



THE 7TH EDITION OF THE INTERNATIONAL CONFERENCE
**EUROPEAN INTEGRATION
REALITIES AND PERSPECTIVES**

Challenges and Risks of Global Crisis in the European Labour Market

Georgeta Dragomir¹, Mariana Trandafir²

Abstract: The world enters in the year 2012 facing a stark reality, one in three workers in the labor force is currently either unemployed or poor. According Eurostat, 24.325 million men and women in the EU-27, of whom 16.925 million were in the euro area EA-17, were unemployed in January 2012. These data reflect acute problems in labor markets, in part created by the financial crisis and, if labor conditions remain unfavorable for a long period, these problems could transform into another chronic problem. This paper takes, according to the statistical database, a comparative perspective on the labor market impact of the actual global crisis on Romania and European area. It starts from the reality that global crisis had a significant impact on the development of unemployment in Europe countries, the rise in unemployment, being in relation to GDP reductions, varies. In this reality, only economic and social policies are fair, consistent, well-focused, efficient, which can reduce risks and keep a balanced budget and social order.

Keywords: global crisis; labor market prospects; Europe 2020

JEL Classification: E31; E52; E58

1. Introduction

From the economic crises of underproduction in agriculture (by mid XIXth century) to industrial overproduction or crises centered around growth differences between countries, to exchange, bank crisis or profiled on a simultaneity of phenomena, which succeed on large time intervals at global level as well, all affect the labor market and fuel unemployment. The current financial crisis and recession that has followed reflect the acute problems in labor market (Tarullo, 2011): out of a global labour force of 3,3 billion, 200 million are unemployed and a further 900 million are living with their families below a US\$2 a day, the poverty line. (International Labour Office, 2012)

The crisis has brought new challenges, being more generalized, a persistent increase in unemployment in advanced economies, and the targeted measures and objectives should be adjusted in relation to the dynamics of current events. Time and time again, Europe has not found the right answers to extreme situations, it did not know how to coordinate policies oriented towards growth and stability and it was incapable to manage the social and economic phenomena, in order to prevent or correctly manage the recession and unemployment. The malfunctions of labor market policies and the social protection systems inefficiency worsened unemployment. The Member States have a good network protection against income loss during unemployment, but there is the tendency to provide a passive income which emphasized the long-term unemployment. The European Employment Strategy Work Force primarily aimed at supporting Member States and social partners in their effort to modernize and adapt to the current labor market requirements. Lisbon strategy brings a novelty in the way of approaching the European Employment Strategy, as in the employment issues begin to be seen in regional terms, considering that at this level there can be developed strategies and there can be found solutions that would take into account the local peculiarities.

¹ Professor, PhD, Danubius University of Galati, Faculty of Economic Sciences, Romania, Address: 3 Galati Blvd, Galati, Romania, tel: +40372 361 102, fax: +40372 361 290, Corresponding author: gretadragomir@univ-danubius.ro

² Associate Professor, PhD, Danubius University of Galati, Faculty of Economic Sciences, Romania, Address: 3 Galati Blvd, Galati, Romania, tel: +40372 361 102, fax: +40372 361 290, e-mail: marianatrandafir@univ-danubius.ro

This paper aims at analyzing the impact of the global crisis on the labor market in European countries compared with the situation in Romania, by using and interpreting statistical data, by evolutions and comparisons, taking into account the correlations between different indicators considered to be suggestive for the policies in the employment domain.

2. The Global Crisis and Unemployment: Connections and Interdependencies

The unprecedented crisis in global financial markets affected the wider economy and increasingly impacting on labour markets. Analyzing the effects of financial crisis on unemployment on a scale of 97 countries, Bernal - Verdugo et al, (2012) found that long-term unemployment is extremely persistent, but becomes statistically significant only two years after the occurrence of a crisis. A long-lasting increase in the unemployment rate following the occurrence of a financial crisis determines the increase of unemployment rate by about 1 percent at the peak (three years after the occurrence of the crisis) and by about 0,5 percent over the medium term (six years thereafter), when long-term unemployment stabilizes at a level 6 percentage points higher than the pre-crisis level.

