



Research note no. 4

Effects on of the current recession on social exclusion

Terry Ward, Fadila Sanoussi and Erhan Özdemir

ABSTRACT

All European countries have been hit to varying degrees by the global economic recession over the recent past. The same is true of social groups within countries. Given the inevitable lag in relevant statistics becoming available, the scale of the effect on different groups is, however, as yet far from clear, as is the extent of the protection they receive from the social welfare system in different countries. Accordingly, it is difficult to know how far these systems are doing their job of maintaining the income of the most vulnerable in society at an acceptable level and of preventing them from suffering excessive deprivation.

However, some lessons can be learned by examining the experience during past recessions, particularly that in the early-1990s, in terms of the social groups most affected and what happened to social expenditure as well as subsequent developments both in the level of expenditure on social support and its composition.

The analysis in shows that social expenditure has tended to change in most countries over the past 15-20 years and indicates the widely varying degrees to which those becoming unemployed are likely to receive income support across the EU.

The data for the initial stages of the recession, which extend up to mid-2009, are broadly in line with what would be expected from past economic downturns in terms of the social groups which seem to have been affected.



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I. Introduction

By reviewing the latest data available and identifying similarities with previous downturns, this research note tries to throw light on the groups in the labour market being most affected by the recession, to assess the differential consequences of the recession on different sections of the population in EU Member States on the basis not only of the most recent data available but also of the evidence which exists on past downturns. More specifically, the aim is, first, to review what happened in EU15 countries in the early 1990s, when GDP either fell or failed to grow more than marginally and unemployment increased, in order to identify the effect at the time on different social groups, the social support provided and the lessons which might be drawn from the experience².

The research note also reviews experience during the more recent economic downturn in the early part of the present decade, which was less widespread and, in general, less pronounced than that which occurred a decade earlier, especially in terms of employment. Nevertheless, a number of EU15 Member States, including Germany and Portugal, were affected to a significant extent and their experience during this period is equally relevant.

The second broad aim is to examine developments during the initial stages of the present recession, insofar as the data allow, to see how far these are in line with what happened during the downturn in the early 1990s in terms of their differential effects on social groups or, alternatively, how far they differ.

There is a widespread view that because the origins of the present recession are somewhat different from earlier downturns over the post-war period, in that they stem from problems in the financial market and the collapse of a number of financial institutions, the social consequences are also likely to differ. Specifically, the view is that those affected include more higher and middle-income earners than previously as a result of the closure or downsizing of banks and similar companies. In practice, however, relatively few people tend to be employed in the financial sector in EU Member States despite its economic importance so that, although many of them may have lost their jobs, they account for only a small part of the increase in unemployment which has occurred since the recession began. Moreover, while the precise origins of the present recession may differ from earlier downturns, these, too, usually involved financial problems, even if as an effect rather than a cause, so that this aspect of the difference may tend to be exaggerated.

Nevertheless, it is instructive to examine the evidence on those affected, even if it so far covers only the initial stages of the recession – specifically up to the first quarter of 2009 – in

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² There was also a downturn of major proportions in the early 1990s in most of the Member States which entered the EU in 2004 and 2007, though this was a result as much of the collapse of trade with the former Comecon countries as of the global economic downturn. As it occurred in the initial phases of the transition to market economies, the experience of that period is likely to be very different from that of the present recession.

order to assess the extent of any difference in their composition as compared with the earlier downturn. Although the onset of the present recession varies across the EU, starting first in countries which were hit particularly hard by the financial crisis and the consequences of this for the housing market and the construction sector, such as Ireland, Spain, the UK and the Baltic States, by the end of the first quarter, the effect was evident in all Member States, if to varying degrees.

Outline of analysis

The analysis begins by examining the effect of the economic downturn of the early 1990s which occurred at slightly different times in EU15 countries – earlier in Finland, Sweden and the UK, later in other Member States, particularly Germany, where activity was boosted by unification of the Eastern Länder at the end of 1990 – between 1990 and 1994 on the employment, and unemployment, of men and women in different age groups and in different types of job. It also examines the experience in these respects during the period 2001-2004 in those countries which were affected by economic downturn and in which unemployment rose.

Secondly, it considers the response of the social protection system in the different countries to the increased numbers requiring support in the two periods. Thirdly, it reviews how labour market policies across the EU reacted to the growing numbers of unemployed and the extent to which active measures were expanded to increase the employability of those out of work in order to give them more of a chance of finding employment once the upturn occurred.

The analysis then shifts attention to the experience during the initial phases of the present recession in terms of the effect on employment and unemployment of different groups as well as those in different sectors of the economy. The aim is not only to review the differential effects of the recession as such but to consider how far these effects are similar to, or differ from, those observed in the earlier periods, and, accordingly, how far it is possible to draw lessons from what happened in those periods for the way in which the present recession is likely to develop and for the social groups are likely to be most at risk.

Unfortunately, there is a lack of up-to-date information on the operation of social protection systems during the recent past as well as on that of labour market policies. Data from national sources, however, are used to examine the extent to which short-time working has been used during the early months of 2009 to keep people in employment, even if on reduced hours, and to avoid greater job losses.

In addition, data from the EU-SILC are analysed to investigate the extent to which those becoming unemployed are likely to receive income support from social transfers. While the data in question come from the 2007 survey and relate to the situation in 2006, they give an indication of the coverage of the system in different countries and of the scale of support provided.

II. Employment and unemployment during earlier downturns

The early 90s

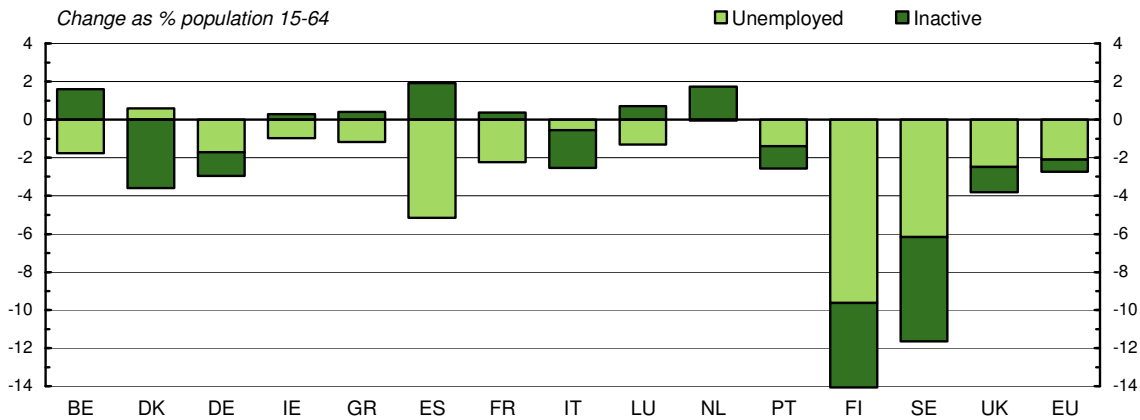
During the period 1990-93, GDP growth slowed down in nearly all EU15 countries, to an annual average well under 1% in contrast to the 3% a year or so experienced over the preceding five years. In most countries, there was a decline in GDP during at least one of

these years and in Finland and Sweden a significant decline in three years. As a result, employment fell relative to the working-age population and unemployment went up.

In the EU15 as a whole, the proportion of people of working age (here defined conventionally as those aged 15-64) in employment declined from just over 62% in 1990 to 59.5% in 1994, a net loss of over 4 million jobs, or a reduction of almost 6.4 million in relation to what was necessary to keep the employment rate unchanged³. At the same time, unemployment increased from 5.7% of the population in this age group to 7.7%, while there was a rise of almost one percentage point in those who were economically inactive. In other words, the job losses resulted not only in higher unemployment (the rate as conventionally measured in relation to the labour force rising to over 11%) but a significant number of people of working age leaving the labour force, in the sense of neither being in work not actively looking for a job.

The decline in employment was on a similar scale in most Member States, though there were large differences in the extent to which it was associated with a rise in unemployment as opposed to withdrawals from the labour force. For example, employment relative to the working-age population – the employment rate – fell by just over three percentage points over the period in both Spain and the UK, by slightly more in the latter than the former. In the UK, however, it was accompanied by an increase in unemployment by just under 2% of those aged 15-64 and a rise of 1.5% in those who were inactive. In Spain, by contrast, there was a rise of just over 5% in unemployment, measured in the same terms, and a reduction in the proportion of people who were inactive by 2% (Figure 1 – note that the figures have been adjusted for the effect of German unification).

Fig. 1 Change in employment and counterpart changes in unemployment and inactivity of people aged 15-64 in EU15 Member States, 1990-94



Note: BE, LU, NL: 1991-94; IE, UK: 1990-93

This has potential implications for the income support received by the people concerned insofar as entitlement to unemployment benefit tends to be dependent on actively looking for a job, though those withdrawing from the labour force may also be eligible for other benefits of different kinds, in particular early retirement pensions or disability benefits (a point picked up below when examining the changing amounts paid out in social transfers).

In practice, most countries were more similar to the UK in this respect than Spain, with the loss of jobs being reflected partly in a rise in unemployment, partly in a rise in inactivity, the

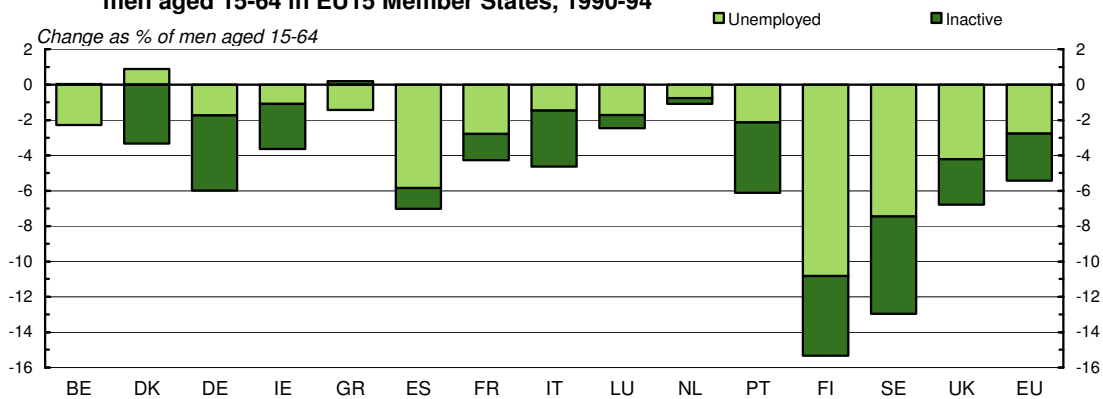
³ The working-age population increased over this period, so that an additional 2.4 million jobs were required to prevent the employment rate from declining.

latter being associated in turn with more people in older age groups taking early retirement and more younger people remaining in education longer before trying to find a job, as described further below. It may also be associated with more people participating in active labour market programmes, since when they are doing so, they are no longer actively looking for a job or available for work and, accordingly, are (or should be) recorded as being inactive.

The loss of jobs was especially large in Finland and Sweden, where GDP fell by much more than elsewhere, notably as a result of the collapse in trade with the former Soviet Union. The employment rate, therefore, declined by some 14 percentage points in Finland and almost 12 percentage points in Sweden, in both cases the rate of inactivity rising significantly as well as unemployment increasing.

The loss of jobs in the different countries was by no means evenly spread across those in employment. Employment of men fell by much more than that of women, reflecting the differential effect of the downturn on different sectors of activity – much more on manufacturing than services and within manufacturing disproportionately on the engineering and construction industries which employ many more men than women (Figure 2).

Fig. 2 Change in employment and counterpart changes in unemployment and inactivity of men aged 15-64 in EU15 Member States, 1990-94



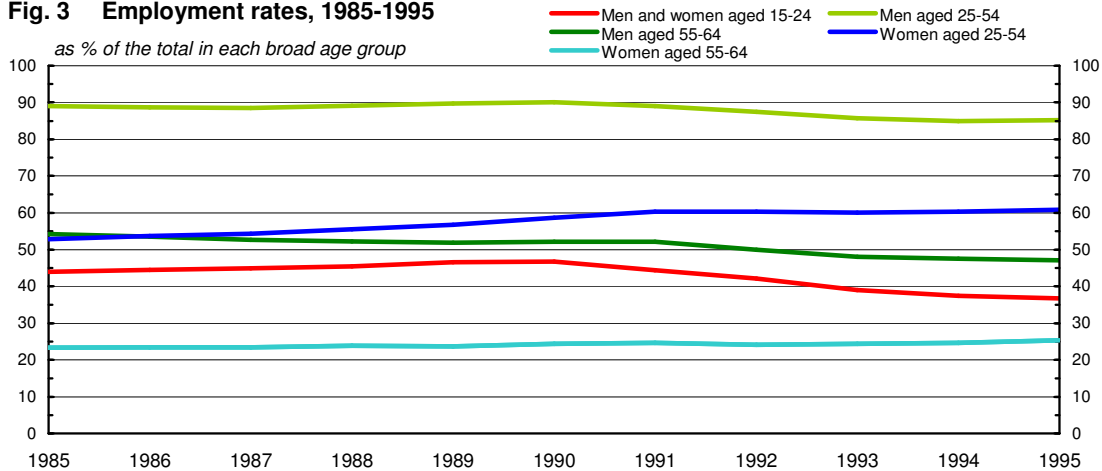
Note: BE, LU, NL: 1991-94; IE, UK: 1990-93. Increases in unemployment and inactivity shown as negative changes. Reduction in employment rate equals the negative section of the bar minus any positive section

Employment of younger people also fell by more than those in older age groups, reflecting the reduction in new job creation and, consequently, the growing difficulty of those leaving the education and initial vocational training system finding their first job.

