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The social effects of the current economic crisis on the European Union labour market

Ionel BOSTAN[1], Veronica GROSU[2]

Abstract

In order to raise awareness about the importance and topicality of this issue, one must analyze the dimension and proliferation of economic inequality on a global level, given the fact that the data and the classifications provided by social sciences do not mirror the actual situation, as they do not succeed in interpreting the difficulties many families are currently facing, either directly or indirectly, during the present economic crisis. On a global scale, the building up of wealth and inequality in the distribution of income is a growing phenomenon, highly visible in developed countries and in world macro-regional relations. The current economic crisis is the driving force of this process, constantly increasing in speed and intensity and equally deepened by the imbalances that have caused a decrease in consumption. This paper will address the social impact of unemployment in the main European Union member states and Romania, often in contrast with the United States, the origin of the present crisis. It will focus on the agents that have helped control the damages in European countries, often more effectively than in the US, as well as the instruments used to control the social effects of the economic crisis, given the surprising interest of economists in protecting the "labour force" and not the "place of employment". Therefore, the effects of the present economic crisis have become a challenge that social Europe cannot afford to overlook if it wants to encourage "sustainable development", as stated in the 2020 strategic plan.

Keywords: labour market; social effects; economic crisis; the EU; sustainable development.

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Introduction

Unemployment is one of the most significant economic and social issues that have drawn the attention of social sciences researchers in the past three centuries, both during crises and in economic prosperity periods. Ever since the 1700's, the economic and social transformations have been accompanied by a general state of discontent and have thus triggered the interest of social sciences on the economic, social and psychological consequences of the state of unemployment. The further analyses on unemployment and social constraints faced after the 1929 crisis have raised social awareness about the causes and negative effects of unemployment in the 20th century and have thus triggered the development of a new theory used in the interpretation of the phenomenon and in the establishment of welfare policies. The theoretical reference system used in the analysis of the occupancy rate or of unemployment is mainly based on economic and psychological factors and has been constantly developed through the analysis of the economic-productive phenomena that cause unemployment and of the psychological state of people who found themselves unemployed. The macro-economic theory often attributes unemployment to certain imbalances in the general economic environment and thus focuses on the volume of unemployment as a parameter of the economic situation that helps researchers assess the growth of this phenomenon – present in most advanced capitalist countries – based on the variations of this volume and the correlations between economic variables (price/quantity). The values that best described the evolution of the labour market in 2008, the year when the current economic crisis started, with difficult to assess consequences on the labour market, are based on a macroeconomic background that has shifted throughout this year and has constantly worsened. Therefore, the economic circumstances have significantly changed during that year (Saraceno, 2009).