In Global Employments Trends, International Labour Office analysts identify, at the beginning of 2012, the development of a three – stage crisis:

- the first stage, in which the initial shock of the crisis was met by coordinated fiscal and monetary stimulus, which led to recovery in growth and avoided further contraction and higher unemployment, but it proved insufficient to bring about a sustainable jobs recovery, most notably in advanced economies; in EU -27, between 2008 - 2010, unemployment rate increased from 7,1 % to 9,7 % (table 1)

Table 1. Real GDP growth rate and unemployment rate

Geographical areas	Real GDP growth rate – percentage change on previous year			Unemployment rate - total %			Position in the EU by Unemployment rate 2010 - ascending order
	2008	2009	2010	2008	2009	2010	
0	1	2	3	4	5	6	7
EU (27 countries)	0,3	-4,3	2,0	7,1	9	9,7	<i>16-17</i>
EU (15 countries)	<i>0,0</i>	<i>4,3</i>	<i>2,0</i>	<i>7,2</i>	<i>9,2</i>	<i>9,6</i>	<i>16</i>
Euro area (17)	0,4	-4,3	1,9	7,6	9,6	10,1	<i>18</i>
România	7,3	-6,6	-1,6	5,8	6,9	7,3	<i>7(9)</i>
United States	-0,3	-3,5	3,0	5,8	9,3	9,6	<i>16</i>
Japan	-1,0	-5,5	4,4	4	5,1	5,1	<i>3-4</i>

Source: Eurostat, <http://epp.eurostat.ec.europa.eu/tgm/>, with personal processing

Unemployment becomes the expression of economic growth (GDP), labor productivity and population dynamics, mainly in the active one, indicators which in turn have many other more specific determinations. The unemployment rate increased significantly during the crisis years, both in Europe - where the euro area remains the most affected (with some exceptions - Austria, Germany, Netherlands) and the U.S.; Japan keeps low rates, although there was a relative increase in 2009, maintained in 2010. In 2008 the unemployed accounted for 7% of the workforce in the EU-27. In 2010, their number was about 10%, even higher in the euro area, with the prospect that the unemployment rate would remain above 9% in 2012¹. Unemployment is particularly high, exceeding

¹ European Commission, Annual Growth, Appendix 2, Macroeconomic Report, COM(2011) 11 final, Brussels, 12.01.2011, http://ec.europa.eu/europe2020/pdf/2_ro_annexe_part1.pdf

12%, in Estonia, Ireland, Greece, Slovakia, Latvia, Lithuania and Spain. Long-term unemployment - people who did not have a job for over a year - has grown significantly and now it represents about 40% of total unemployment in the EU. This highlights the risk of sustainable exclusions on labor market. Unemployment is particularly high among people with low qualifications of migrants and youth. The unemployment rate among young people exceeds 20% in more than half of EU Member States and it reaches 42% in one country (Spain).

- the second stage, higher public deficits and sovereign debt problems led to increased austerity measures in an attempt to bring confidence to capital markets; fiscal stimuli started to wane, and support the economic activity in advanced economies concentrated on quantitative, easing monetary policies; in this context, GDP growth rate dropped globally, from 5 percent in 2010 to over 4 percent in 2011 until unemployment rate;
- the third stage, in which space policy has been seriously limited, making it difficult to stop, or even to slow down, the further weakening of economic conditions; the financial industry remains highly vulnerable, weakening its capacity to lend to real economy and high levels of sovereign debt in advanced economies have limited the capacity of governments to implement a further round of stimulus programmes; according to the IMF, the most recent predictions (January, 2012) on world output regards achieving the growth rate by 3,3 percent in 2012 and 3,9 percent in 2013 and for European Union the growth rate is of -0,1 for 2012 and 1,2 for 2013.

The evolution of the aggregate unemployment rate conceals fairly wide differences across EU countries. In 2010, the unemployment rate remained persistently above the pre-crisis level in most of Member States.

The latest information released by Eurostat, estimates that 24.325 million men and women in the EU-27, of whom 16.925 million were in the euro area (EA-17), were unemployed in January 2012. Compared with December 2011, the number of persons unemployed increased by 191 000 in the EU-27 and by 185 000 in the euro area. Compared with January 2011, unemployment increased by 1.488 000 in the EU-27 and by 1.221 000 in the euro area.