The reduction in employment, therefore, was very much concentrated on men, the proportion of those aged 15-64 in work falling from around 75.5% in 1990 to 70% in 1994 in the EU15 as a whole. By contrast, the proportion of women in this age group in employment continued to increase in 1991 and though it fell subsequently it was only around 1 percentage point lower by 1994 (Figure 3).

Moreover, while unemployment among women rose over the period (from just under 6% of the age group to just over 7%), this was as much a consequence of a decline in economic inactivity – i.e. of more women joining the work force and actively looking for work – as of a fall in employment. Among men, unemployment increased by much more (from around 5.5% of the age group in 1990 to a peak of just over 8% in 1994) and at the same time inactivity rose by a similar amount (from just over 19% in 1990 to 22% in 1994 and further to around 22.5% in 1995).

Fig. 3 Employment rates, 1985-1995

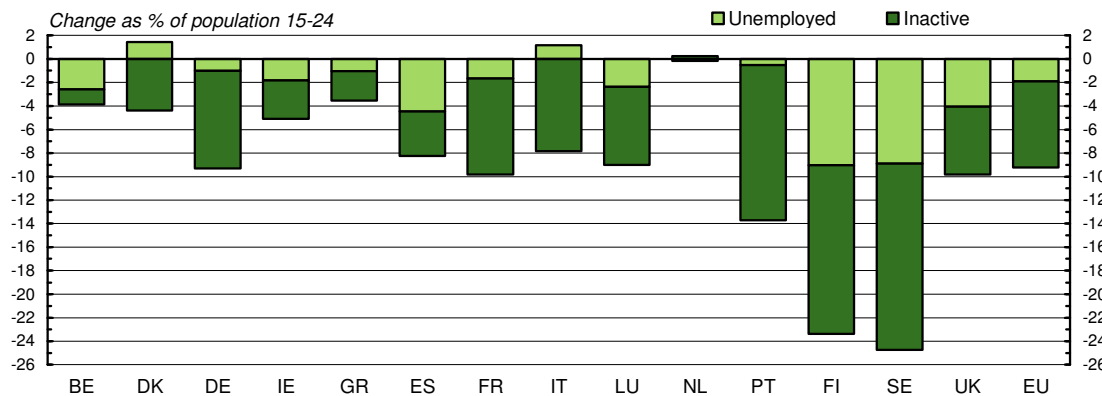


The pronounced effect of the downturn on men is common to nearly all countries. In all of them, the employment rate of men fell between 1990 and 1994, while in the majority, the employment rate of women rose, even if only slightly in some cases, and in others, it fell by less than that of men. The only exception is Denmark, where the rate for women, which was already relatively high at the beginning of the period, fell by more than of men. In Finland and Sweden too, there was a large fall in the employment of women as well as of men, though in both cases the fall was slightly smaller than for men.

In nearly all countries also, the reduction in employment of men was accompanied by a rise in inactivity as well as in unemployment, whereas inactivity among women fell in most countries rather than increasing.

The reduction in employment over the period, moreover, was disproportionately concentrated on those aged under 25, on women as well as men, the number in work relative to the population in this age group in the EU15 falling from around 46.5% in 1990 to 37.5% in 1994 and further to 36% in 1996 (Figure 4).

Fig. 4 Change in employment and counterpart changes in unemployment and inactivity of people aged 15-24 in EU15 Member States, 1990-94



Note: BE, LU, NL: 1991-94; IE, UK: 1990-93. Increases in unemployment and inactivity shown as negative changes. Reduction in employment rate equals the negative section of the bar minus any positive section

Although in some degree, this might be a consequence of more young people wishing to remain longer in education or initial vocational training in order to acquire the qualifications needed to obtain better jobs, it was almost certainly much more a result of a lack of jobs for

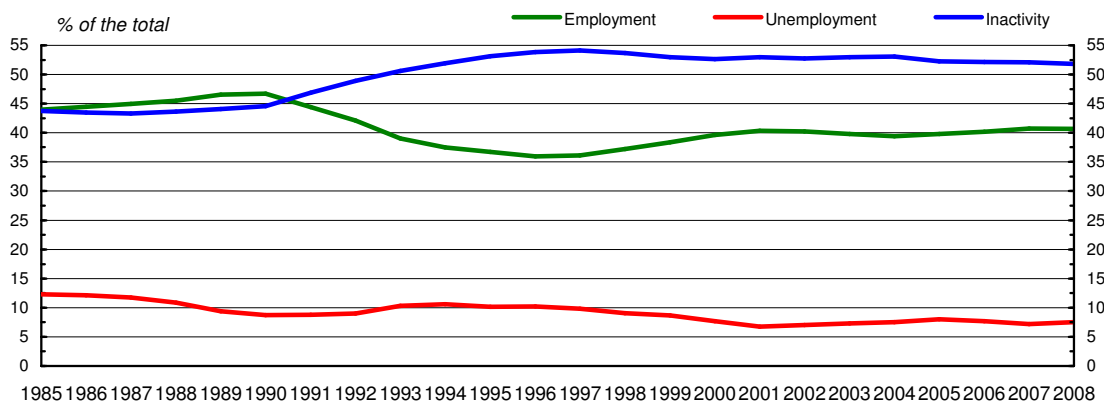
them to move into. In the five years leading up to the downturn, therefore, the employment rate of those aged 15-24 increased rather than fell.

The employment rate of young people under 25 declined over the downturn in all Member States (apart from the Netherlands, where it remained broadly unchanged) in nearly all cases by much more than the decline in total employment. In Finland and Sweden, the decline amounted to almost 25% of the population aged 15-24, around twice the reduction in the overall employment rate.

While women in this age group as well as men were affected by the decline in employment, it is still the case that the proportion in work fell by slightly less than for men (by around 8 percentage points in the EU15 as opposed to 10 percentage points). In both cases, the fall in employment was associated much more with a rise in inactivity than with an increase in unemployment in part reflecting the fact that more of them remained longer in education, in part the lack of incentive to actively look for a job when there are few around and when in many cases there is no entitlement to unemployment benefit for those under 25. The proportion of those aged 15-24 in the EU15 who were inactive, therefore, rose from around 44.5% in 1990 to 52% in 1994, with a similar rise for women as for men, whereas the proportion who were unemployed increased by just two percentage points (Figure 5). Again, this pattern was repeated across most Member States.

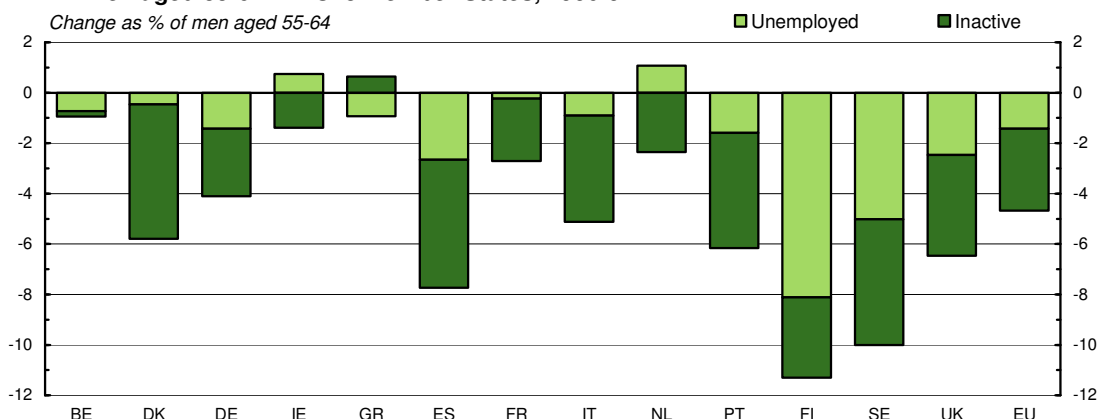
It should also be noted that while overall employment began to increase across the EU15 after 1994, if only very slowly, the employment rate of young people continued to decline up to 1996 and rose hardly at all in 1997 when it was a further 1.5 percentage points below the level in 1994. This reflects the delayed pick-up in new job creation which is a feature of the uncertainty about future prospects created by economic downturns.

Fig. 5 Employment, unemployment and inactivity of those aged 15-24 in the EU15, 1985-1995



Although those in work aged 25 and over also experienced job losses, these were very much smaller than for those in the younger age group both among those aged 55 and over and those aged 25-54. Moreover, for both age groups they were concentrated among men. Across the EU15 as a whole, employment continued to increase among women, even if at a much slower rate than over the preceding 5 years. By contrast, for men, the proportion of those aged 25-54 in work declined by over five percentage points and that of those aged 55-64, by just under five percentage points (Figure 6).

Fig. 6 Change in employment and counterpart changes in unemployment and inactivity of men aged 55-64 in EU15 Member States, 1990-94



Note: BE, NL, PT: 1991-94; IE, UK: 1990-93; LU: data missing

Job losses, therefore, seem to have affected men aged 25-54 to much the same extent as those aged 55-64 over this period. Not surprisingly perhaps, most of the fall in employment among men in this age group was accompanied by an increase in inactivity, with a withdrawal into early retirement, rather than by a rise in unemployment. Accordingly, the decline in the employment rate of the latter continued the trend towards early retirement initiated in earlier years after the recession of the mid-1970s prompted by the oil price increase. In the five years leading up to the downturn at the beginning of the 1990s, the employment rate of men aged 55-64 declined across the EU15 by two percentage points. Between 1990 and 1994, it fell by , 10-11 percentage points in Finland and Sweden between, by almost ten percentage points in Luxembourg, by nearly eight points in Spain and by just under six points in Denmark and the UK. Moreover, the employment rate of men aged 55-64 showed little sign of any increase across the EU throughout the rest of the 1990s and remained below 50% until 2002.

The early 2000s

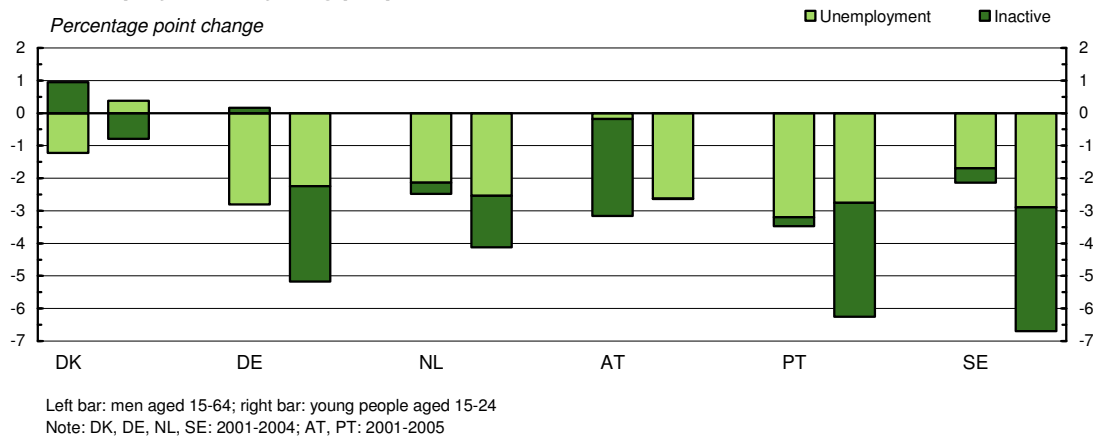
The economic downturn in the early part of the present decade was less widespread and generally less pronounced than the one a decade earlier. There were, however, exceptions. In particular, in Germany, Italy, the Netherlands and Portugal, GDP remained much the same in real terms over the years 2001-2003, while in Denmark it grew but only slightly. Even in these worst-hit countries, however, the effect on employment was less marked than it had been in the early 1990s, perhaps because of an expectation that the downturn would not persist for very long and employers were, therefore, more prepared to maintain their work force.

In the countries most affected, with the exception of Italy where employment continued to grow, the employment rate declined by between 1 and 1.5 percentage points over a 2-3 year period (mostly from 2001 to 2004, but from 2000 to 2003 in Denmark). The fall was slightly larger in Sweden (two percentage points) where, although GDP growth slowed down by less than in the other countries, it was, nevertheless, sufficient, to prompt a decline in employment.