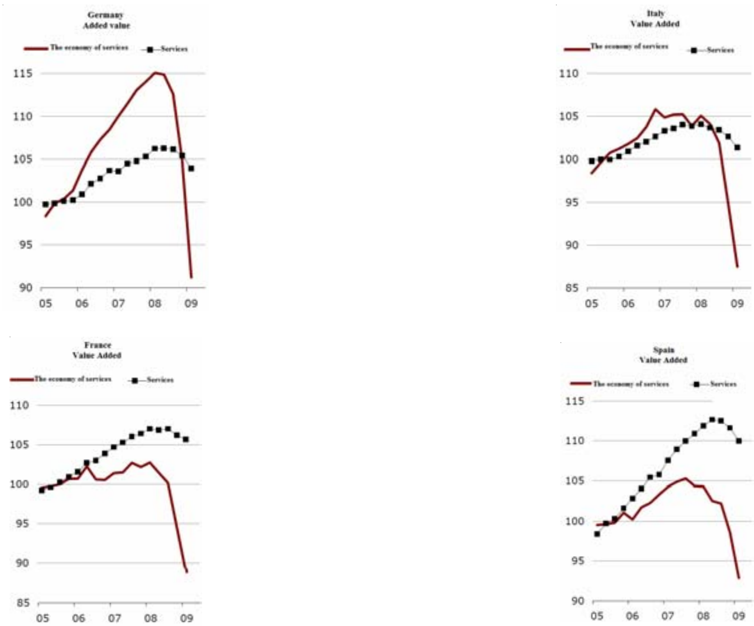
This paper focuses on the social effects of the present economic crisis, as well as on the tendencies that have surfaced during the last months of 2008 and the beginning of 2009 and their consequences on the labour market. Given the fact that the economic environment is rapidly changing and most of the effects on the labour market remain unknown, the purpose of the paper does not include only a brief account of the global economic and social situation based on available empirical studies, but rather aims at providing a general view on the particular aspects of the crisis, according to the rapid change of the present circumstances, an analysis that may prove useful in interpreting the future tendencies. The relationship between the economic cycle and the demand for labour force is not immediate, as it is based on various factors related to institutional aspects, coverage of the crisis, length and intensity of the recession period as well as the reaction of the economic policies to the reversal of the cycle (Anastasia, Mancini, Trivellato, 2009). The negative effects of unemployment on the social, cultural and institutional environment are the main concern of economists today, given the various characteristics of this phenomenon and the increased interdependency between different states. Therefore, economists have joined forces with sociologists, psychologists and statistics specialists in order to create an interdisciplinary approach that would cover several social and institutional phenomena that best describe the labour force market (Fois, La Spina, Pacifico, 2008).

The general background of the current economic crisis

The current economic crisis is the result of an international evolution and it is highly recommended to underline a comparison between the major global tendencies. Ever since the incipient stage of the crisis, different countries have manifested significant behaviour analogies, as a result of a similar reaction of companies in response to common distress. For instance, our country has undergone a crisis mainly triggered by the shifts in the international environment, as well as by the fact that it was one of the countries that has witnessed one of the most severe cut-backs of the GDP. It was also obvious that the recession of the global economy overlapped the declining conditions in our country. The reaction of the European labour market to the crisis wasn't very dramatic at first, as the consequences of the recession on the labour market have been considerably more serious in the United States than in Europe where Spain has recorded the highest losses.

The first stage of the crisis mainly caused a decrease in productivity. The unemployment rate differs among countries, with considerable peaks in Spain as compared to the rates recorded in other Euro zone economies. The labour market in this particular area has had a very quick and intense reaction to the recent episode of severe recession, recording a decrease in the occupancy rate of 2,6% in the second trimester of 2008 (its maximum level) and the 4th trimester of 2009 (when the occupancy rate decreased) as a result of a dramatic diminution of economic activities. The end of 2009 has recorded levels similar to those reached in the second half of 2006 and thus erased two years of increased occupancy rate. The decrease has been very severe in the industry sector, particularly in the constructions sector.

Fig. 1. Added value reached in the economy of services in Germany, Italy, France and Spain



Source: CNEL, Consiglio Nazionale dell'Economia e del Lavoro (2010)

Countries also differ significantly in terms of occupancy, number of working hours and salaries, as well as from the viewpoint of the economic policies implemented in order to deal with the crisis. The first graph depicts the evolution of the labour market in the Euro zone, for the 2006-2009 periods, and is based on the data recorded by national accounting. The increase in employment opportunities has been recorded for several years, starting with the half of this decade and displaying a decreasing slope in 2008 (the rate of economic growth has dropped from 1,5% in the first trimester to 0,2% in the fourth trimester). This decrease was recorded at a pace of roughly 2,2% in the second half of 2009 and has slowed down in the first trimester of 2010. A wide range of factors may account for the heterogeneous nature of the labour market of the Euro zone during the current recession. The various responses may partly underline the difference between sector structures and the major exposure certain economies have had to the significant shocks that have shaken some sectors in the present economic-financial crisis. The various dynamics may also be related to certain aspects of the labour market, such as working arrangements for a definite or an indefinite period. An extremely important role is played by the financial position of economic entities and their ability to face the impact of a dramatic decrease in production. Moreover, the lack of workforce before the recession may have encouraged companies to intensify the labouring process (maintaining unused workforce) as a consequence of the concerns related to the demands of the local of highly specialized labour market. Another important factor is the interaction between the institutional characteristics and the distinct policies of each country, as well as the willingness of union leaders to embrace flexible mechanisms in establishing and/or decreasing the salaries and thus competing in the diminishing of the most serious effects of the recession on the workforce (Leombruni, Villosio, 2005).

