



17 January 2012

COMMENTS ON REPORT OF THE SOCIAL PROTECTION COMMITTEE: “SOCIAL IMPACT OF THE ECONOMIC CRISIS”

REMARKS

- The crisis has clearly highlighted the underlying structural weaknesses on European labour markets: weak economic and employment growth; chronically high levels of long-term unemployment; and weak labour productivity growth.
- Looking beyond the overall EU figures, there is a trend that those countries which undertook structural reforms before the crisis have fared better. In contrast, those countries that have not introduced the necessary reforms are expected to see further increases in unemployment.
- As highlighted in the report, high levels of unemployment of young people and long-term unemployment are of particular concern. This is detrimental for the sustainability of social protection systems, as it results in a combination of a decreased tax base and an increased level of unemployment-related expenditures. It is also a waste of talent and potential on the labour market.
- To reach the Europe 2020 75% employment rate target, companies will have to create 17.6 million new jobs. However, in many member states, labour markets are too rigid and therefore do not facilitate hiring.¹
- Employment remains the best way to avoid poverty and social exclusion. Therefore we fully support member states which strongly link the fight against poverty and social exclusion to labour market exclusion.
- The priority for tackling poverty should be to deal with the problem highlighted in the report, of increasing shares of people living in households with very low work intensity, as well as jobless households.
- We note that the at-risk-of-poverty rate for people in work remained more or less stable during the crisis. This is partly due to adjustments during the first phase of the crisis focusing more on hours worked than wage responses.
- However, pay cuts and pay freezes have been and remain unavoidable as a result of the crisis. Countries that have accumulated fiscal imbalances before the crisis, including wage growth not in line with productivity, are now facing more severe structural adjustment challenges.
- Social protection systems have acted as automatic stabilisers during the crisis, however their role in protecting the most vulnerable can only be ensured if they are sustainable. Fine-tuning systems to make them more generous, increasing spending on benefits is not a sustainable option at a time of persisting economic difficulties, poor employment perspectives, and restricted government budgets.
- The focus should rather be on further reforms of social protection systems, aiming at encouraging and facilitating return to work. This is important in avoiding prolonged welfare dependency, a point rightly highlighted in the report, as it puts increased pressure on social protection systems and can lead to long-term labour market

¹ According to the World Economic Forum 2009-2010 Global Competitiveness Report, 14 out of the 27 EU member states rank amongst the highest globally in terms of employment rigidity



exclusion.

- Ensuring that social protection systems are geared to labour market inclusion is particularly important in view of demographic change. The crisis has worsened the situation; combined with the loss of a mass of skills as a generation of experienced and skilled workers goes into retirement, there will be a reduction in the number of people entering the labour market.
- Given the increases in life expectancy and the time that people can expect to spend in retirement, longer working lives are simply a necessity. This avoids the unfavourable situation of lower benefits in retirement and higher contributions by companies and those people working.
- This is also crucial for reducing public debt in the long-term, considering that age-related public expenditure is projected to increase on average in the EU by 4.75% of GDP between 2007 and 2060.

RECOMMENDATIONS

1. Member states should target available resources on measures which support future growth and job creation.
2. To avoid aggravating the employment situation, and to ensure sustainability of social protection systems, the weaknesses on European labour markets need to be dealt with by following through with structural reforms.
3. The priority should be to urgently tackle unemployment, in particular of young people, as well as long-term unemployment. This is essential to increase the tax base and stabilize public finances.
4. Member states should focus on: increasing labour market flexibility; shifting towards more active labour policies; reforming social security systems; reducing the tax burden on labour and investing in lifelong learning.
5. For companies to create jobs, labour markets need to be made less rigid. This means allowing for different forms of contractual arrangements and making permanent contracts employment-friendly to stimulate hiring.
6. Active labour market policies should finance, as a priority, measures aiming to maintain and/or develop the employability of long-term unemployed people. To encourage companies to hire long-term unemployed workers, social contributions for the low skilled could be reduced.
7. Further reforms of social security systems are needed in member states, to reduce dependency on benefits and encourage return to work.
8. To ensure longer working lives, increasing the statutory retirement age is indispensable, combined with appropriate measures in the national context to raise the actual retirement age.
9. Member states should continue with pension system reforms, and the EU should ensure that it supports the cost-effective provision of occupational pensions, as an increasingly important source of income in retirement.
10. An upgrading and updating of skills is needed, to ensure they meet the demands of the labour market.