As in the early 1990s, the decline in the employment in the countries concerned was concentrated among men, again reflecting the differential effect of the downturn on the manufacturing sectors, principally the engineering industries, and construction, which predominantly employed men rather than women. The employment rate of men, therefore, fell by 2-3 percentage points over the period in all these countries apart from Denmark,

while, except for the latter and Sweden, the employment rate of women fell at most only marginally (Figure 7).

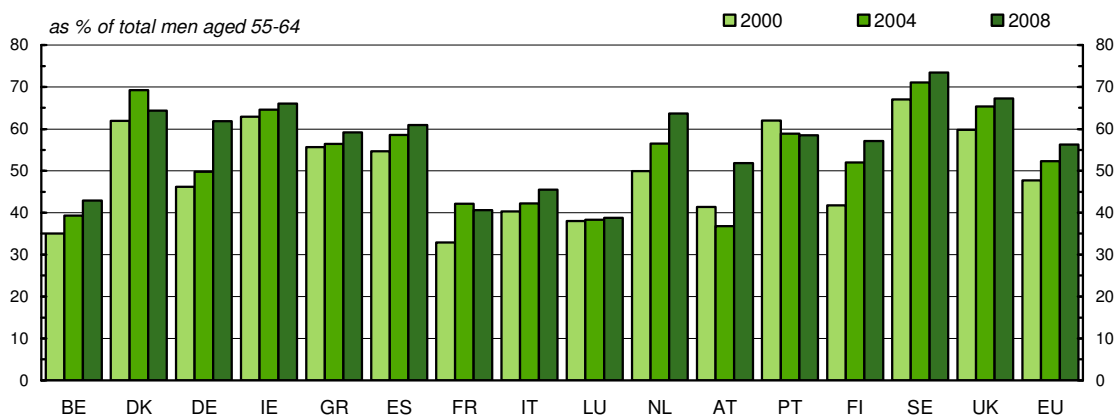
Fig. 7 Change in employment of men as % of population of men of working age and in employment of young people 15-24, 2000-2004



Again as a decade earlier, young people aged 15-24 were affected much more than older age groups. The employment rate for the young accordingly fell by around 4.5 percentage points in the Netherlands, just over 5 percentage points in Germany and Portugal and 7-8 percentage points in Denmark and Sweden. In all of the countries, apart Sweden, men as before were affected by more than women and their rate of inactivity increased by more than unemployment.

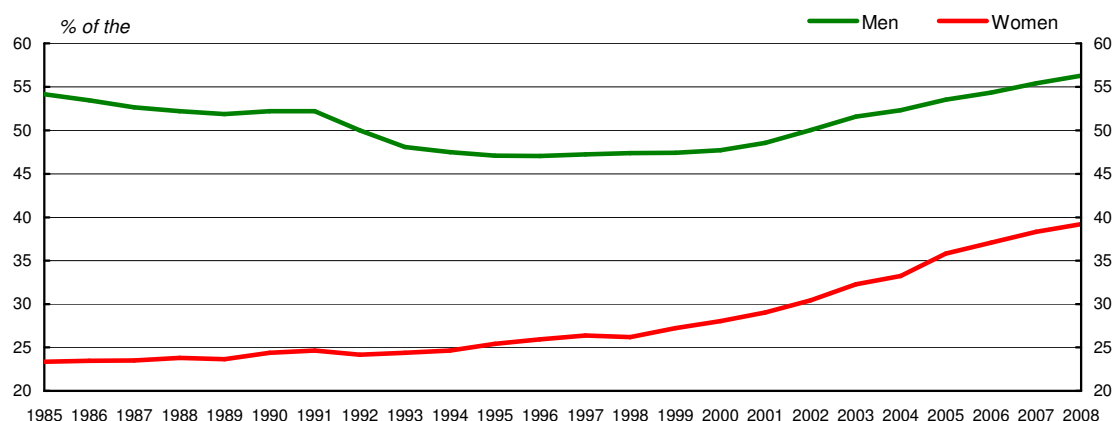
Unlike in the earlier period, however, there was no reduction in employment among those aged 55-64. Indeed, whereas the employment rate of men aged 25-54 fell in all of the countries where the overall employment rate declined, in all of them apart from Portugal, this was accompanied by an increase in the proportion of men aged 55-64 in work, an increase which has in nearly all cases continued since then (Figure 8).

Fig. 8 Employment rate of men aged 55-64 in EU15 Member States, 2000, 2004 and 2008



As a result, in the EU15 as a whole, the employment rate of men of this age had risen to 56.5% by 2008, some 9 percentage points more than a decade earlier (Figure 9).

Fig. 9 Employment of those aged 54-64 in the EU15, 1985-2008

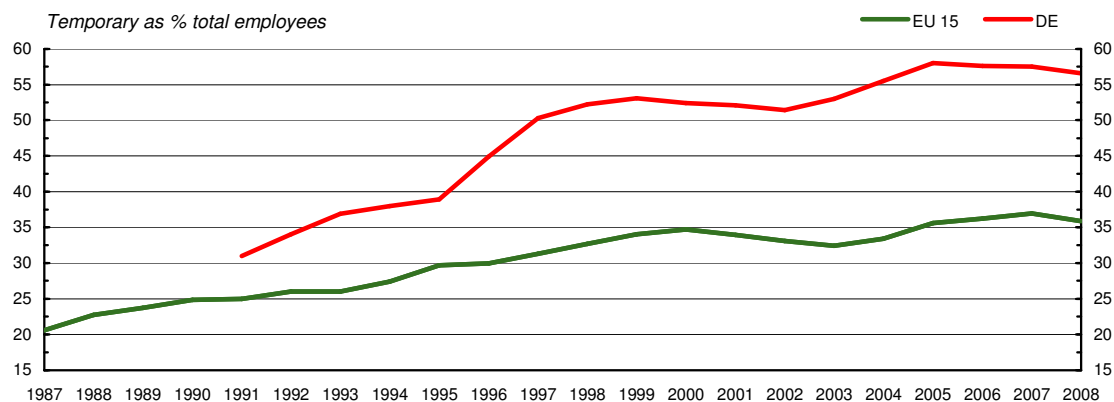


Jobs with fixed-term contracts

In addition to young people experiencing a decline in employment during the downturns in the early 1990s and early years of the present decade, there was a shift at the same time to more of those in work having temporary contracts of employment. This shift was not necessarily a direct response on the part of employers to the downturn as such, since it seems to have been part of a long-term trend. It means, however, that the declining numbers in work were increasingly in relatively precarious jobs and those which in some countries give uncertain entitlement to unemployment benefits.

Across the EU15 (excluding Germany because of the difficulties of adjusting for the effects of unification at the end of 1990), the proportion of those under 25 in work who were in temporary jobs increased from 25% in 1990 to around 27.5% in 1994 and continued to increase in subsequent years to reach 35% by 2000 (and 40% if Germany is included) (Figure 10). In Germany, the share of young people in such jobs rose from 31% in 1991 to 38% in 1994 and to 53% by 1999.

Fig. 10 Employment of young people aged 15-24 in temporary jobs in the EU15, 1987-2008

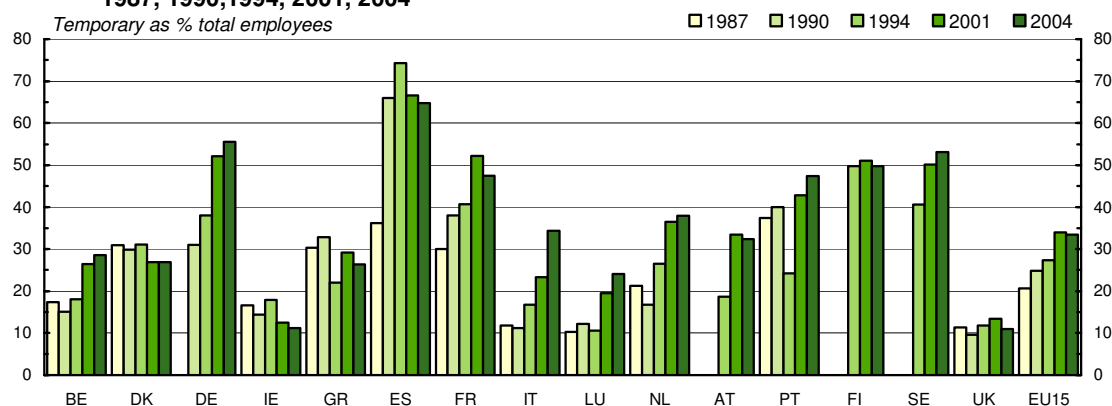


Note: EU 15 excl DE, AT, FI and SE

Accordingly, as the recovery took place, a large proportion of the net additional jobs which young people moved into were fixed-term in nature, though this proportion varied markedly across the EU. In France, Finland, Sweden and, most especially, in Spain, as well as in

Germany, over half of all those in work aged 15-24 were employed in temporary jobs in 2001, while in Portugal, the figure was over 40% (Figure 11).

Fig. 11 Employment of young people aged 15-24 in temporary jobs in EU15 Member States, 1987, 1990, 1994, 2001, 2004



Note: DE: 1991; AT, FI, SE: 1995; EU 15 excl DE, AT, FI and SE

The relative number of young people with fixed-terms contracts continued to increase during the downturn after 2001 as well as in the subsequent period of recovery. In Germany, it had risen to 58% by 2005 and in Sweden to 59% a year later, while in Portugal it reached almost 53% in 2007 (10 percentage points more than in 2001), in the Netherlands 45% (almost 9 percentage points higher) and in Italy over 42% (19 percentage points higher than just 6 years earlier).

The upward trend in temporary employment among young people under 25 has been mirrored by a similar trend in some of the Member States which have entered the EU since 2004. This is especially the case in Poland and Slovenia, where over 60% of those in this age group in work have fixed-term contracts (in the latter, almost 70%), so that in the EU as a whole, some 40% of jobs performed by young people were temporary.

Although there has also been an upward trend in those aged 25 and over employed on fixed-term contracts, this has been much less than for the younger age group. In most countries, it is still the case that comparatively few people (under 10%) have jobs of this kind. Nevertheless, there was an increase in the proportion of employees across the EU15 with short-term contracts during the downturn in the early 1990s, which suggests that many of the comparatively few new jobs created over this period were fixed-term in nature. The increase was especially large in Spain (over 5 percentage points), though it was also significant in the Netherlands, Denmark, France and Italy (around 2 percentage points in each).

On the other hand, the proportion of those aged 25 and over in temporary jobs declined markedly (by 5-6 percentage points) in Greece and Portugal, suggesting that the reduction in employment was concentrated on such jobs.

The relative number of employees with fixed-term contracts continued to rise after the downturn, though at a relatively slow rate in most countries, so that in 2008 before the onset of the present recession, only around 11% of employees in the EU15 were employed under this kind of contract. In Belgium, Denmark, Ireland, Luxembourg, Austria and the UK, the figure was 6% or less, giving limited scope for using the non-renewal of temporary contracts as a means of effecting reductions in employment. On the other hand, in Portugal, the figure was over 19% and in Spain, 26%, though the latter had declined from 30% in 2006. Moreover, the proportion is also relatively high in Poland, at around 23% in 2008, up from

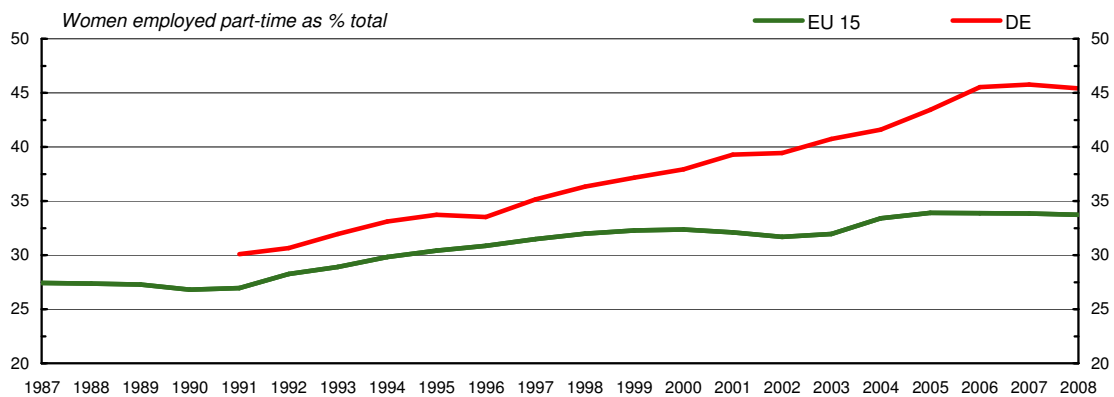
under 5% in 2000, implying that many of the new jobs created in recent years have been fixed-term ones.