The evolution of the international crisis and its social impact

The financial crisis that was triggered in September 2008 caused a breach in the activity of international economic entities, even if the world economy had been signalling weaknesses for a few trimesters, after two years of expansion. The international cycle actually reaches its climax in the second half of 2007, long before the crash of the financial markets from the last few months of 2008. A possible reason for the reversal of the economic cycle may be twofold: on the one hand, the financial sector had first signalled the crisis, following the tensions from the inter-banking credit market in the summer of 2007 and, on the other hand, the raising prices on the commodities market, especially for food and energy, followed by the accelerated international inflation that occurred at the beginning of 2008. Therefore, one can safely assume that the international economy has “met” the recession, already weakened after a period that has lasted for over one year when minor credit access opportunities have been noticed while the global demand was experiencing a rise in the price of raw materials (Bergonzini, Del Boca, Rota, 2007). The price changed mainly aimed at quantifying the losses of financial institutions since the second half of 2007.

This loss has been permanently assessed throughout 2008 and the information gathered has helped solve the inherent problems of this class of assets, currently known as toxic assets. In this context, all the prerequisites of a long and difficult phase to undertake before being granted private sector loans were already set since 2007 in order to support the proper functioning of the credit market. The deterioration of the basic state of affairs in international economies has triggered the debates about the sustainability of global imbalances, particularly contrasted with the high indebtedness of American families and the surplus of other countries, such as China and Japan and the main oil providing economies. Apart from the evolution described above, one can determine a break-off point, when events precipitated starting with the second half of September when, following the bankruptcy of the Lehman Brothers commercial bank, the crisis accelerated in just a few weeks. The bankruptcy of the Lehman Brothers bank was followed by a general reconsideration of the risk rate for securities holders, both by private companies and also several states. The collapse of the stock markets at the end of 2008 also played an important part, as indicator of the serious nature of the crisis, at least judging by the effect it had on financial markets. The collapse of the stock markets also had an important media effect as it helped diffuse the phenomenon in a very short while to all economic entities.

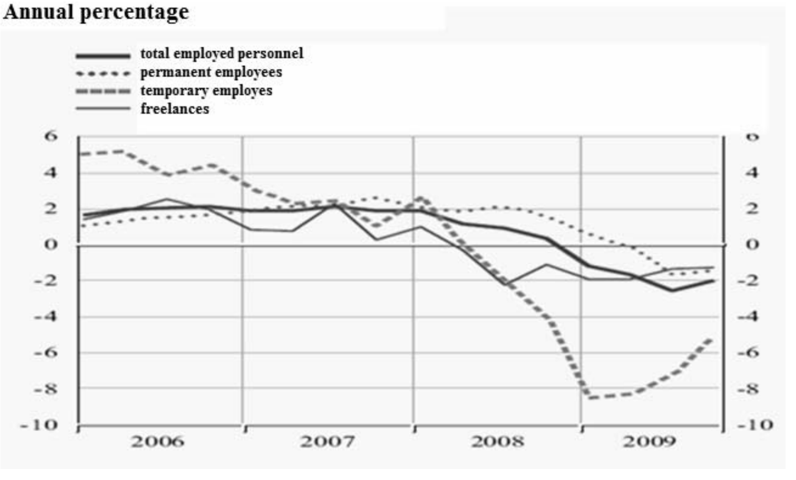
The seriousness of the crisis was immediately perceived by economic agents, as a follow up of the events developing on the financial markets. Therefore, it was only natural for the confidence of companies and consumers alike to shatter at the end on 2008. The constant reaction of companies to the uncertainty induced by the information about the crisis quickly triggered the decisions to postpone investment plans and to minimise the quantities produced in order to reduce the stock available in warehouses. At the same time, consumers have reconsidered their decisions for long term purchases and thus sales have considerably dropped towards the end of the year. Production gradually decreased in a few months, highly visible in all major countries and thus, the present crisis can safely be described as the most severe of its kind after the Second World War. If the monetary policy cannot efficiently handle the situation, fiscal policies must be used appropriately in order to counteract the decrease of aggregated demand. Many countries announced the new measures to stimulate the economy by means of fiscal policies in the months that followed the beginning of the crisis. The extent of the fiscal policies announced differ from one country to another, significantly more assertive in the US and China where the dimension of the "fiscal packages" accounted for 2% of the GDP per year. Significant values, of approximately 1,5% of the GDP, were announced by Germany, Japan and Great Britain. The value of these measures amounted to zero in Italy.

