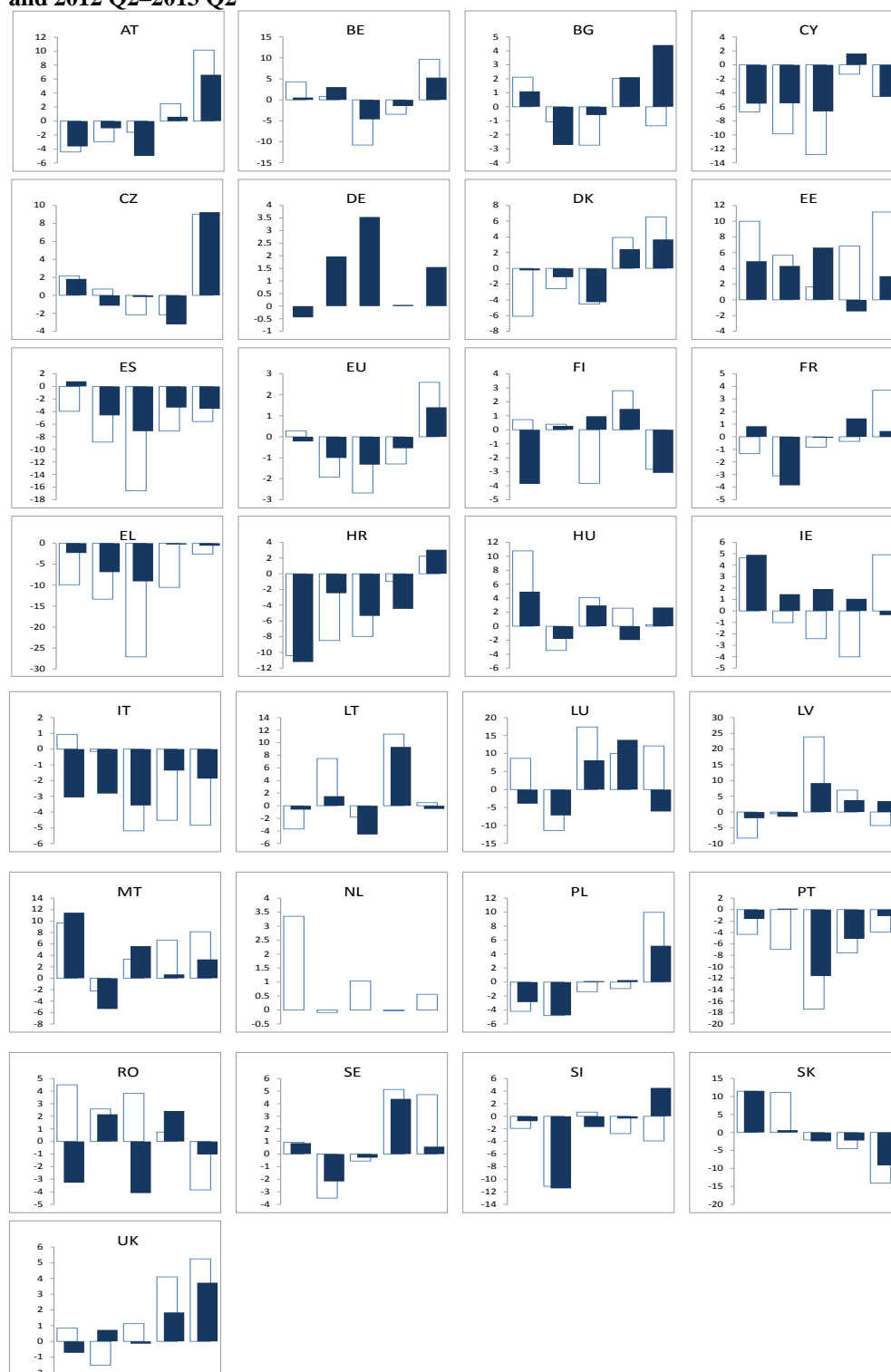
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## ANNEX 1: EMPLOYMENT CHANGE BY JOB-WAGE QUINTILE

