



THE NEW DEPRESSION IS SHOWING THAT EUROPEAN WORKERS ARE FLEXIBLE BUT NOT SECURE

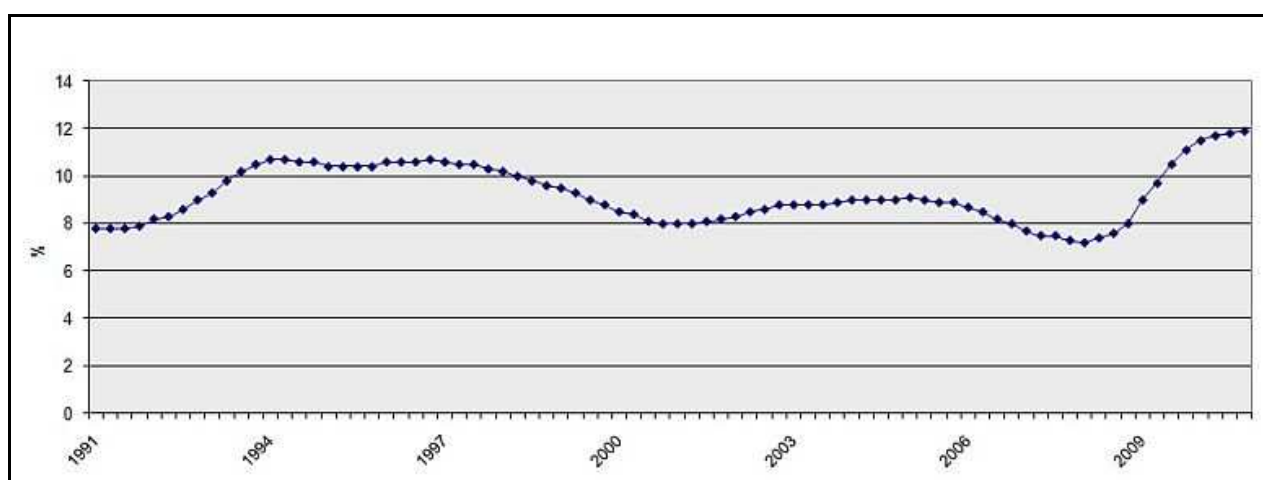
Discussion note 2009/1 for the Economic and Employment Committee

Until recently, institutions like the Organisation for Economic Development and Co-operation (OECD), the European Central Bank (ECB) and the European Commission have been systematically telling the story that jobs are overprotected in Europe. To improve economic performance, workers would need to give up on job protection in exchange for policies making the worker secure by improving 'employability'.

The unfolding depression and the devastating impact it is having on jobs and unemployment denounces this claim to be a myth. Unemployment in Europe is rising and it is rising extremely fast. The latest available forecast¹ estimates that unemployment in the euro area is rapidly shooting up from 7.5% in 2008 to 10% in 2009 and even 12% in 2010. This trend is hardly compatible with the view of labour markets being 'rigid': If it is that difficult and that costly for employers to fire their work force, then employment would be much more resilient against the economic downturn and unemployment would not be rising as rapidly as it is now doing.

The graph below provides a historic perspective. Unemployment is rising much more rapidly compared to previous downturns. In the beginning of the nineties for example, unemployment was rising at a rate of 1 percent every 4 to 5 quarters. Unemployment is now expected to rise three times as fast! Euro area unemployment would rise from 7.2% in the first quarter of 2008 to 12% in the 4th quarter of 2010². Labour markets in Europe, in the Euro Area in particular, have become much more flexible.

Europe is flexible: Unemployment rising sharply (%)



Source: OECD, 1991–2009

¹ OECD Interim Forecast March 2009

² *Ibidem*

Increased flexibility should not come as a surprise. After all, structural reforms to open the backdoor on regular job protection have been going on for many years. As a result, the share of fixed term contracts has been continuously rising and has reached around 14% in Germany, Italy, France and even makes up for a third of all employees in Spain. With high numbers of fixed term contracts that high, business in Europe already has the 'easy firing' they are so keen on.

If labour markets in Europe have become much more flexible, have they also become more 'secure' for workers? The answer is 'no'. Weakening of job protection in Europe has gone hand in hand with a downgrading of unemployment benefit systems. Inspired by the slogan of 'making work pay', many member states have reduced benefit levels and benefit duration while also making it more difficult to access unemployment benefit systems³. Weakened job protection has also caused business investment in workers' training to fall: Business is much less interested to invest in the human capital of a work force they know they can get rid of quite easily.

The agenda of 'business welfare' that has been pursued in Europe over many years has gone much too far and needs urgent rebalancing. To provide workers with some real security in the midst of the worst economic crisis since World War II, unemployment benefit systems need to be brought up back to strength while job protection of a - typical contracts workers need to beefing up so that the all too common business practice of abusing these contracts can be addressed.

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³ An overview of this can be found in *Chronique Internationale* de l'IRES.