Part-time working

The upward trend in temporary employment in the EU has been accompanied by a similar trend in part-time working, though this was concentrated more among those aged 25 and over and among women in particular. This upward trend, moreover, seems to have gathered pace after 1990 as the downturn began and continued during the subsequent upturn.

Between 1990 and 1994, therefore, the share of those employed in part-time jobs in the EU15 – again excluding Germany for the same reason as above – increased from 13% to over 15% and went on rising to reach 17% by 1999. This rise partly reflects the fact that women, many more of whom than men were employed part-time, took a growing share of jobs. At the same time, increasing numbers of women in work were employed in part-time jobs, the proportion rising from just under 27% of the total in employment in 1990 to just under 30% in 1994 (and in Germany, from 30% in 1991 to 33% in 1994). The rise continued after 1994 during the recovery years, though at a slower pace, the share reaching just over 32% in 1999 (Figure 12).

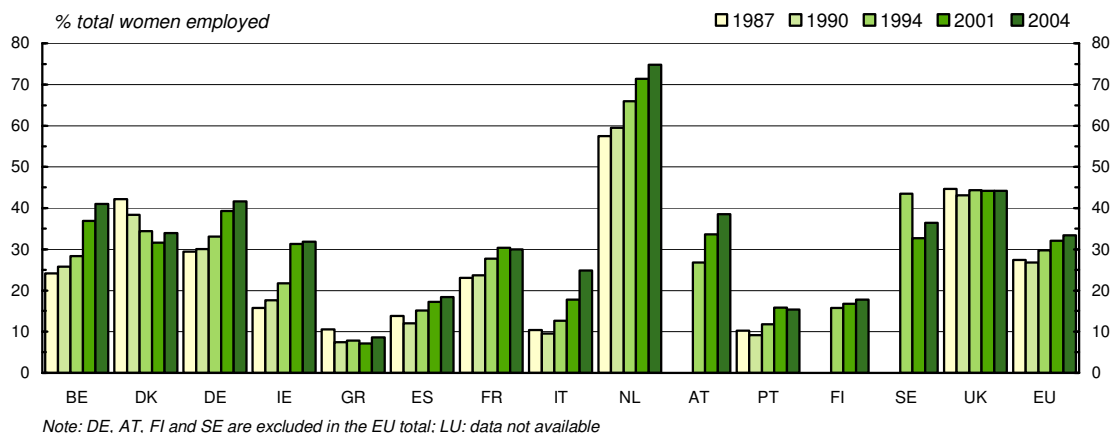
Fig. 12 Employment of women working part-time in the EU15, 1987-2008



Note: EU15 excl DE, AT, FI and SE

There was equally a growth of part-time working during the downturn after 2001 in most of the countries which experienced a reduction in overall employment. In Germany, the share of women in work employed part-time increased from 38% in 2000 to over 43% in 2005, in Austria, from 33% to 39% over the same period, in Denmark, from 37% in 2001 to 41% four years later, in the Netherlands, from 71% to 75% over the same period and in Sweden from just under 33% to almost 40% after a number of years when part-time working had declined (Figure 13). Due to the fact that the rise in the employment of women over this period was accompanied by an increasing share of part-time working, the increase in female employment could offset only to a limited extent the reduced earnings caused by the decline in employment among men.

Fig. 13 Women employed part-time as a share of total women in work in EU15 Member States



Trends in social protection

Against this background of growing employment in temporary and part-time jobs, it is also important to examine developments in social protection systems across the EU15 which occurred during the last economic downturns or marked longer-term trends in both the level and structure of support provided. The main source of data available for doing this is the European System of Integrated Social Protection Statistics (ESSPROS), which covers expenditure on social protection in all the EU Member States, though for varying periods of time. For EU15 countries, the data extend back to 1990 on a reasonably consistent basis but at the time of writing go up only to 2006. Although these statistics do not contain information on the number and characteristics of recipients of social transfers, they, nevertheless, give an indication of the way the amount spent on income support in the different countries changed over the period in relation to the changing number of people requiring assistance.

The focus is on transfers designed primarily to provide support to those of working age who are not in employment. These transfers represent a small proportion of total expenditure, the largest being retirement pensions. While some spending on these pensions go to those of working age who have chosen to take early retirement, the amount involved tends to be swamped by transfers to those above the age of retirement and there is no satisfactory source of data which enables the former to be distinguished from the latter. Accordingly, the analysis is concentrated exclusively on expenditure on unemployment benefits, disability or invalidity benefits, social exclusion benefits (i.e. payments under minimum income guarantee schemes of one kind or another) and housing allowances, all of which go mainly to either the unemployed or the economically inactive. Although social exclusion benefits and housing allowances also go to those above the age of retirement as well as those of working-age who stand to be affected by downturns in economic activity, unfortunately, there is no way of identifying the extent to which they do so and how this has tended to change over time.

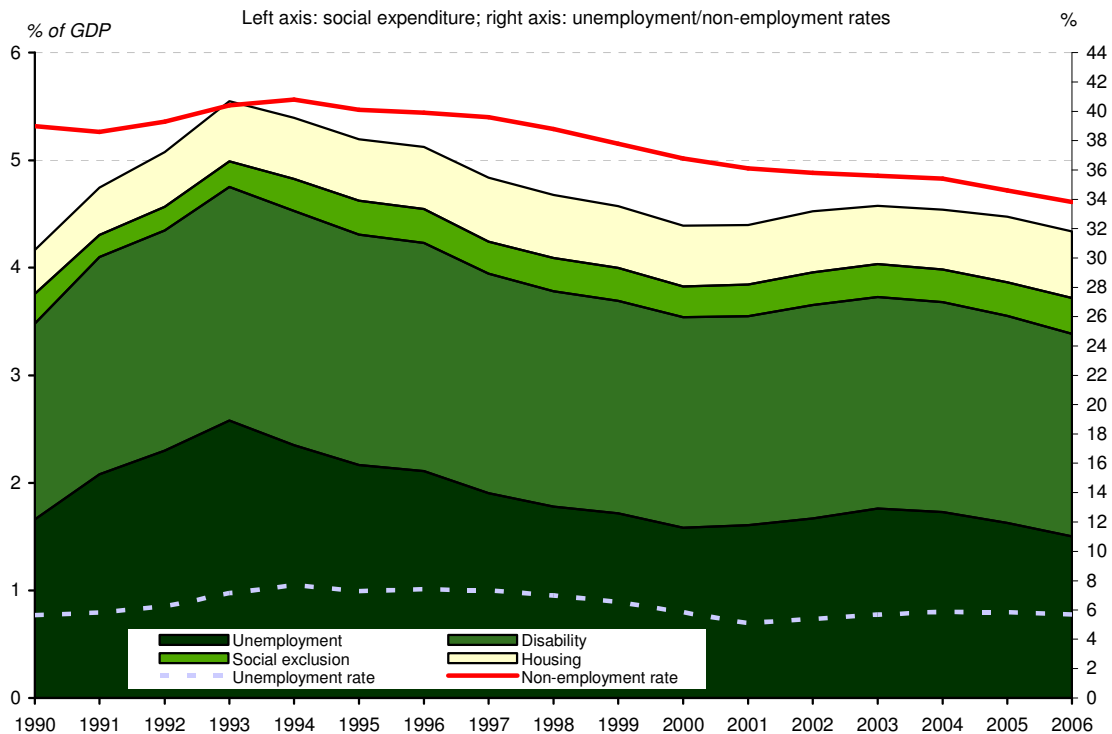
Child and family benefits as well as pensions are left out of account since most of the expenditure on these in most countries is invariant to changes in unemployment and inactivity.

The two focal points here are, first, the overall level of expenditure on the benefits concerned which is related both to GDP in each of the countries to provide a basis for assessing its changing scale in relation to income and to the relative number of people of working age who are either unemployed or inactive and, therefore, potentially in need of support. The

second point of interest relates to the composition of expenditure on these transfers – on the amount spent on unemployment benefits, for example, as opposed to disability benefits or minimum income payments – which indicates the way in which support is delivered and how this has changed over time, as well as how it tended to change over earlier periods of economic downturn.

Starting first with developments in the EU15 as a whole over the period 1990-2006, overall expenditure on the social benefits concerned increased sharply between 1990 and 1993 as the downturn led to rising unemployment and a growing proportion of people of working age not in work (Figure, which shows both the unemployment and non-employment rate – i.e. the unemployed plus the inactive – both as percentage of population aged 15-64 as well as expenditure on the four broad categories of social transfer indicated above). Expenditure on these benefits, therefore, rose from just over 4% of GDP to just over 5.5% over these three years, led principally by an increase in unemployment benefits of almost 1% of GDP (from 1.7% of GDP to 2.6%), though pushed up also by a rise in disability benefits (from 1.8% to 2.2% of GDP) as well as by an increase, if smaller, in housing allowances (from 0.4% to 0.6% of GDP).

Fig. 14 Composition of social expenditure (as % GDP), EU15 (excl Sweden)



Note: Non-employment/unemployment rates: data missing for AT, FI up to 1994

Source: ESSPROS, LFS

From 1993 on, expenditure declined in relation to GDP, falling back to under 4.5% by 2001, as a result primarily of a reduction in spending on unemployment benefits as unemployment declined, though by less than the fall in spending. Expenditure on disability benefits also fell relative to GDP over these eight years, if by much less, as did spending on housing allowances as the relative number of people of working age not in employment declined. On the other hand, despite the fall in the latter, social exclusion benefits (or minimum income payments), which tend to be a transfer ‘of last resort’, rose relative to GDP (by some 22%), in part reflecting the decline in the other benefits. Overall, therefore, expenditure on income support for those of working age declined at around twice the rate of the fall in the proportion of working-age population not in work.

From 2001 to 2003, expenditure on the transfers concerned increased again relative to GDP, largely as a result of a rise in unemployment benefits as unemployment went up during the downturn in economic activity, though also because of a rise in social exclusion benefits. The increase, however, was comparatively modest (4%) but it coincided with a continuing fall, if at a slower pace, in the proportion of people of working age not in employment.

Between 2003 and 2006, expenditure on transfers declined in relation to GDP, once more primarily because of a reduction in unemployment benefits even though the number of those of working age who are unemployed remained broadly unchanged. Again this was offset to a small extent by an increase in social exclusion benefits and housing allowances, so that overall over this three-year period, total expenditure on support to those of working age declined at much the same rate as the reduction in the non-employed.

At the end of the period, therefore, expenditure in the EU15 on the transfers concerned was much the same in relation to GDP as it had been in 1990 before the downturn, though significantly less than in 1993. Moreover, unemployment represented the same proportion of the working-age population as 16 years earlier but the relative numbers who were inactive was much smaller so that there were fewer people of working age not in employment. At the same time, however, the composition of support was slightly different with a smaller amount in the form of unemployment benefits and a larger amount in the form of disability benefits, social exclusion payments and housing allowances. Accordingly, despite the decline in the numbers who were inactive relative to the unemployed, the amount spent on income support other than in the form of unemployment benefits increased relative to the latter. The increasing importance of the unemployed among the non-employed – i.e. the proportion of these actively looking for a job – was, therefore, accompanied by a shift in the opposite direction in the form of the support provided away from unemployment benefits towards other kinds of transfers.

This emerges more clearly if expenditure on supporting the unemployed and the non-employed more generally is related directly to the numbers involved by calculating the average amount per person and if this is then compared with GDP per head in order to put the changes which occurred into perspective. There was, therefore, a sharp increase in the average expenditure on unemployment benefits relative to GDP per head in 1991 as unemployment rose (Table)⁴. This partly reflects the larger amounts paid to the newly unemployed than to those who had been unemployed for some time as well as a possible tendency for those entitled to unemployment benefit to increase relative to those defined as unemployed according to the international convention. From 1992 on, however, the average amount of benefit calculated in this way declined markedly, increasing again in the early part of the present decade as unemployment rose, followed by a further decline.

In 2006, therefore, the average amount of expenditure on unemployment benefits relative to GDP per head in the EU15 as a whole was less than in the late 1990s and much less than in the early 1990s.

By contrast, the average amount of expenditure on support for the non-employed among working-age population in the EU15 remained much the same over the period relative to GDP per head (Table)

⁴ The average amount of benefit is calculated in relation to those defined as unemployed according to the ILO convention rather than to those registered as unemployed. In practice, there can be significant differences between the two.