The first social effects of the economic crisis on the labour market of the Euro zone

The undermining effects of the crisis on the production levels have been obvious, but difficult to assess, in the evolution of the job applications. A first glance reveals that, in the first half of 2008, the European labour market hasn't recorded significant losses in job vacancies (Galgòczi, Leschke, Watt, 2009). The constant demand for workforce in 2008 is obvious if we contrast it with the disappointing results (in terms of growth), and does not necessarily describe the situation in our country, as similar events have been recorded in Italy, France and Germany. On the contrary, the cycle of workforce demand immediately reversed in Spain, with severe cutbacks in the number of job vacancies. Apart from Spain, where the phenomenon escalated, the reduction in job vacancies has been less drastic at the end of 2008 and the first months of 2009. In the fourth trimester of 2008, Italy has recorded a slight decrease in the number of job vacancies (-0,5% as compared to the previous trimester), while the GDP diminished by more than 2% during the same trimester. The decline was less severe at the beginning of

2009 (-0,8%), as compared to the GDP that decreased by 2,5%. The number of employees in the entire Euro zone dropped in the 4th trimester of 2008, from -0,3% to -0,8% at the beginning of 2009. The occupancy level was maintained in France and Germany while the number of employees in Spain decreased from -1,6% in the 4th trimester of 2008 to -3,5% in the 1st trimester of 2009.

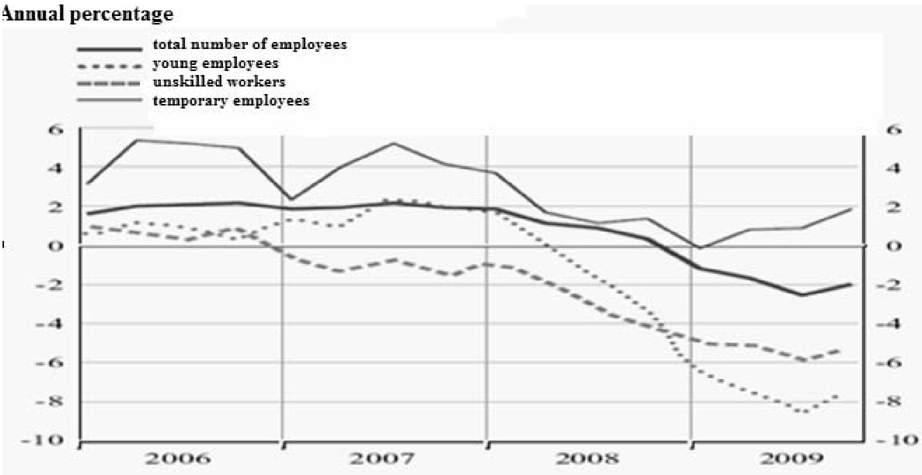
Fig. 2. The dynamics of the occupancy level in the Euro zone



Source: Eurostat, developed by BCE (2010)