**Chart: Employment change (%) by job-wage wage quintile in EU-28 Member States, 2011 Q2–2013 Q2 and 2012 Q2–2013 Q2**



*Notes:* Data missing for Germany for 2011 Q2–2012 Q2 due to classification change. Data for the Netherlands refer to 2011 Q2–2012 Q2. EU aggregate data incorporates data adjustments for Germany and the Netherlands to reflect changed occupational classifications in 2012–2013 and 2011–2012 respectively.

*Source:* Eurostat, EU-LFS, Eurofound's calculations (Eurofound 2014)

## ANNEX 2: REVIEW OF LITERATURE ON SCARRING EFFECTS

### *Impact on future employment outcomes*

According to the review of literature in Eurofound (2012) ‘there is widespread agreement that early labour market experiences can have a long-term scarring effect on labour market performance both in terms of labour force participation and future earnings’. Table 1 includes a few studies illustrating impacts of early-career unemployment spells on future employment opportunities of young people.

**Table 1 — Example of studies on scarring effects on future employment outcomes**

Paper	Country/target group	Main results
Skans (2011)	Teenagers’ first labour market experience and subsequent labour market performance of Swedish youths graduating in the recession years of 1991–94	Significant scarring effects of unemployment spells resulting in higher risks of unemployment up to 5 years later.
Gregg (2001)	Youth in the UK	An extra three months unemployment before age 23 led to another extra two months out of work (inactive or unemployed) between ages 28 and 33.
Cockx and Picchio (2011)	Trajectories of young Belgians after they had remained unemployed for nine months after leaving school	If they remain a further year in unemployment, their probability of finding a job in the following two years falls substantially (from 60 % to 16 % for men and from 47 % to 13 % for women) but the duration of the unemployment spell hardly affects the quality of subsequent employment.
Gregg and Tominey (2005)	UK	It is unemployment spells experienced early in the career that matter, as unemployment experienced after the age of 33 has much less explanatory power for future unemployment probability.

### *Impact on future earnings*

According to Scarpetta et al (2010), most studies find that early youth unemployment has stronger negative effects on incomes than on future risk of unemployment. Many scholars attempted to estimate the so-called ‘wage penalty’ on future earnings (see Table 2).

**Table 2 — Example of studies on scarring effects on future earnings**

Paper	Country/target group	Main results
Gregg (1998)	UK	Workers who fall unemployed tend to work at a lower rate of pay and often suffer a permanent pay reduction. This may stem from the fact that young people who experience unemployment accumulate less work experience which is one the determinant of wages.
Arulampalam (2001)	British men (aged 16–58)	Unemployment carries a wage penalty of about 6 % on re-entry into a job and of about 14 % after three years.
Gregg and Tominey (2005)	UK	There is a wage penalty but that can be reduced if repeated spells of unemployment are avoided — in other words, there can be a strong catch- up effects.

Moreover, for Sweden, Edin and Gustavsson (2008) found strong evidence of a negative relationship between work interruptions and skills levels: a full year of non-employment was associated with a decline in their relative skill position within their age group. There is a link with the recent OECD survey on adult competencies (PIAAC) as this found that people accumulate skills relatively quickly during the early years of their careers (see Chapter 2) and that the level of skills of individuals is strongly correlated to the accumulation of experience and the use of skills (i.e. practice effects independent of education levels).



### *Other impacts*

Beyond the direct impact on the risk of future unemployment or the wage effects, several papers document the impact that early-career unemployment spells can have on other dimensions of well-being.