Among the Member States, the lowest unemployment rates were recorded in Austria (4.0 %), the Netherlands (5.0 %) and Luxembourg (5.1 %), and the highest rates in Spain (23.3 %), Greece (19.9 % in November), Ireland and Portugal (both 14.8 %). Compared with a year ago, the unemployment rate fell in ten Member States, remained unchanged in two and rose in fifteen Member States: the largest falls were observed in Latvia (18.2 % to 14.7 % between the third quarters of 2010 and 2011), Lithuania (17.5 % to 14.3 % between the fourth quarters of 2010 and 2011) and Estonia (13.9 % to 11.7 % between the fourth quarters of 2010 and 2011). The highest increases were registered in Greece (14.1 % to 19.9 % between November 2010 and November 2011), Cyprus (6.3 % to 9.6 %) and Spain (20.6 % to 23.3 %). In January 2012, 5.507 million young people (under 25) were unemployed in the EU-27, of whom 3.314 in the euro area. Compared with January 2011, youth unemployment increased by 269 000 in the EU-27 and by 141 000 in the euro area. In January 2012, the youth unemployment rate was 22.4 % in the EU-27 and 21.6 % in the euro area.

Other various factors influence the labour market effects of the crisis (Werner Eichhorst et al., 2010): the structure of the economy plays an important role as vulnerable sectors represent a larger share in some countries than in others; countries where the financial sector has a relatively high employment share – such as the United Kingdom and to a lesser degree Ireland – were it hit first and hard, as the crisis spread throughout the financial system; countries are also affected by the varying degrees of exposure to downturns in housing markets, construction sectors and manufacturing exports.

The current analysis of unemployment confirms the very complex feature of this phenomenon, as an expression, mainly of economic and social developments – the gross domestic product, of labor productivity and active population dynamics of assets, which, in turn, have many other more specific determinations. But a reverse effect, a decrease in unemployment, it had the evolution of active working population in different countries. Thus, it is found that in the U.S., as well as in Europe, the demographic pressure decreased to the current situation to 1985; in the aftermath, the new generations

that reached the age of hiring are less numerous. However, in Japan, the increase of active population exercise further an influence on the direction of unemployment increase, but the economic factors and public policies successfully neutralizes this effect.

Unfortunately, Europe has not yet found the right response in extreme situations – it failed to coordinate policies oriented towards growth and stability and it was not able to manage the social and economic phenomena, such as to prevent recession and unemployment.

3. The Lisbon Strategy Agenda 2020 - Goals and Results

As the “Lisbon Treaty” was born from the ashes of “Constitutional Treaty”, also the “Strategy 2020” is born from the ashes of the “Lisbon Strategy”. Europe is reinventing itself every time it encounters an insurmountable obstacle. (Radu, 2010)

The “Lisbon Strategy” was adopted by the Heads of State and Government united in March 2000 at Lisbon European Council and it was meant to transform the European Union by 2010, in “the most dynamic and competitive economy in the world based on knowledge, capable of sustainable economic growth, generating new, better jobs, and characterized by a greater social cohesion.” The objective was to achieve an economic growth of 3% per year and to create 20 million new jobs by 2010, under the conditions of achieving a rate of 70% overall employment and the employment rate among women of 60% on the accounts of: encouraging innovation, supporting small businesses, including the reduction of the bureaucracy that they faced in carrying out the activity; increased competition in the telecommunications market and liberalization of gas and electricity market; reducing emissions of greenhouse gases.

As finality, it can be concluded that, overall, the Lisbon Strategy has had a positive impact on the EU even though its main targets (i.e. 70% employment rate, and 3% of GDP spent on R&D) were not achieved and the disparities between countries are important. Until 2008, for example, there were obtained relatively good results. In 2000-2008, the GDP per capita increased by 13%, and the unemployment fell by 7%. The unexpected global financial and economic crisis, the big surprise from the latest years had surprised everyone, alleviating the bitter taste of failure in achieving the set targets.

In early 2010, the C.E. presented the draft EU economic strategy for the next 10 years, replacing the Lisbon Agenda, „Europe 2020”, a strategy for jobs and smart, sustainable and inclusive growth, that is based on five EU headline targets which are currently measured by eight headline indicators¹.