Therefore, we can notice a constant number of vacancies on the European labour market in the first stage of the crisis. This particular situation is consistent with the evolution of the European labour market, as opposed to the US market where the job loss was noticeable ever since the first months of 2008, with much higher values. The occupancy degree in the Euro zone in the first trimester of 2010 was approximately 2,6% lower than the level recorded in the second trimester of 2008. Several countries, among which Germany, have recorded low variations in the number of employees, despite a severe fall of the GDP, while other countries, such as Spain, have had very different cutbacks as opposed to the corresponding GDP decrease. The decline recorded on the labour market after the economic recession episode has been evenly distributed, not only among different sectors, but also among the different categories of employees. The effects of the recession on the different sectors of the labour market (in terms of age, contract obligations or competencies) clearly depend on the structure of the activity and on the exposure these sectors have had to the negative circumstances created by the economic/financial crisis. At the same time, the structure of the market and particularly the role of contracts signed for an indefinite period of time may very well explain the different reactions of the labour market and the slowing down of activities in the Euro zone.

Fig. 3. The evolution of the occupancy degree for certain categories of employees of the Euro zone



Source: Eurostat, developed by BCE (2010)

Note: *Unskilled workers are represented by those who have acquired at least one secondary education degree*

Employees hired for a definite period nu not benefit from the coverage offered by "permanent" contracts, for an indefinite period of time, and are thus affected unequally by the adjustments in the occupancy degree in the Euro zone. This type of contracts increased constantly before the crisis, reaching a 17% of the total by the half of 2007. The increase in the number of this type of contracts, as well as other non-permanent employment opportunities, such as autonomous activities developed by freelancers, has significantly contributed to the increasing number of job vacancies in the Euro zone before the beginning of the crisis. The impact of these employment types differed in each country: definite contracts accounted for merely 5% of the total in Slovakia and for almost a quarter in Spain. The effects of the turbulences recorded on the financial markets have become visible in the Euro zone economies and companies could react rapidly to most uncertainties related to the future production demand and thus operate changes in the number of employees and the duration of the contracts. The number of employees has decreased significantly between the end of 2007 and the beginning of 2009, particularly in Spain. The recession has brought about adjustments on the labour market by means of information exchange between companies. Important results have been provided by Wage Dynamics Network (a network that brings together researchers from 24 central banks of the EU), as well as by Eurosystema/SEBC that investigates the reactions of companies to the slowing down of economic growth during the crisis. The research, that has been implemented in the summer of 2009 in ten countries (Belgium, the Czech Republic, Estonia, Spain, France, Luxembourg, the Netherlands, Austria and Poland), covers over 5500 companies, 85% of which are in the Euro zone.

The reactions of the companies are consistent with the macroeconomic evidence on the intensity of the crisis. The negative impact of the economic growth slowdown on the investment activity has been declared null by 15% of the total respondents in the Euro zone and strong or very strong by 38% of them. These values are highly heterogeneous among countries: the respondents who have confirmed a strong or very strong impact accounted for 44% of the total in Belgium and 28% of the total in the Netherlands. Companies have been particularly affected by low demand and the difficulties met when recovering their debts from clients (29%), whereas financing problems only accounted for 19%.

Table no. 1 – Cost reduction strategy adopted by Euro zone companies during the crisis

Main strategy	**Percentage values for companies**
Reduction of labour costs	69,9
ADJUSTING THE WORK VOLUME	
Reduction of the number of temporary/other employees	27,5
Reduction of the number of permanent employees	16,6
Reduction of the number of working hours per employee	15,4
ADJUSTING THE SALARY	
Reduction of the flexible salary items	8,6
Reduction of fixed pay	1,5

Source: WND study (2009)

The statistical data collected by WDN before the recession show that in the first five years preceding this study, the salaries have been seldom reduced in most countries of the Euro zone, seen as generally rigid as opposed to reduced salaries. A second look at these data in the context of the current crisis shows the diffuse character of this rigidity. Approximately 2,1% of the companies surveyed in a new study group have recorded a reduction of salaries between the beginning of the crisis and the summer of 2009.