**Table 3 — Example of studies on scarring effects on other outcomes**

Paper	Main results
Bell and Blanchflower (2011)	Young people's health status, well-being and job satisfaction are impacted negatively through spells of unemployment, although the effects are less serious for 'older young people', i.e. those aged 23 or more.
Cutler et al (2014)	Review of literature documenting that cohorts graduating in bad times have lower wages and poorer health for many years after graduation, compared to those graduating in good times.  Using Eurobarometer data, they confirm that a higher unemployment rate at graduation is associated with lower income, lower life satisfaction, greater obesity, more smoking and drinking later in life.
Brenner (2013)	Drawing on the 2000–10 period in EU countries, the paper examines the relationship between the unemployment rate and Ischemic Heart Disease (IHD) mortality rates and concludes that the unemployment rate has been an important risk factor for IHD mortality since the start of the great recession in the EU.
Giuliano and Spilimbergo (2009)	Macroeconomic conditions (through witnessing increased unemployment) have an effect on the young generation: young people who are aged between 17 and 25 during a recession have less confidence in public institutions and believe that success depends more on luck than on effort.

Finally, there are other societal consequences to unemployment (and inactivity) such as the risk that if independent housing is not affordable for young people, they are likely to remain living with their family and delay founding their own family, thereby worsening demographic trends and prospects (see also Section 2.2 on this point).

*Causes of scarring effects: signalling effects play a role and call for more efforts to provide youths with a first employment experience quickly*

The two main channels of scarring effects of early-career unemployment spells are associated with human capital (i.e. deterioration of skills or foregone work experience) on the one hand, and signalling effects (i.e. spells of unemployment give a signal of low productivity to potential employers) on the other. Other explanatory factors include psychological discouragement or habituation effects, theories of job matching where the unemployed accept poorer quality jobs and social work norms that influence individuals' preferences for work, see Nilsen and Reiso (2011). In the case of young people, the signalling effect for potential future employers seems to be given a rising explanatory power in the literature. For instance, the substantial effects of early-career unemployment identified by Cockx and Picchio (2011) are caused by 'the negative signal that prolonged unemployment conveys to potential recruiters' rather than 'depreciation of human capital'. The authors conclude that "offering employment experience as quickly as possible is more effective" than supply of training.

Doiron and Gørgens (2008), in the case of young Australians with no post-secondary education, point to the fact that the mere fact of being employed matters (and conversely the mere fact of being unemployed has a negative impact). Ignoring these effects can lead to underestimating the impact of labour market policies.

While over-education may also at some point act as a strong negative signal to employers, Baert and Verhaest (2014) provide evidence (based on a field experiment in Belgium with fictitious job applications to real vacancies) of a large stigma effect of unemployment than over-education and argue in favour of fast activation of unemployed youth.

### *Education protects from scarring effects*

In their review of existing studies in European countries, Scarpetta et al (2010) point out that 'the lower the level of initial qualification, the longer the scarring effects are likely to last'. This finding is confirmed by Mosthaf (2014) for Germany and by Dolado et al. (2013) for Spain. This is due to changing labour demand but also to the fact that during the recession different educational groups compete for the same jobs and many jobs requiring low skill levels are taken up by tertiary graduates (Bell and Blanchflower (2011)).

For the UK, Gregg (2001) looked at cumulated experience of unemployment, highlighting how it is concentrated on a minority of the workforce over extended periods. It concludes that "low educational attainment, ability not captured by education, financial deprivation and behavioural problems in childhood raise a person's susceptibility to unemployment".

As the context of unemployment spells may differ greatly, scarring effects vary across (education) groups both in magnitude and by the underlying mechanism. Signalling effects (to potential future employers) may play a greater role for young people without qualifications — while depreciation of human capital as well as foregone work experience could be relatively stronger for tertiary graduates <sup>(7)</sup>.

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<sup>(7)</sup> For instance, Brunner and Kuhn (2009) reports that the labour market conditions at entry have smaller and less persistent effects on the earnings of blue-collar workers than on those of white-collar workers. This differential effect may be explained by the wider wage distribution that can be found among white-collar workers.