To reach these objectives, the EES encourages measures to meet three headline targets by 2020²: 75% of the population aged 20-64 should be employed; school drop-out rates below 10%, and at least 40% of 30-34-year-olds completing third level education; at least 20 million fewer people in or at risk of poverty and social exclusion. In line with the Europe 2020 strategy, the European Employment Strategy (EES) seeks to create more and better jobs throughout the EU.

The realities of recent years are presented in Table 2 and statistical previsions are not very optimistic, in the context of the recent developments.

¹ http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators

Table 2. Employment rate, age group 20-64¹ - %

	2000	2005	2006	2007	2008	2009	2010	Target 2010	Target 2020
1. EU (27 countries)	66.6	68.1	69	70	70.3	69	68.6	70	75
2. Euro area (17 countries)	65.5	68	69	69.9	70.2	68.8	68.4		
EU (27 countries) Employment rate by gender, age group 15-64: Males	70.8	70.8	71.6	72.5	72.7	70.7	70.1		
EU (27 countries) Employment rate by gender, age group 15-64: Females	53.7	56.3	57.3	58.3	58.9	58.4	58.2		
EU (27 countries) Employment rate of older workers	36.9	42.3	43.5	44.6	45.6	46	46.3		
3. Romania	69.1	63.6	64.8	64.4	64.4	63.5	63.3		70
4. United States	76.9	74.8	75.3	75.3	74.5	71.3	70.5		
5. Japan	74.0	73.9	74.5	75.3	75.3	74.5	74.7		

Note:

1. EU (EU27), at the level of 2010 are: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, United Kingdom, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Sweden, Spain, Hungary.

2. The euro area (EA17) consists of Belgium, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Luxembourg, Malta, the Netherlands, Austria, Portugal, Slovenia, Slovakia and Finland.

In spite of progress, Europe's employment rates, at 68-69% on average for those aged 20-64 – are still significantly lower compared to over 70% in the US and Japan. The employment rate of women and older workers are particularly low: only 63% of women are in work compared to 76% of men; only 46% of older workers (55-64) are employed compared to over 62% in the US and Japan. Moreover, on average Europeans work 10% fewer hours than their US or Japanese counterparts. Young people have been severely hit by the crisis, with an unemployment rate over 21%. There is a strong risk that people attached to the world of work lose ground from the labor market.

The European analysts consider that there are necessary economic long-range reforms, which should guarantee that European citizens will maintain their quality of life, especially now that the crisis has revealed its flaws. The total number of unemployed in U.E. is equal to the entire population of Romania, the budget deficits of the Member States amounted, in early 2010 to 7% and public debt to 80% of GDP. The exit from the economic crisis will only be a result of the strategy “Europe 2020”, but not a direct objective. The strategy provides only a general framework for this momentary goal. (Radu, 2010)

¹Source: Eurostat,

http://ep.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=t2020_10&plugin=1

4. The Global Crisis Impact on the Evolution of Unemployment in Romania

The financial crisis was felt strongly and directly also by the Romanian population by increasing unemployment, taxation and hence poverty, amid austerity public policy, mainly for disadvantaged sanction: VAT increase, reduce staff salaries budget, tax reduction and pension, meal vouchers taxation, etc. (Dragomir, 2011) If previously in Romania it was registered a steady decrease in unemployment which reached the minimum in 2008, when unemployment was 4%, it increased in only one year to the level of 6.3%, in order to achieve in 2010 an average of over 8%¹. (table 3)

Table 3. The evolution of unemployment in Romania²

Year	Unemployment rate at the level of December %	% Unemployment rate The annual average%	Total number of registered unemployed The annual average People
2007	4	4.3	386,667
2008	4.4	4.0	362,429
2009	7.8	6.3	572,974
2010	6.9	7.6 ³	693,407
2011 ⁴	5,12	7.8	710,000
2012 – future prospects		7.3	675,000

It must be noted that the evolution of labor resources in Romania was also under the impact of demographic and social factors such as: aging; the migration which increased among the young people with higher education; early retirements; degree of urbanization; the structure economic and technical equipment; the development level of agriculture, other socio-demo-graphic imbalances - which has partially damaged the reality of the statistics on unemployment.