Table 1: Expenditure on unemployment benefits per person unemployed relative to GDP per head, 1990-2006

	<i>% GDP per head</i>																
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
BE	115	121	122	110	88	87	87	90	83	84	105	104	110	106	110	93	94
DK	90	89	96	93	121	123	115	129	128	117	125	129	117	103	102	98	98
DE	55	84	85	79	62	62	60	50	49	55	58	59	58	52	46	36	34
IE	49	49	56	54	52	58	55	52	55	59	65	71	67	63	63	61	60
EL	29	30	28	21	19	24	21	24	22	25	30	32	35	33	30	28	28
ES	55	64	60	56	42	37	33	32	33	36	38	53	50	49	48	58	62
FR	58	62	57	56	46	46	45	43	43	41	46	54	58	63	57	57	49
IT	15	15	19	20	18	15	14	13	12	11	9	10	12	13	15	16	18
LU	73	109	72	63	45	50	47	77	59	64	66	110	68	59	47	55	46
NL	71	74	99	97	89	85	92	90	88	84	92	113	102	88	68	65	59
AT						77	66	64	57	66	60	72	67	74	69	64	68
PT	19	25	34	37	33	30	30	29	37	30	37	37	36	38	40	34	32
FI	90	75	73	67	64	54	57	52	49	84	44	45	45	47	48	49	47
SE				89	83	80	71	63	66	69	79	75	70	65	57	46	45
UK	36	42	39	38	36	35	32	29	28	29	28	40	29	29	30	30	23
EU15	49	58	59	56	48	47	45	41	41	42	45	51	49	48	45	43	40

Table 2: Expenditure on support of the non-employed of working age relative to GDP per head, 1990-2006

	<i>% GDP per head</i>																
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
BE	18.4	19.6	19.6	21.8	20.8	22.0	22.2	21.2	21.0	21.6	22.3	21.9	24.0	22.3	23.0	23.3	22.7
DK	52.0	53.9	56.1	53.3	56.7	57.3	54.2	53.7	52.4	54.8	51.4	50.9	52.2	53.1	55.1	53.4	52.6
DE	14.0	20.1	21.5	22.4	21.4	20.8	20.9	19.3	19.1	19.8	19.4	19.5	20.2	20.5	19.9	20.2	19.9
IE	14.7	15.7	16.4	16.6	16.1	12.8	15.2	13.6	12.8	12.0	10.9	11.0	11.8	12.2	12.4	12.8	13.2
EL	9.4	8.8	8.4	8.6	8.1	8.7	9.0	9.7	10.2	12.4	13.2	13.5	13.9	13.3	13.7	13.4	13.1
ES	15.5	17.2	17.7	19.2	16.7	14.9	14.3	13.8	13.7	13.7	14.0	14.7	15.6	15.8	16.2	17.8	18.5
FR	20.3	20.6	20.9	22.2	21.3	21.0	21.5	21.1	20.9	20.8	20.9	21.3	22.7	21.9	23.3	23.3	22.4
IT	7.5	7.4	7.7	8.1	7.8	7.1	7.1	6.8	6.4	6.4	6.0	5.9	6.7	7.1	7.6	7.5	7.7
LU	12.3	13.4	13.6	13.8	13.8	12.1	12.1	13.8	13.3	14.4	13.9	17.6	18.0	17.6	18.7	18.7	17.8
NL	32.2	33.1	34.6	34.9	36.1	34.5	34.1	33.6	33.4	32.2	32.1	33.2	34.6	35.1	33.2	31.6	33.5
AT						22.3	22.4	21.5	21.3	22.0	20.0	20.2	21.3	21.8	20.6	20.9	21.5
PT	11.1	12.4	13.2	14.7	15.0	13.2	13.6	13.8	15.4	14.9	16.1	16.4	18.0	19.3	18.2	18.2	18.3
FI	33.9	39.1	44.1	44.2	42.4	38.3	37.7	35.5	32.4	34.3	31.9	21.5	32.2	32.7	32.1	31.2	30.6
SE				60.9	57.5	51.6	47.2	42.9	40.8	42.4	39.2	42.6	42.9	43.9	42.9	42.4	40.9
UK	24.6	27.6	29.7	31.5	31.1	30.7	29.8	28.2	27.2	26.4	25.8	27.0	25.9	25.2	25.2	25.1	24.3
EU15	18.5	20.8	21.7	22.8	21.9	21.2	20.9	20.0	19.6	19.7	19.4	19.9	20.5	20.8	20.6	20.6	20.4

The aggregate picture conceals marked differences between countries. The pattern is similar, however, in most cases. Average expenditure on unemployment benefits relative to GDP per head increased as unemployment rose over the downturn in the early 1990s and was the main factor in the rise in transfers to the non-employed over this period.

In the subsequent upturn, and from the peak in expenditure to the renewed economic downturn in 2001, in particular, expenditure on unemployment benefits was reduced by more than the fall in unemployment in Germany, Italy, Finland and Sweden, but by less in Denmark and Ireland and the Netherlands, while in Greece, Luxembourg and Portugal, expenditure expanded as unemployment fell or rose by less). In the latter three countries, therefore, the rise in average expenditure per person unemployed suggests that the income support provided was extended or increased over this period. In the other countries, expenditure and unemployment changed at similar rates.

At the same time, the overall support provided to the non-employed of working age – i.e. including disability and other benefits – declined by more than the proportion of the non-employed who were inactive in most countries, so that the average amount of support per person fell relative to GDP per head. The only exceptions were Belgium (where expenditure and the non-employed declined by the same amount), Luxembourg, Greece and Portugal, in the latter two reflecting the development of the system to increase coverage.

From 2001 to 2006, taking the downturn and the subsequent upturn together, expenditure on unemployment benefits did not keep track with the changing number of unemployed in most countries. Average expenditure on unemployment benefits, therefore, declined relative to GDP per head, the fall being especially large in Germany, Luxembourg, the Netherlands and Sweden. On the other hand, average benefits relative to GDP per head increased in Spain and Italy, though in the last from a very low level. Overall expenditure on support for those of working age (including the unemployed), however, shows a somewhat different picture. The average amount of expenditure either increased or remained much the same relative to GDP per head over the period. In the majority of the EU15 countries, therefore, there seems to have been a shift from unemployment benefits to other forms of support for those of working-age not in employment. As at the EU15 level, this coincided in most countries with unemployment becoming a more rather than less important reason for non-employment.

Over the 16 years 1990-2006, average expenditure on unemployment benefits in relation to GDP per head increased in only five countries – Denmark, Ireland, Spain, Italy and Portugal – all apart from Denmark being countries in which in some degree the system was underdeveloped in 1990. In all the other EU15 countries, average expenditure on unemployment benefits declined relative to GDP per head (see Figures in Annex). In most of these countries, however, average expenditure on support for the non-employed was higher relative to GDP per head in 2006 than in 1990, the only exceptions being Finland, the UK (where there only a marginal decline) and, most markedly, Sweden.

It should be borne in mind, however, that while the figures are indicative, it cannot be definitively concluded that overall expenditure on income support of the non-employed changed broadly in line with the latter over this 16-year period, since there is no way of knowing how much of the support provided by social exclusion benefits and housing allowances went to those above retirement age.

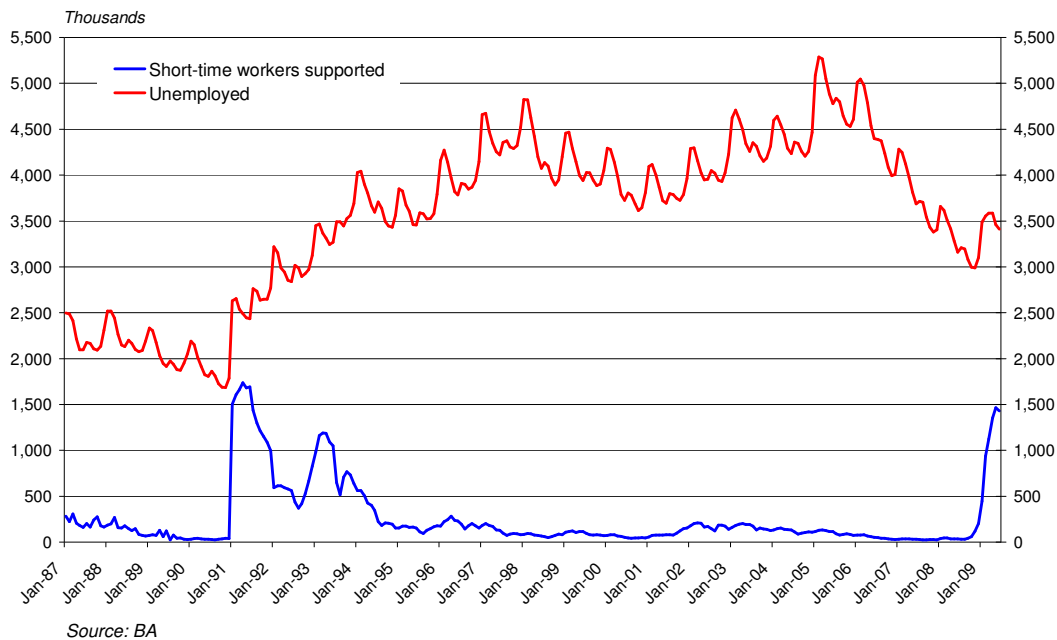
Nevertheless, it does seem that, over the period from 1990 as a whole, there was a decline in unemployment benefits relative to the proportion of working-age population unemployed and a shift of reliance to other kinds of benefit to support the non-employed in most countries. There were also shifts in the composition of support within these other kinds of benefit. In particular, in Denmark and Sweden, and more recently in Ireland and Luxembourg, there has been an increase in expenditure on disability benefits both relative to total expenditure and relative to GDP, which, to some extent, has offset the reduction in unemployment benefits. By contrast, there has been a significant reduction in expenditure on disability benefits in the Netherlands, which had expanded to particularly high levels and which in recent years has been offset by an increase in social exclusion benefits.

Short-time working

In a number of EU Member States, measures are in place to provide support for a reduction in hours of work at times of downturns in economic activity in order to moderate the effects on employment. These measures include partial unemployment benefits, paid to those who work a reduced number of hours or days a week, and temporary support for short-time working, paid to employers to enable them to maintain jobs at times of reduced demand for their products. The latter has been particularly important in Germany during such periods. In

the early 1990s especially, the short-time working allowance was used extensively to preserve jobs and keep down unemployment. At its peak in April 1991, shortly after German unification, it provided support for over 1.7 million workers at a time when unemployment was almost 2.5 million (Figure 14). Then as unemployment increased again to over 3.3 million in the early months of 1993, it provided support to almost 1.2 million. As unemployment continued to increase, however, the number of workers supported by the scheme declined to around 640 thousand at the end of 1993. Nevertheless, it served to moderate significantly the extent of the rise in unemployment, and the social consequences of this, at times when unemployment was increasing most rapidly.

Fig. 14 People supported by short-time working allowance in Germany, monthly data, Jan. 1987 to June. 2009

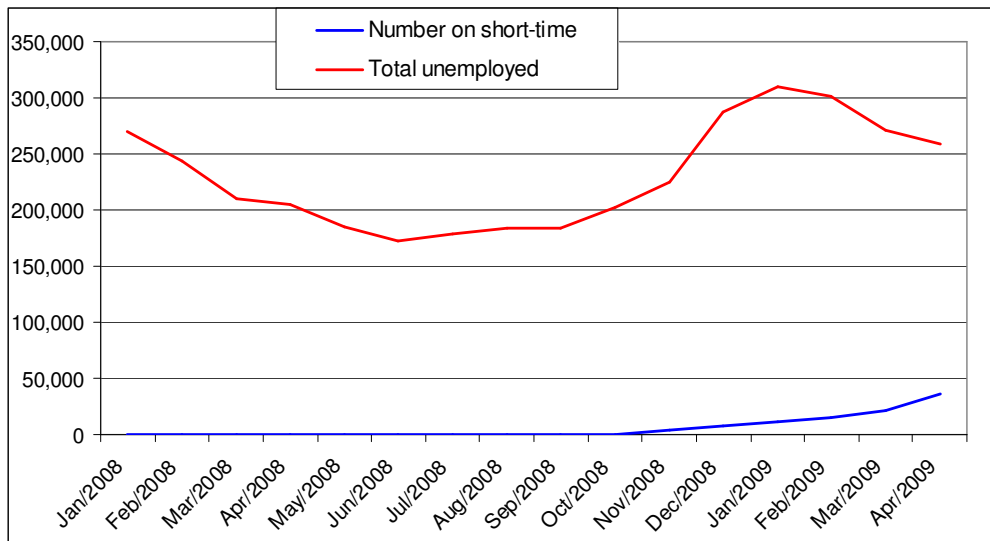


Short-time working was used much less extensively during the downturn in the early part of the present decade, largely because this downturn had much less effect on jobs. In early 2002 and again in early 2003, support was provided for only just over 200 thousand workers. This figure was reached again in December 2008 at the start of the present recession. From then on, however, there was a steep rise in short-time working, the number supported by the scheme increasing to 1.46 million by May 2009. Though it fell slightly in June, it remained above 1.4 million, equivalent to over 40% of the number unemployed. Nevertheless, this is below the number supported at the peak in the early 1990s when unemployment was lower but when it was rising particularly sharply after unification. Of those supported by the scheme, only 12% were in the new Länder (where the rate of unemployment was much higher than in the rest of the country) and some 80% were men, both features reflecting the industrial nature of the jobs supported.