### ANNEX 3: COPING STRATEGIES DURING THE RECESSION — QUALITATIVE ANALYSIS

This project, which was launched in July 2013 in DG EMPL, investigates the coping strategies of individuals and households hit by the crisis, and that as a result of this, either lost their job, and therefore their main source of income, or did not manage to find a regular job in the first place. Specifically, it seeks to understand what happens to family and social ties in the course of a job loss; what individuals do to remain active; and, whether individuals' trust towards institutions stays intact.

The project is novel in its approach, as it goes beyond the use of traditional, quantitative methods, which help to describe the economic and social situation of individuals but oftentimes lack the ability to provide insights into the behaviour response of individuals experiencing hardship. Therefore, in order to uncover the coping mechanisms for the impact of the crisis, the project uses qualitative research methods in addition to quantitative research methods.

The main part of this qualitative research forms a study, which consists of over 100 face-to-face interviews, conducted with the help of national experts and the coordination efforts of a high-level expert using a sociological approach in seven EU Member States (DE, EL, ES, FR, IE, PT, and RO). As such, in addition to the novelty lying in the use of a mixed methods approach, the project is also unique to its kind because of its broader coverage, enabling international comparison in times of crisis. The main qualitative research component is then complemented by a focus group study conducted by TNS to enable a deeper insight into coping mechanisms through group discussion, a specific quantitative research component using EU-SILC data to analyse the deprivation profile of households facing a severe economic shock, and a range of EU-wide surveys (Eurobarometer, EQLS, LFS and SHARE) to illustrate trends in different socioeconomic indicators.

Extracts below illustrate different aspects of the trends reported in the core of the chapter:

#### **Extract 1: informal work**

Interviews with people having experienced long-term unemployment show that working in the informal economy is a matter of surviving:

*'Yeah, that's right, if you have no choice, you have no choice... I wasn't even receiving the RSA [earned income supplement], due to an incomprehensible administrative hold-up, I had zero income, I mean zero, ... I was doing computer repairs out of my house, undeclared, and I was doing undeclared odd jobs, like mowing lawns, hanging wallpaper, parqueting floors.'* No 52. FR, M, 45 years

Also show that informal economy puts people into fragile situations. A woman living in Athens explains how she was working in the informal sector and was injured:

*'I'm working without insurance and they're always late in paying me.'* No 21. EL, F, 43 years

*'Last month I had an accident at work..... After 25 days, I'd reached the point where the doctor told me I could walk again, so I returned to work, ... They said, "You better come back to work soon or else we'll find someone else."'* No 21. EL, F, 43 years

#### **Extract 2: Running into debt**

Interviews with people having experienced long-term unemployment illustrate that people hit by economic hardship face difficulties in accessing credit and find low support from banks.

Family and friends are a frequent source of loans. Respondents prefer these informal routes to formalised loan agreements, although such loans are not always emotionally stress free. However,

such solutions remain limited as sometimes friends and family members also experience financial difficulties.

*'Sometimes I have needed to ask a pal for €20 if my money hasn't lasted over the last few days of the month. That's normal, that's okay, even though it's not great.'* (DE)

Loans were taken out for two main reasons: A one-off expense, either unexpected (such as a medical expense) or more predictable (such as a loan to pay one's taxes); and to help cover daily expenses such as paying utility bills or paying for food.

*'I borrow €50 from a friend of mine at the beginning of each month. I use the money to pay the supermarket. I give back the money at the end of the month only to borrow it again at the beginning of the next month. I do not seem able to break from this pattern no matter what.'* (EL, Group 3)

Respondents were generally reluctant to approach banks for loans. Some respondents also mentioned struggling with loans that they had incurred before the crisis. There was some, but limited mention of using overdraft facilities. Banks are also not looked upon favourably as they are seen as part of the cause of the financial crisis.

*'I went to the bank to see whether I could delay payments on my mortgage and they told me I couldn't, I would have to find a way to take out a loan, they didn't make it easy for me.'* (ES, Group 3)

Such situations are often reported to generate stress.