Table no. 2 – The impact of reduction and cessation of salary payments in the Euro zone before the recession

Percentage of companies that have chosen reduction of salary payments			Percentage of companies that have chosen cessation of salary payments		
Summer of 2009			Summer of 2009		
Five years before the crisis	Reductions completed	Reductions in progress	Five years before the crisis	Cessations completed	Cessations in progress
1,3	2,1	3,3	7,6	37,1	43,1

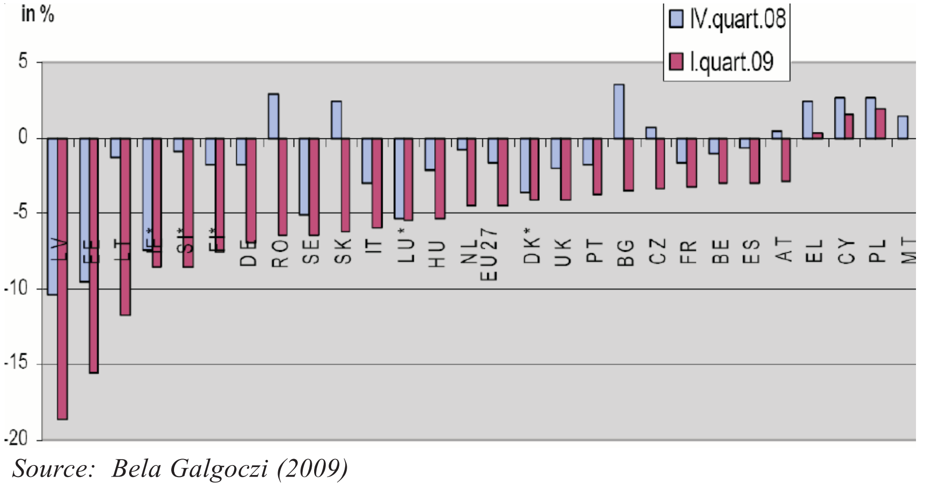
Source: WDN study (2009)

The impact of freezing the salary payments has increased significantly at the beginning of the crisis, escalating from 7,6% in the five years before 2008 to 37% in the summer of 2009. This means that companies have been rigid to the reduction of salaries since the summer of 2009, as many of them would choose to stop payment instead of reducing it, even when the economic growth process had slowed down and the inflation had almost reached a zero level. This empirical study actually emphasizes the importance of institutional factors in channelling the reactions of the companies.

The frailty of Central and East European economies and the social effects of the world economic crisis

Eight of the member states of Central and Eastern Europe, situated outside the Euro zone (PECO), have been seriously shaken by the effects of the international financial crisis. Most countries have recorded a significant contraction of the GDP, whereas Poland has been rather prepared, but the Baltic States that were in recession before the Lehman Brothers bankruptcy have reached very low levels of the GDP (Galgòczi, 2009). Poland was the only state that has recorded positive growth of the GDP in 2009 while in Romania and Bulgaria it was severely reduced. Latvia, Bulgaria and Romania were compelled to demand international financial assistance from the EU and the IMF.