A form of masking unemployment is that it derived from retirement. As a result of economic restructuring process, but also under the influence of political goals, many people who satisfy the seniority condition, but not the age, have been retired, according to a law appeared overnight. Between 2002 and 2005 the number of early retired persons increased by 50% and for partial early retirement with 84.1%, such a phenomenon is abnormal (Kardos, 2010, p. 5) and currently incriminated, but developed under the rule of law.

Thus, the analysis of the evolution of unemployment in Romania reveals the following:

- the rise of unemployment resulted in an immediate decrease in consumption and demand, a reduction in available income, also reflected in the emergence of national social tensions;
- if earlier, the increase of unemployment was due mainly to the effects of pre-election policies and / or local financial crisis, this time it is mainly due to external effect of global economic crisis whose symptoms we have not been able to manage, reducing strongly the external demand, with repercussions on internal production; (Lungu & Barbuceanu, 2010)
- the economic crisis has negative effects on both people's incomes which will continue to decline and the demand for social protection systems (unemployment benefits, guaranteed minimum income, social housing, social services, etc.) will increase;
- under the State's need to increase the social welfare costs, reducing income (budget revenues) becomes increasingly drastic, causing new austerity measures, which all poor people fully supports;

¹ ANOFM, Activity report for 2010, <http://www.anofm.ro/anofm-raport-de-activitate-pentru-anul-2010>

² www.anofm.ro/

⁴ Future prospect for 2011, 2012, Human Resources - factor of development and competitiveness, http://eucautdelucru.ro/pdf/Studiu_Analiza_ocupare_somaj_110223.pdf

- the decrease of employees in the economy amid crisis has not lead to higher unemployment, either because of leaving the employment system of certain categories of people, usually the elderly, or by changing the socio-professional status of people engaged in private individual activities;
- the young people aged up to 30 years are the most affected by the phenomenon of unemployment, at the end of December 2011 it was officially registered 225,941 people, representing 49% of the total number of unemployed; this segment is one in disadvantage, because young people suffer most in the contact with the labor market being in disadvantage towards adult age groups, so in that, for years among these latter populations segments there were kept in upper level of employment, even though the economy was and it still is in recession, and the lack of experience in work - often seen as a prerequisite to the requirements of a job;
- the fact that young people were not supported in their efforts to fit the labor market has led to increased migration to other European countries. In this respect, the Romanians are the largest group of workers living in another Member State in 2010 (27%), followed by Poland (21%). They preferred Italy (41%), Spain (38%) and at a wide range Germany (5%). Mobility trends are rather influenced by economic developments. The Romanian and Bulgarian workers, the mobility peak was in 2007, followed by a sharp drop in 2008 and 2009. In 2010 there was a slight increase, but far from the level recorded in 2006-2008.¹

These differences lead to the non-correlation of primary income (salary, profit, etc.) with taxes / social contributions and income from social transfers based on these taxes and social contributions (pension, unemployment benefits, minimum income support, disability allowance, allowances, etc.).

In this reality, only equitable social, coherent, well-focused, efficient policies can reduce the hazards and balance the budget and the social order. In order to achieve an employment rate of 70% in 2020 to 20-64 years age group it is a priority the implementation of the measures focusing on removing the constraints in the way of employment growth, leading to a better functioning of labor market, facilitating the transition of unemployment or inactivity to employment, strengthening the professional skills of the workforce and increase the quality of employment of residents in rural areas, young people and women.²

4. Conclusions

The current global crisis has caused recession, chronic budget deficits, excessive public debt, unemployment, poverty, problems facing governments everywhere today and it requires the practice of flexible macroeconomic policies, coordinated internationally. The labor market has turned into a collector of social tensions, becoming, in turn, a constant supplier of economic and political instability. (Dragomir, 2011)

The strategic guidelines established in the recent years at EU level have prompted the reform of employment, being created new jobs since 2000, but later, the resulted effects were modest and the difficulties were more important, culminating in the manifestation of global financial and economic crisis. The unemployment rate has increased significantly during the crisis in Europe space, where the euro area remains the most affected. Overall, almost 10% of the active population is unemployed; there are states in which the youth unemployment rate reaches 40%; it is estimated that 80 million citizens live below the poverty line in Europe.