*'When someone lends you money your first reaction is relief, but later it's just one more problem.'* (FR, Group 3)

### **Extract 3: Adjusting consumption**

Interviews with people having experienced long-term unemployment show that people hit by economic hardship first cut expenditure related to holidays and leisure activities, and this is the case whatever the country.

*'We've had no holidays in three or four years, maybe four or five.'*

However, in countries most strongly hit by the crisis, restrictions are going much further. Restrictions in food and clothes expenditure are reported. While in France or Germany, food deprivation is not considered an issue, this is not the case in other Member States, where some cases of food restriction were reported in other Member states.

*'Well, it was quite tough. I mean myself and my wife might not eat for a day or two just to make sure the kids have food, that kind of thing. [...] We've just cut everything back as much as we could. We don't put the lights on until necessary and the same with the heating and all that kind of stuff.'* No 73. IE, M, 47 years

Energy bills are also a leverage to limit expenditures, and many individuals reported restrictions in this areas.

*'I get, when it's really cold, I turn the heat up a little and I immediately turn it off and I wear, woollen jumpers, I wear warm clothes, blankets, and I watch TV. So, I have no problem.'* No 38. ES, F, 53 years

Lastly, keeping a car means a lot to keep employability and efforts are generally being made to keep a car in the household, but its use is also strongly limited.

*'It is a change in a way because they were never things we had to worry about, there were never things like, you know, putting €10 or €5 of petrol in the car. This was something I never did, I just filled it up, you know what I mean. [...] you're conscious of what journey you're going to make. My daughter lives in Bray which is the other side of Dublin, so you're sort of thinking, you decide to go over to see her you've got to pay two tolls and petrol'* No 68. IE, M 51 years

#### **Extract 4 — Pooling resources — family solidarities**

The coping strategies during the great recession project illustrates that, despite the cultural differences in perceiving the role of intra-family financial support, people have sometimes no other choice than relying on family solidarity. Among the seven Member States investigated during the project, support from family was not perceived to a comparable extend in France or Germany compared to southern Europe Member States. The norm of autonomy varies. Nevertheless, even in Member States where cultural norms would tend to strengthen family solidarity, adults relying on their parents report that they do so because they have no other income support. They also clearly say that they are living with their parents because they have no financial means to live independently.

*'I'm only 62 years old, [...] I'm not entitled to anything: neither retirement nor unemployment benefit, not even the Social Integration Income. I am supposed to live off what?! [...] Every morning I have to expect... my mother to give me a euro (that's the truth!) for a coffee. Then, when I'm out of cigarettes, I don't drink the coffee, and I say to my mother... "Mother, I need 2€ to buy something..."'* No 89. PT, F, 62 years

*'They're struggling now themselves because my mam only works three days a week, so she doesn't get much money at all, and my dad's pay got cut as well, recently, so they really have no money to be going out spare; they're struggling themselves.... So, they would really like, they are always at me to get a job but, look, I have been trying my hardest lately and there's nothing coming up for me.'* No 65. IE, Woman, 22 years

#### **Extract 5: impact on health and access to healthcare**

People hit by economic shock and unemployment often report deterioration in their health status.

In addition to increased medical needs related to economic adverse circumstances, many interviewees report difficulties in meeting health-related expenses.

*'I am missing many teeth and I cannot make it. In fact, I have several broken teeth, (...) because doing root canals, that's worth a lot of money that I do not possess. And, for me, man, I understand that the mouth is essential for food and for all that but I still have a few teeth and with those I am still managing.'* No 46. ES, M, 43 years

*'I have cholesterol [...] if I take pills... if I take the pill my wife and daughters end up not eating and no, I'd rather stay without it than... all I have is for them.'* No 44. ES, M, 49 years

This adds up to greater difficulties in accessing healthcare, which might be itself reduced subsequently to cuts in expenditure.