The relative concentration of the short-time working scheme in the western part of Germany contrasts markedly with the geographical pattern of support in the early 1990s. Then, in 1991, some 92% of the people supported under the scheme were in the new Länder, reflecting the focus of policy at the time on moderating the rise in unemployment in this part of the country just after unification, whereas the focus in 2009 has been on keeping people employed in industry, especially in the engineering and automotive industries in the western Länder.

A similar short-time working scheme also exists in Austria, though here it has been less extensively used to support those employed in companies in which the volume of work has declined during the recession. The number supported under the scheme first began to rise in the last quarter of 2008 as unemployment started to increase significantly, but by December, it had only risen to just over 7,000, less than 2% of the total number unemployed at the time. It continued to increase during the first four months of 2009, reaching just over 36,000 in April (Figure 15). This, however, still amounted to only around 14% of the total number registered as unemployed, much less than in Germany. Nevertheless, it seems to have contributed to the decline in unemployment which occurred over the early part of 2009.

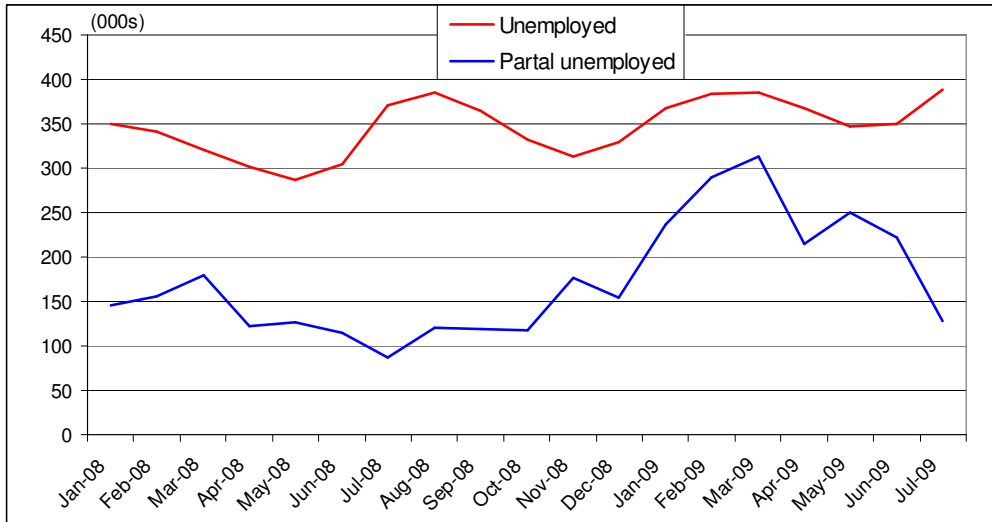
Fig. 15 People supported by short-time working allowance in Austria, monthly data, Jan. 2008 to April, 2009



A short-time working allowance is also in operation in Portugal, though here the number of workers supported under the scheme is considerably smaller than in Austria, let alone in Germany. Despite a significant increase in support in the early months of 2009 as the recession deepened, the number supported at its peak in May 2009, which was just over 6,400, was equivalent to only slightly above 1% of the total number unemployed (some 512,000). Since May, moreover, the number has declined to a little around 5,100 in August.

In a few other countries, partial unemployment benefits act in a similar way to short-time working allowances, providing those whose hours of work are reduced because of a downturn in the economy with income support, so enabling them to continue in employment rather than to become fully unemployed. The scheme is particularly important in Belgium, where the number of people receiving partial unemployment benefit rose sharply in the early months of 2009, increasing to around 313,000 in March, equivalent to over 80% of the total unemployed at the time (385,000) (Figure 16). It, therefore, played a major role in moderating the rise in 'full' unemployment. In the following months, the number receiving partial unemployment benefit fell markedly to around 127,000 in July, only a slightly more than a year earlier and unemployment has begun to rise again (to just over 400,000 in August).

Fig. 16 People receiving partial unemployment benefit in Belgium, January 2008 to June 2009



Partial unemployment benefit also exists in France, though here the scheme is more modest than in Belgium, supporting about the same number of people in a country with a population of working age around six times bigger. Nevertheless, the number receiving benefit rose markedly in the latter part of 2008 as the recession began to be felt, increasing from 46,000 in the third quarter of the year to 157,000 in the first quarter of 2009 and to 319,000 in the second quarter (Figure 17). This, however, amounted to only around 12% of the total fully unemployed, which had risen to almost 2.7 million, though it still made an important contribution to preventing unemployment going even higher.

In Finland, partial unemployment is much less important than in France, supporting an average of only just 4,000 people a month in the first 8 months of 2009. Here, on the other hand, it exists alongside a temporary lay-off scheme which supported many more people during this period, a total of just over 35,000 at the peak in March and April 2009 and still almost 29,000 in August. Together with the partial unemployment scheme, it helped to moderate the rise in 'full' unemployment in the early months of this year, the total number supported under both schemes amounting to just over 17% of the number unemployed (Figure 18).

Fig. 17 People receiving partial unemployment benefit in France, first quarter 2007 to second quarter 2009

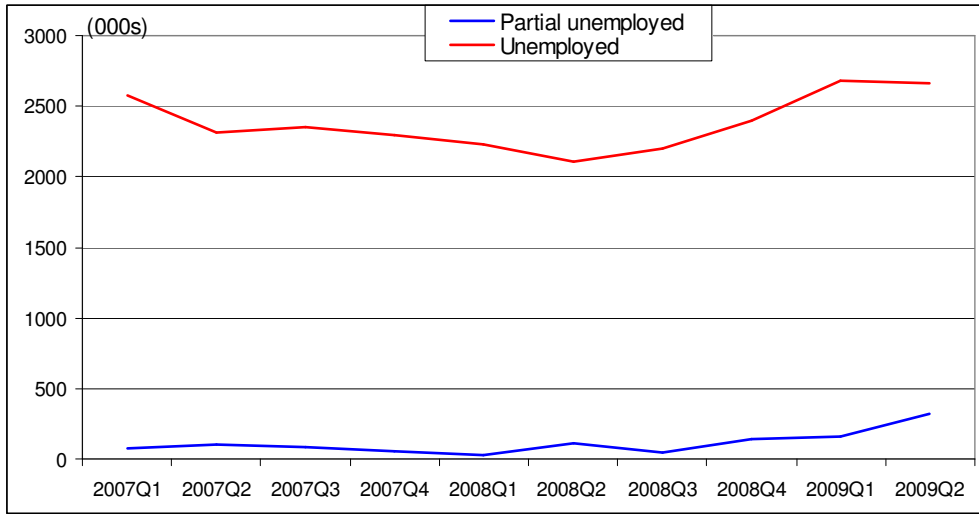
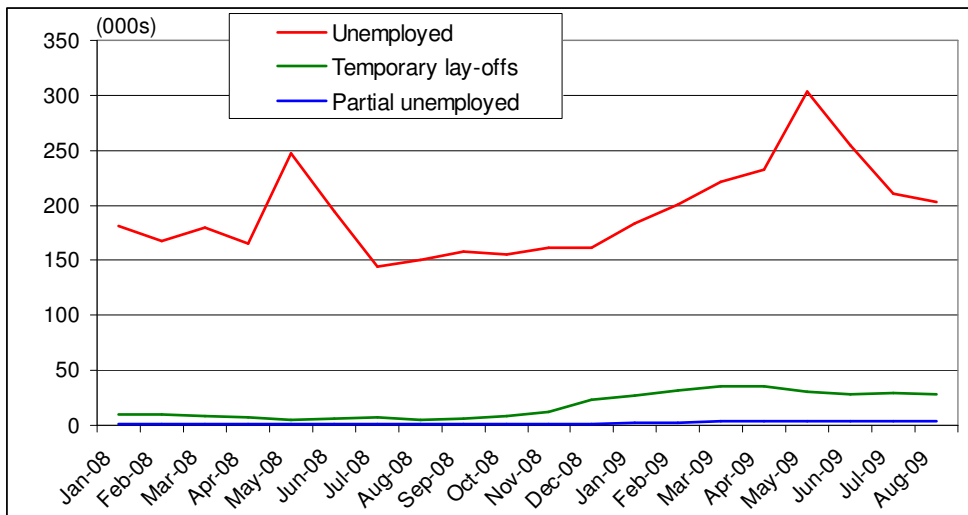


Fig. 18 People receiving partial unemployment benefit and temporary lay-off allowances in Finland, January 2008 to August 2009



III. Income support of those affected by recession

As noted above, there are no direct data on the extent to which people hit by economic downturn are protected by the social welfare system in different countries across the EU. The data on expenditure on social transfers to working-age population are indicative of the way this support has changed since 1990 and of the changes in support which occurred during earlier economic downturn. Data from the EU-SILC, although they relate to the situation some 3 years ago, which accordingly might have changed since, also give an indication of the extent to which those becoming unemployed are likely to receive income

support and the relative scale of this. These data suggest that both the extent of support and its scale varies markedly across countries both for young people under 25, who as noted above are especially vulnerable to the effects on jobs of recession but who may have more difficulty in satisfying the eligibility criteria for receipt of income support, and for those older than this.

Income support to the unemployed aged 25-64

In many Member States, nearly all of those aged 25 and over are likely to receive unemployment benefit if they lose their job, especially if they are unemployed for any length of time. In Belgium, Denmark, Germany, Austria and Finland, therefore, over 90% of those aged 25-59 who were unemployed for over 3 months during 2006 received unemployment benefit, while in France and Hungary, the proportion was two-thirds or more (Table 3).

In a number of other countries, however, only a minority of those unemployed for this length of time during the year received unemployment benefit and less than a third in Estonia, Lithuania, Poland, Slovakia and the UK.

Table 3: Proportion of those aged 25-59 receiving social benefit by number of months unemployed, 2006

	% receiving unemployment benefits <i>Months unemployed in 2006:</i>				% receiving some form of benefit* <i>Months unemployed in 2006:</i>			
	1	2-3	4-6	7-12	1	2-3	4-6	7-12
Belgium	75	82	95	95	75	83	95	97
Czech Republic	75	75	71	23	88	87	85	63
Denmark	76	73	94	85	90	88	97	93
Germany	86	87	90	84	92	90	97	90
Estonia	12	17	22	11	34	32	40	16
Ireland	46	23	51	59	65	31	58	71
Greece	17	47	53	17	17	49	55	22
Spain	61	64	63	39	64	67	67	43
France	67	74	73	67	74	83	81	87
Italy	60	66	67	22	65	68	70	27
Cyprus	48	40	61	26	59	43	66	34
Latvia	9	27	39	28	30	52	52	41
Lithuania	16	17	15	8	32	49	23	23
Luxembourg	44	62	64	38	63	65	69	67
Hungary	64	70	76	74	68	77	80	79
Netherlands	71	58	74	31	88	90	98	100
Austria	84	90	98	93	89	90	99	96
Poland	22	24	29	10	32	36	46	25
Portugal	53	48	40	50	57	48	43	56
Slovenia	29	60	32	40	69	83	69	73
Slovakia	36	46	35	14	46	59	55	59
Finland	72	84	91	93	82	89	96	95
Sweden	41	58	68	49	78	85	79	87
UK	13	19	21	41	27	40	44	74
EU25	59	63	64	50	68	71	72	63

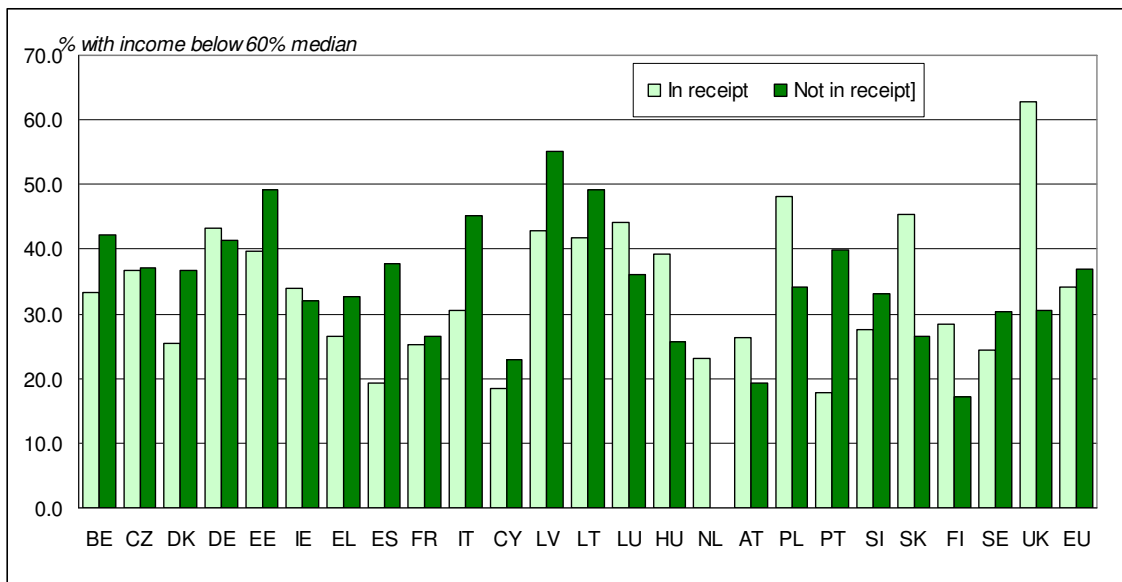
* One or more of sickness, disability and social exclusion benefits and education allowances
Source: Eurostat, EU-SILC 2007

In most of the latter countries, however, social exclusion benefits or minimum income schemes of some kind provided support to many of those not in receipt of unemployment benefits, especially if they had been unemployed for a relatively long period of time. This was especially the case in Slovakia and the UK, where 59% and 74%, respectively, of those who had been unemployed for over six months during the year received a benefit of some kind, or lived in a household which received at least one benefit.