In Romania, the financial crisis was strongly and directly felt by the population by the increase of unemployment, taxation and hence poverty, amid some public austerity policies. Household income continues to decline, given that the GDP / capita of Romania is one of the lowest in the EU (position

¹ European Commission, Commission Report on the functioning of transitional arrangements on free movement of workers from Romania and Bulgaria, <http://ue.mae.ro/local-news/851>

² Government of Romania, National Reform Programme (2011 - 2013), Bucharest, April 2011, http://ec.europa.eu/europe2020/pdf/nrp/nrp_romania_ro.pdf

26 in 2010). The unemployment rate was followed by the absolute increase in number of unemployed, under the impact of demographic and social factors resulting from the recent transition country: aging population; migration, to a growing level; early retirement; economic structure and poor technical equipment; the development of agriculture; social-demographic imbalances. In order to achieve an employment rate of 70% in 2020 for 20-64 years age group, the target set by Romania based on the European strategy is set on the priority of implementing the measures focused on removing the constraints in the way of employment growth, that would improve labor market functioning, facilitating the reintegration of unemployed into the labor market, the quality increase of employment of residents in the rural areas, young people and women. But insufficient financial resources and the responsible national priority orientation towards quantitative aspects of the public budget do not seem to be the best solutions for solving the complex social problems in the current context.

6. Acknowledgement

The work of Mariana Trandafir was supported by the project “Post-Doctoral Studies in Economics: training program for elite researchers - SPODE” co-funded from the European Social Fund through the Development of Human Resources Operational Programme 2007-2013, contract no. POSDRU/89/1.5/S/61755”.

7. References

- ANOFM, Activity report for 2010, <http://www.anofm.ro/anofm-raport-de-activitate-pentru-anul-2010>
- Bernal-Verdugo, Lorenzo; Furceri, David & Guillaume, Dominique (2012). Crisis, Labour Market policy and Unemployment. *IMF Working Paper 12/65*.
- Dragomir, Georgeta (2011). *Analiză privind șomajul în România - evoluții și perspective în context european – lucrare prezentată la Școala de Studii avansate/Analysis of unemployment in Romania - developments and prospects in the European context* - paper presented at the School of Advanced Studies, Galati, December.
- Eichhorst, Werner; Escudero, Veronica; Marx, Paul & Tobin, Steven (2010). The impact of the crisis on employment and the role of labour market institutions. *IZA Discussion Paper no. 5320*, November 2010.
- European Commission, *Annual Growth, Appendix 2, Macroeconomic Report*, COM(2011) 11 final, Brussels, 12.1.2011, http://ec.europa.eu/europe2020/pdf/2_ro_annexe_part1.pdf
- European Commission, *Commission Report on the functioning of transitional arrangements on free movement of workers from Romania and Bulgaria*, <http://ue.mae.ro/local-news/851>
- Future prospect for 2011, 2012, Human Resources - factor of development and competitiveness*, http://eucautdelucru.ro/pdf/Studiu_Analiza_ocupare_somaj_110223.pdf
- Government of Romania, *National Reform Programme (2011 - 2013)*, Bucharest, April 2011, http://ec.europa.eu/europe2020/pdf/nrp/nrp_romania_ro.pdf
- Kardos, M. (2010). Trendul ocupării și problematica șomajului în economia românească/The trend of employment and unemployment issues in the Romanian economy. *Revista Oeconomica/Oeconomica Journal, no 4/ 2010*.
- Lungu, L., & Barbuceanu, Ș. (2010). *Măsuri anti-criză privind piața forței de muncă/Anti-crisis measures on labor market*. Bucharest: Black Sea.
- Radu Serban (2010). *2020 Europe. Phoenix Strategy*, http://www.euractiv.ro/uniunea-europeana/articles/displayArticle/articleID_19671/Europa_2020_
- Tarullo, Daniel (2011). *Unemployment, the Labour Market and the Economy* <http://www.federalreserve.gov/newsevents/speech/tarullo20111020a.htm>
- www.anofm.ro/