Fig. 4. The GDP in the 4th trimester of 2008 and the 1st trimester of 2009

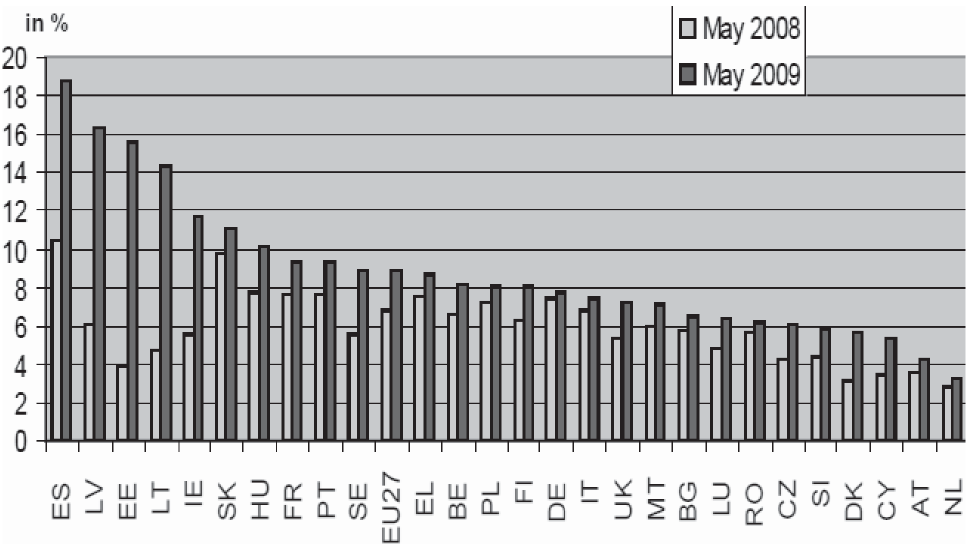


Source: Bela Galgoczi (2009)

The cyclical differences between countries have been observed before the crisis. For instance, the growth of the GDP in Bulgaria, Romania and the Czech Republic in 2008 (maintained in the last trimester, too) became negative in the first trimester of 2009. The labour market has been more flexible in the Baltic

States as companies reacted quickly to the effects of the crisis by reducing salary payments and dismissing employees, particularly in the construction sector that employed a high number of temporary workers. Other countries, such as the Czech Republic, Hungary, Poland and Romania, have maintained a more balanced occupancy structure by means of workforce supply policies, by considering the adjustments brought about by the slowdown of salary dynamics and by reducing the number of working hours in the industry sector, partly due to economic policy initiatives.

Fig. 5. Unemployment rate in central and eastern Europe countries in May of 2008 and 2009



Source: Bela Galgoczi (2009)

The ten states that have adhered to the EU before Romania and Bulgaria account for 21% of the European community population and in 2007 they would account for 7% of the total GDP of the EU. These numbers, along with the opinions of several economists from Western Europe prove that the integration of eastern and central Europe only favoured the economy of poorer states. The countries from this area of Europe have attracted many foreign investors in the past few years, thus replacing the Russian market and ensuring the capital supply that created a dependency on Western economies but, at the same time, the foreign debt of these states, especially in Euro and Swiss francs, has become more general (Galgòczi, 2009). The integration of central and Eastern Europe countries in the EU was a perfect opportunity and has been so for many years, but the present world crisis has created many difficulties for these states. The economic boom with growth rates that former Europe could not have predicted, no longer exists and, after the rapid growth followed by the fall of the iron curtain, the young democracy shaken by the current crisis has fallen into a deep recession. Amid turbulences unfolding on global financial markets, east-European countries have immediately analysed the frailty of their own systems that have made a too hasty transition from centralised to market economies that can no longer be controlled. Unexpected events such as: the devaluation of national currencies to the Euro, the reduction of liquid assets, public deficits that keep accumulating and commercial balances in the red have deeply affected the economic and social context of these countries. The repercussions were soon to appear in the form of social tensions created by the increasing poverty of the population, the fear of losing employment as a consequence of low occupancy rates and thus compelled international institutions (the IMF, the World Bank and the EU) to provide assistance for these frail economies.

The current economic crisis has thus revealed the weaknesses and conflicts faced by eastern and central European governments, forced to pay much higher taxes for the recalculation of credits that finance public deficits. Hungary, Latvia, Slovenia, Bulgaria, as well as Romania, Poland and the Czech Republic (the last one undergoing a better recovery) have been facing significant difficulties, along with countries outside the EU such as: the Ukraine, Moldavia, Belarus and the Baltic states.