In Estonia, Lithuania and Poland only a small minority of those unemployed for more than six months received any benefit. In addition, a similarly small proportion of such people were in receipt of benefit in Greece, Italy and Cyprus. The situation was somewhat better in Spain and Latvia, but still only just over 40% of those who had been unemployed for more than six months received benefits.

Being in receipt of benefits, however, does not necessarily mean that the people concerned are not at risk of poverty. In the EU25 as a whole, the proportion of those who had experienced unemployment during the previous year with income below 60% of the national median was only slightly larger for those who received benefit than for those who did not. In a number of countries, including Hungary, Poland, Slovakia, the Netherlands (where none of the very few not in receipt of benefits had income below the poverty threshold), Finland and the UK, it was smaller (Figure 19). This reflects a number of different factors, including the differing household circumstances of the people concerned and the income earned by other members, as well as, in the UK in particular, the fact that the reason for a person not receiving benefit may be that the income of the household in which they live or its accumulated savings is above the ceiling for eligibility for means-tested income support. In all these countries, the risk of poverty was high for those receiving benefits and even though it was lower for those not doing so, it was still relatively high.

Fig. 19 Proportion of those aged 25-59 unemployed for at least a month during 2006 at risk of poverty by receipt of benefits



In many other countries, including all four southern Member States together with Cyprus and the three Baltic States, as well as Denmark and Sweden, the proportion with income below the poverty threshold was much larger for those who did not receive benefit, which, except in the two Nordic countries, reflects the relatively limited coverage of the social welfare system. At the same time, it is worth noting that in Spain, Cyprus and Portugal, those who did receive benefits had a relatively low risk of poverty as compared with most other countries.

Nevertheless, the evidence suggests that in most countries those who experience unemployment have a relatively high risk of poverty, irrespective of whether they are in receipt of income support or not. This risk, moreover, tends to increase significantly with the duration of unemployment. In the EU as a whole, therefore, some 43% of those aged 25-59 who had experienced over 6 months of unemployment during 2006 had income below the

poverty threshold as against 18% of those who had been unemployed for three months or less. The increased risk is evident in all countries, and it is particularly marked in the three Baltic States and the UK. Only in the Netherland and Sweden did less than 30% of those unemployed for over 6 months have income below the poverty threshold (Table 4).

Table 4: Relative number of people aged 25-59 at risk of poverty by months of unemployment in 2006

	Number of months unemployed			
	1	2-3	4-6	7-12
Belgium	15.2	17.1	22.5	37.5
Czech Republic	8.1	11.3	18.0	49.1
Denmark		14.8	13.2	32.8
Germany	14.2	19.6	18.8	52.9
Estonia	6.7	15.4	34.6	65.3
Ireland	10.0	8.6	23.4	45.4
Greece	51.5	21.0	21.1	36.3
Spain	19.2	15.4	17.4	35.5
France	12.7	12.0	16.8	31.3
Italy	19.1	19.6	27.4	45.3
Cyprus	15.4	16.8	19.3	31.5
Latvia		39.0	24.8	60.0
Lithuania		17.2	36.3	58.7
Luxembourg	19.8	39.7	36.6	46.9
Hungary	12.9	14.5	31.4	46.4
Netherlands	7.9	12.9	18.6	28.5
Austria	6.3	11.0	17.7	41.4
Poland	22.5	22.8	28.6	43.4
Portugal	8.9	17.7	22.4	33.4
Slovenia	27.4	13.7	28.7	35.4
Slovakia	7.2	16.6	25.3	47.1
Finland	4.7	12.7	17.7	41.6
Sweden	22.0	19.7	25.0	29.3
UK	41.1	31.7	38.9	60.9
EU25	18.0	17.8	22.0	43.0

*Note: Figures in bold indicate a relatively high degree of uncertainty because of the small number of observations. Missing figures indicate that the number of observations is too small to be reliable.
Source: EU-SILC 2007*

Income support to the unemployed aged 18-24

According to the EU-SILC for 2007, around 52% of young people aged 18-24 (i.e. above the age of being defined as a child in the survey) were economically active in the EU25 in 2007 in that they defined themselves as being either employed or unemployed. Of these, around 20% (11% of the total) were also in education or training, the proportion being relatively high in countries, such as Denmark and Germany, where the dual system is important. A further 4% classed themselves as being inactive but were not in education or training (Table 5).

There were, therefore, some 56% of this age group (the economically active together with the inactive not in education or training) who were potentially vulnerable to the recession, though the figure varied from over 70% in the UK to only just under a third in Slovenia. The figure in question was over half of the age group in all countries apart from Denmark, Cyprus, Luxembourg and Slovakia as well as Slovenia.

Table 5: Division of those aged 18-24 by employment status, 2007*% Distribution of young people aged 18-24*

Country	Employed or unemployed and studying	Employed or unemployed and not studying	Inactive and not studying	In full-time education or training	Inactive and studying
Belgium	7.7	41.9	3.2	46.2	1.0
Czech Republic	1.6	48.1	2.9	47.2	0.2
Denmark	21.7	23.7	2.0	51.4	1.1
Germany	24.0	26.4	2.5	46.7	0.4
Estonia	11.4	42.4	5.8	39.6	0.7
Ireland	12.7	46.6	4.2	35.6	1.0
Greece	3.3	41.1	6.0	49.5	0.2
Spain	5.3	46.3	4.0	42.7	1.8
France	7.0	44.7	3.0	44.9	0.5
Italy	3.3	45.4	7.2	43.9	0.2
Cyprus	4.9	32.1	3.6	59.4	0.1
Latvia	15.1	44.2	7.7	32.7	0.4
Lithuania	14.5	33.3	4.0	48.2	0.0
Luxembourg	4.2	34.5	2.5	58.8	0.0
Hungary	4.4	44.7	6.6	42.7	1.6
Netherlands	10.1	40.7	1.7	47.4	0.1
Austria	8.2	52.8	5.7	33.2	0.1
Poland	13.2	35.9	4.0	46.4	0.5
Portugal	4.6	50.3	4.6	40.4	0.2
Slovenia	6.8	25.1	0.6	67.4	0.1
Slovakia	2.4	43.1	3.3	50.8	0.3
Finland	16.1	37.9	3.7	41.5	0.8
Sweden	4.4	56.2	1.9	37.5	0.0
UK	13.5	51.7	5.6	28.7	0.6
EU25	10.7	41.4	4.1	43.2	0.6

Source: Eurostat, EU-SILC, 2007

Of this group of young people, almost a quarter (around 23%) experienced at least one month of unemployment in 2006 across the EU25, this proportion varying from over 30% in Belgium, the Czech Republic, Italy and Cyprus and around 36% in Greece and Poland to only around 6% in Denmark and the Netherlands, the only countries where the figure was under 10% (Table 6).

The survey also indicates that experiencing unemployment tends to increase the risk of poverty among young people significantly. Around 42% of those with income below the poverty threshold in the EU25 had been unemployed at some point during the year as opposed to around 20% of those with higher income. This broad picture is common to all Member States, but unemployment seems to be a particularly important reason for having low income in the Czech Republic and Slovakia (where around two-thirds of people at risk of poverty in this age group had experienced unemployment) and to a lesser extent in Belgium, Ireland, Luxembourg and Poland (where well over half had).

Table 6: Proportion of young people aged 18-24 and economically active who have been unemployed for at least one month in 2006

Country	Total (%)	Above poverty threshold (%)	Below poverty threshold (%)	Below threshold as % total
Belgium	30.7	26.2	52.8	29.4
Czech Republic	32.0	25.8	69.7	31.1
Denmark	5.9	5.0	9.1	34.1
Germany	16.8	14.1	31.3	29.1
Estonia	16.3	12.0	43.5	36.4
Ireland	23.0	18.9	53.6	27.5
Greece	35.7	33.4	42.8	28.8
Spain	24.7	21.6	41.9	25.5
France	26.9	22.5	45.9	32.2
Italy	30.6	25.9	44.1	37.4
Cyprus	31.7	30.2	43.4	15.4
Latvia	14.8	12.0	31.6	30.9
Lithuania	10.8	9.4	20.4	24.3
Luxembourg	29.7	23.7	54.2	36.1
Hungary	24.8	20.3	47.4	31.4
Netherlands	6.4	5.6	15.5	18.7
Austria	17.0	15.3	31.2	19.5
Poland	35.9	30.2	56.3	34.3
Portugal	23.9	21.7	34.4	24.3
Slovenia	17.0	14.1	43.8	25.3
Slovakia	29.5	25.0	64.4	24.8
Finland	22.5	18.1	44.1	33.4
Sweden	18.6	14.7	33.7	37.4
UK	14.0	11.2	28.7	32.7
EU25	23.4	19.5	41.5	31.4

Source: Eurostat, EU-SILC, 2007

Overall, almost a third of those in this age group who had experienced unemployment had income below the poverty threshold in the EU25 as a whole, the figure varying from over 37% in Italy and Sweden to only just over 15% in Cyprus. It was, however, above 20% in all countries apart from the latter, the Netherlands and Austria, and over 30% in half the Member States for which there are data.

People in this young age group were in most countries less likely to receive income support if they experienced unemployment than those in older age groups. In the EU25 as a whole, less than 40% of those who had been unemployed in 2006 were in receipt of a social benefit, the figure being only slightly higher for those with income below the poverty threshold than for those with income above (Table 7).

The proportion receiving benefits varied markedly across countries, from 84-86% in the three Nordic Member States and over 80% in Austria to less than 20% in Estonia, Lithuania, Cyprus, Poland, Slovakia and Spain and to under 10% in Greece. As in the case of the older age group, in around half the countries, the proportion receiving benefits was larger for those with income below the poverty threshold than for those with income above, for the same reasons as indicated above, while in the other half the reverse was the case. The difference between the two groups, however, was in most cases much smaller than for those aged 25-59. Again, as for the older age group, the receipt of benefit was, therefore, no guarantee of preventing income from falling below the poverty threshold, though in many countries, the

proportion of those with income below the poverty threshold was very small – under 10% in Greece and Spain and under 20% in the other two southern Member States, Italy and Portugal, as well as in Cyprus, Estonia, Lithuania and Poland.

Table 7: Proportion of those aged 18-24 economically active and in receipt of income support by income above or below the risk-of-poverty threshold, 2006

% in receipt of at least one benefit

Country	Total	Above 60% of median	Below 60% of median
Belgium	61.1	54.5	77.0
Czech Republic	51.4	49.5	55.8
Denmark	84.1	80.0	92.1
Germany	75.1	73.6	78.7
Estonia	14.5	15.2	13.4
Ireland	50.1	39.1	78.9
Greece	9.0	10.2	5.9
Spain	18.7	22.1	8.6
France	48.3	49.3	46.2
Italy	22.7	26.0	17.1
Cyprus	16.5	17.5	10.6
Latvia	22.0	21.6	23.0
Lithuania	14.9	14.8	15.4
Luxembourg	31.1	28.3	36.1
Hungary	53.3	51.8	56.4
Netherlands	67.9	70.6	56.3
Austria	82.2	85.3	69.5
Poland	16.0	15.8	16.4
Portugal	23.2	25.6	15.9
Slovenia	50.4	51.8	46.5
Slovakia	18.0	15.1	26.8
Finland	86.2	88.7	81.3
Sweden	85.6	83.7	88.7
UK	43.1	26.3	78.1
EU25	38.4	37.8	39.8

Note: Social benefits here include unemployment, sickness and disability benefits and education allowances, plus social exclusion benefits going to the households of young people who are no longer living with their parents
Source: EU-SILC, 2007

The majority of young people who were economically active and had at least one spell of unemployment lived independently from their parents (around 53% in the EU25 as a whole, much the same proportion as those not experiencing unemployment), and, therefore, without immediate potential access to other sources of income (Table 8). Of these, most lived in a couple household, in most cases without children. The only countries in which a clear majority lived with their parents were Ireland, Luxembourg, the Netherlands and Slovakia.