*'There is too much discrimination in the healthcare system. Forget it if you want to go to the dentist. You need a thousand euros for your teeth. If you need an emergency X-ray, you'll wait a month and a half. Even if you have very advanced cancer, without money, you can't get treatment.'* No 17. EL, F, 51 years,

However, there are large national variations in reporting such difficulties. In France and Germany very few interviewees report difficulties in paying for health-related expenses, despite many of them mentioning greater needs linked to their economic distress. In other Member States such as Greece, Spain, Portugal or Romania, the situation is however much more frequent.

#### **Extract 6: Losing trust in institutions.**

Qualitative analysis (see box 1) highlights that, the distrust in institutions expressed by persons unemployed for at least one year ranges from a balanced criticism to an overall rejection.

*'We are paying for things that have nothing to do with us.'* No 75.

Generally speaking, unemployed interviewees are feeling ignored by their representatives. They also share the feeling that they pay disproportionately for economic recovery. Europe is especially seen as a major player in this feeling, together with banks and firms:

*'I think an awful lot went wrong with this country when the government decided that they needed to look good in Europe rather than look good to their own population I suppose.'* No 71

Nevertheless, public services continue to be seen as a tool towards better lives. Cuts in public expenditure severely affect their lives.

*'We don't trust the politicians anymore, because they have been a total disappointment. We can't believe a thing they say anymore. [...] There is also this downgrading of education by the government and it forces us to dig our hands into our pockets to pay for extra classes, you know, but meanwhile we pay our taxes and are supposed to have an education system, but this current downgrading of education is very disappointing... The State has even become our predator.'* No 34. EL, M., 55 years

In some countries strongly affected by the great recession, however, the feeling of distrust toward institutions is much more pronounced —sometimes even violent, and embeds all types of institutions.

*'I've stopped watching the news. ... I've stopped worrying about politics. It just tells me that it's every man for himself in life. Let everyone tend their own garden, that's how it is, and I've put on blinkers and just say keep on going forward because I have a child to raise.'* No 21, F, EL

*'My country simply died. My country, if it continues to be ruled by these people, by the idea of the people who are now governing, my country will die soon.'* No 93, PT

#### **Extract 7 — Losing trust in the public employment services.**

Interviews with people having experienced long-term unemployment show that trust in public employment service is varying across Member States. There is a general feeling ranging from mistrust to defiance.

*'I get very down. There's days I'll just be sick of it.[...] I've sent out about 500 or 600 CVs [...] I got a few interviews, but you go to the interviews and it's just like I've done interview techniques so it's not a case of I don't know what I'm doing when I'm in there, it's just the case that you go for the job [...] and then they tell you and then OK and then it's the whole jumping through hoops that just gets you really down.'* No 72. IE, M, 38 years

#### **ANNEX 4: RESCuE project — Patterns of Resilience during Socioeconomic Crises among Households in Europe**

As a complement to the qualitative study above, the RESCuE project was launched by DG RTD in April 2014 under the Seventh Framework Programme (FP7-SSH).

This project has set out to explore the coping strategies of those affected by the crisis at household level. Some parts of the vulnerable population, although experiencing the same living conditions as others, are developing resilience, which means that they demonstrate social, economic and cultural practices and habits which protect them from suffering and harm, and support sustainable patterns of coping and adaptation.

This resilience can consist of identity patterns, knowledge, family or community relations, and cultural and social as well as economic practices, whether formal or informal. Welfare states, labour markets and economic policies form the 'environment' of those resilience patterns.

The RESCuE project's main questions are directed at understanding the patterns and dimensions of resilience at household level in different types and variations of European Member and neighbouring States. The project accounts for regional varieties, relevant internal and external conditions and resources as well as influences on these patterns by social, economic or labour market policy as well as legal regulations.

RESCuE has been producing national state-of-the-art reports and will deliver a synthesised, comparative international report in due course (WP 2). The period of extensive field work, consisting mainly of qualitative interviews with households exposed to the effects of the crisis in various states, is also coming to an end soon (WP3). A key mid-term deliverable will be a comparative typology of socioeconomic resilience practices of households in Europe.