The situation has recently benefited from a very useful analysis in Bratislava, at a seminar hosted by PEC (Pan European Council), that reunited many of the unions of Central and East-European countries: Latvia, Lithuania, Estonia, Poland, the Czech Republic, Hungary, Slovenia, Romania and Bulgaria, as well as unions from Russia, Belarus, Moldavia, Serbia, Croatia and Bosnia and Herzegovina, Albania, Montenegro and Kosovo. A very useful and valuable review was that presented by Bèla Galgoczi, senior researcher at the European Trade Institute of Brussels, who focused on the impact of the global economic crisis on Central and East European countries and also underlined the future risks this area will be facing.

These risks will increase the vulnerability of the economies of certain states, as follows:

- the freezing of the capital flows and blockage of the financial markets of Eastern Europe, while redirecting capital towards domestic markets;

- the devaluation of national currencies (for the new member states of Central and Eastern European countries by 20-25%);

- the escalating tensions in countries with high exchange rates (the Balkan states and Bulgaria);

- the restriction of consumer credits, the diminishing credibility of Central and East European countries; the debt of Latvia, the Ukraine and Romania are qualified as high risk;

- serious financial difficulties for families – a real social problem;

- 80% of the banking sector of Central and Eastern Europe is controlled by foreign investors and foreign banks often saved their subsidiaries in the area;

Private sector credits in Central and Eastern Europe have increased by 200% as opposed to the GDP in the past two years. The credits of these countries have reached alarming levels, according to an IMF study conducted at the end of 2009, by the following figures:

- Estonia 15%
- Lithuania 15-20%
- Latvia 25%
- Hungary and the Czech Republic 5%
- Poland 10% (mainly because of credits contracted by economic agents)
- Ukraine 50%
- Russia 30%

Generally, the main signs of economic vulnerability for Eastern European countries are macroeconomic imbalances (current account deficit, public or domestic debt, economic entities debt), high dependency on foreign financing or foreign credit, state or company bonds, as well as other types of loans. One must also consider the high degree of economic and commercial integration in the EU15, connected to the Western economic cycle, as well as the effects of workforce mobility (the return of immigrants compelled by the crisis and scarce vacancies abroad).

Conclusions

There are numerous ways of explaining the major differences between countries outside the Euro zone and the US, in terms of dealing with the current crisis and coping with the economic and social policies it generated. The escalating imbalances before the crisis have played an important part in creating the existing differences between nations. The countries with the most visible signs of economic recovery and sharper imbalances exhibited a higher vulnerability to the crisis and thus experienced its most severe effects. These effects differed from one country to another, according to the existing macroeconomic policies before and after the crisis.

The persisting imbalances and structural shortcomings, along with the changes occurring on a social-cultural and economic-organisational level, have prompted an evaluation of the manner of interpreting the concepts advanced by conflicting insights on the workforce cutbacks phenomenon. Therefore, the changes undergone by the labour market analysed in this paper further require a reassessment of unemployment, both in terms of the allocation of resources on the market and the social disadvantages and the difficulties faced by the population, thus providing reasons for the social policies implemented in different states.

After a thorough revision of the most important social effects of the current world economic crisis that is affecting and will continue to have very serious effects on the economic and social context of the EU countries (particularly Central and East European economies, including Romania), it is very clear that the situation cannot be overlooked but should raise awareness among the population in order to alleviate or prevent the damages as much as possible. The most serious effects that have been identified by the authors of this paper would be: *the social tensions* generated by the *increasing poverty of the population* (a situation that will worsen considerably), by *the fear of losing employment* as a consequence of decreasing occupancy rates; *the increasing number of families with serious financial problems*; *the restriction of consumer credit financing*; *the effects triggered by workforce mobility* (the return of immigrants compelled by the crisis and scarce vacancies abroad).

It is generally accepted that sociologists research the situation of the unemployed while economists study the phenomenon of unemployment or lack of occupancy. The former do not enquire why the unemployed exist but analyse their feelings and reactions under given circumstances, whereas the latter wish to determine the causes and fluctuations of unemployment. We hope that this paper will provide, to a certain extent, some pertinent explanations and answers for this problem.

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