Table 8: Distribution of economically active aged 18-24 unemployed for at least one month in 2006 by type of household

Country	Living alone	Lone parent	Couple with no child	Couple with child(ren)	Other
Belgium	3.8	2.8	28.2	13.8	51.4
Czech Republic	1.2	3.7	33.1	16.8	45.1
Denmark	0.0	0.0	34.8	18.4	46.9
Germany	5.2	3.0	30.6	12.4	48.7
Estonia	5.4	0.9	32.4	11.3	49.9
Ireland	2.8	3.6	23.3	13.2	57.2
Greece	0.9	1.3	55.6	5.6	36.7
Spain	1.5	0.8	45.4	10.6	41.7
France	5.8	6.0	22.6	16.6	49.2
Italy	2.4	3.0	28.1	21.3	45.2
Cyprus	3.8	0.4	37.8	9.5	48.5
Latvia	0.5	2.4	27.6	18.2	51.3
Lithuania	3.4	2.5	53.4	9.6	31.0
Luxembourg	6.0	0.3	31.6	2.3	59.8
Hungary	0.9	2.7	29.0	20.8	46.6
Netherlands	15.7	4.6	11.8	7.2	60.7
Austria	6.1	8.6	30.0	28.5	26.8
Poland	1.2	2.9	31.3	13.7	51.0
Portugal	2.0	2.4	31.6	16.7	47.3
Slovenia	2.5	4.4	27.4	17.5	48.1
Slovakia	1.6	0.8	31.3	10.1	56.2
Finland	19.2	2.2	14.8	19.1	44.6
Sweden	23.5	3.0	16.6	16.9	39.9
UK	2.7	12.2	21.0	20.1	44.1
EU25	3.1	3.7	31.0	15.4	46.8

Note: 'Other' shows in most cases young people living with their parents
Source: EU-SILC

As for those aged 25 and over, the risk of poverty among young people tends to increase the longer they have been unemployed or the more spells they experienced. Again, over 40% of those aged 18-24 across the EU who had experienced 6 months or more of unemployment during 2006 had income below the poverty threshold, almost twice the proportion of those unemployed for fewer months during the year (Table 9). This higher risk is evident in all Member States except Portugal.

For young people, however, the effect of recession is not only to increase their risk of poverty but to delay their entry into employment, which could cause lasting damage to their future career prospects. Those leaving the education and initial vocational training system when few jobs are available may find themselves competing for jobs when the recession eases with those who left a year later and who, therefore, do not have the stigma of unemployment on their record.

Table 9: Relative number of people aged 18-24 at risk of poverty by months of unemployment in 2006

% with income below 60% of median

	1-6 Months	7-12 Months	Total
Belgium	14.0	42.9	29.4
Czech Republic	15.8	44.3	31.1
Denmark			34.1
Germany	25.5	34.1	29.1
Estonia	27.2	49.4	36.4
Ireland	17.5	35.5	27.5
Greece	27.5	29.7	28.8
Spain	17.1	33.4	25.5
France	20.3	45.5	32.2
Italy	24.3	41.3	37.4
Cyprus	14.6	17.8	15.4
Latvia	18.7	41.6	30.9
Lithuania	17.3	35.0	24.3
Luxembourg	32.6	42.4	36.1
Hungary	19.8	45.7	31.4
Netherlands	10.3		18.7
Austria	4.2	49.2	19.5
Poland	23.9	43.2	34.3
Portugal	26.2	22.5	24.3
Slovenia	19.3	42.0	25.3
Slovakia	15.5	36.5	24.8
Finland	24.3	46.8	33.3
Sweden	36.5	40.0	37.4
UK	21.6	51.0	32.7
Total	21.5	40.6	31.4

Note: Missing figures indicate that the number of observations is too small to be reliable, though in both Denmark and the Netherlands, they show a large difference in relative numbers between those unemployed for 6 months or less and those unemployed for more.

Source: EU-SILC 2007

IV. Employment and unemployment in the present recession

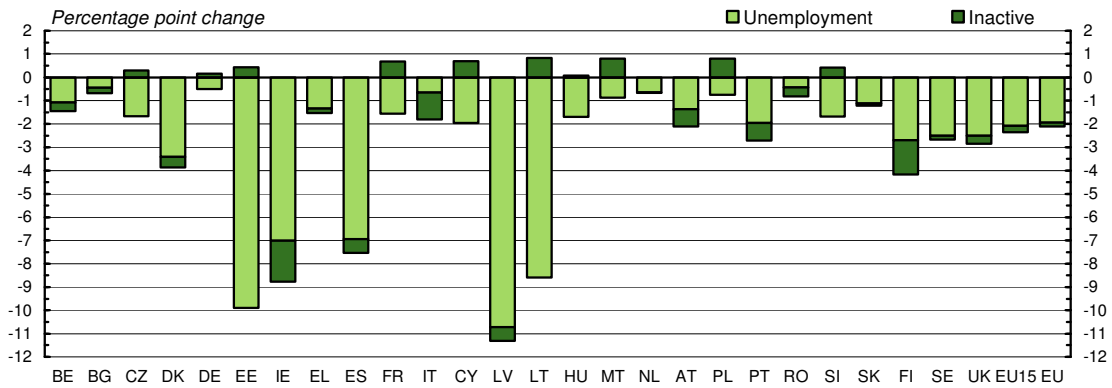
The initial phases of the present recession – the only period for which data are so far available – display much similarity with the earlier economic downturns described above and there is little evidence that the present recession is having a different effect on social groups from previous downturns.

In most countries in which the recession was underway by the first part of 2009, those who were affected most by job losses and the reduced rate of new job creation were men much more than women, again as a consequence of the differential effect of the recession on the investment goods industry as well as construction, and young people under 25, hit by the lack of job opportunities.

While the employment rate of women changed by relatively little in the EU between the second quarter of 2008 and the second quarter of 2009, falling significantly by over 1 percentage point) only in Estonia, Latvia,, Spain, Ireland, the Czech Republic, Slovakia,

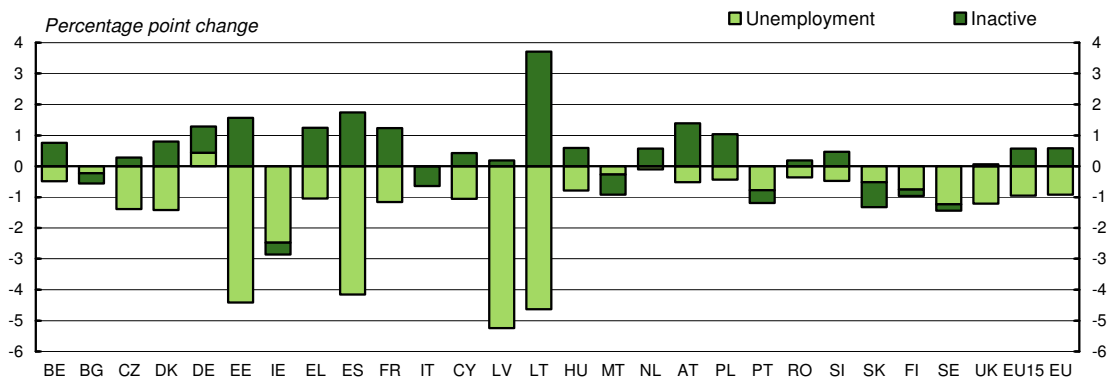
Portugal, the UK and Sweden, the employment rate for men fell by 2.3 percentage points in the EU as a whole, rising only in Luxembourg. In Latvia, the rate declined by over 11 percentage points, in Estonia, by almost 10 percentage points, in Ireland, by around 9 points and in Spain and Lithuania, by just under 8 points (Figures 20 and 21 – note that these and the following charts show the division of a change in the employment rate between the change in unemployment and the change in inactivity which are the counterparts of this. Increases in unemployment and inactivity are, therefore, represented as negative items in the chart and the total change in employment is the sum of the two. Where there is a reduction in inactivity – or a rise in activity – shown as a positive part of the bar in the chart, the change in employment is given by the increase in unemployment less the reduction in activity. For example, in Lithuania, the reduction in the employment rate of men over the period is the rise in unemployment, 8.6% of those aged 15-64, less the decline in inactivity, 0.8% of the age group, which means 7.8%, whereas in Latvia, it is 10.7%, the rise in unemployment, plus 0.6%, the rise in inactivity, or 11.3%).

Fig. 20 Change in employment rate of men aged 15-64 in Member States, 2008.Q2 to 2009.Q2



Note: LU: data too small to be reliable

Fig. 21 Change in employment rate of women aged 15-64 in Member States, 2008.Q2 to 2009.Q2



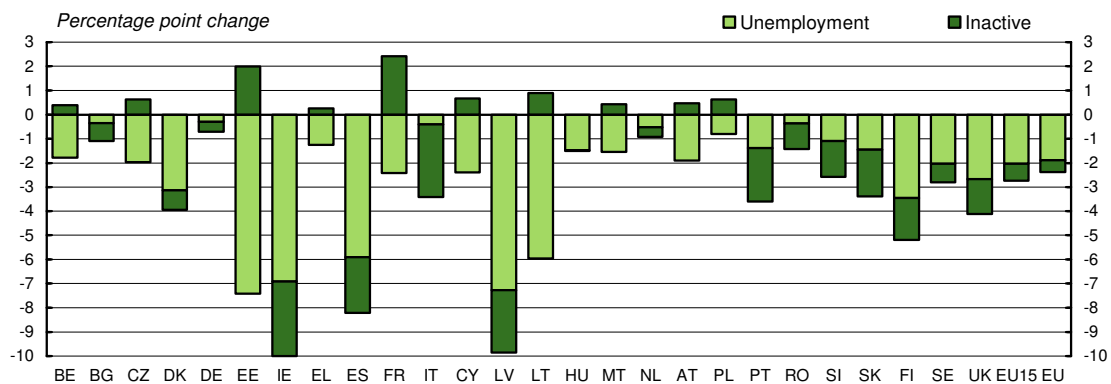
Note: LU: data too small to be reliable

In Germany, by contrast, the employment rate fell only slightly, reflecting to a significant extent, as noted above, the substantial number of men working reduced hours and supported by the short-time working allowance.

For young people under 25, the decline in the employment rate was even greater, amounting to around 2.5 percentage points over the year up to the second quarter 2009 and around 3.5 percentage points in the case of men in this age group. In both Ireland and Latvia, the employment rate of young people fell by around 10 percentage points (from 46% of population aged 15-24 to only 36% in the first and from 38% to 28% in the second), and in Spain by just over 8 percentage points (Figure 22). Only in Luxembourg was there any rise in the employment rate.

Unlike in the downturn in the early 1990s, the decline in employment was accompanied across the EU by much more of a rise in unemployment than in inactivity, suggesting that the prevailing tendency was for young people to continue actively looking for a job rather than to remain in, or return to, education and training. There are, however, a number of exceptions, including Italy, in which most of the fall in employment was matched by a rise in inactivity with only a small increase in unemployment, and Bulgaria, Germany, Portugal, Slovenia and Slovakia, where most of the decline in employment was associated with a rise in inactively rather than higher unemployment. In 11 of the 27 Member States, inactivity rates fell over this 12-month period as more young people joined the work force, many of them going into unemployment rather than a job.

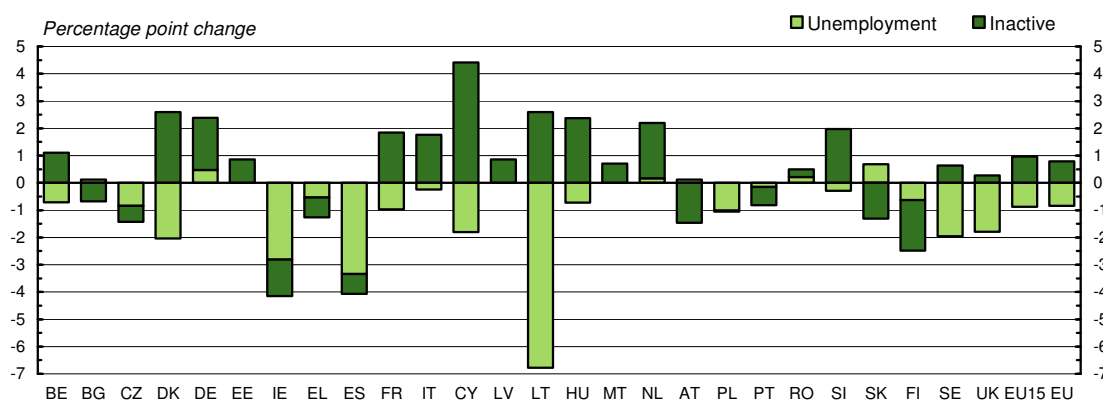
Fig. 22 Change in employment rate of people aged 15-24 in Member States, 2008.Q2 to 2009.Q2



Note: LU: data too small to be reliable

Unlike in the early 1990s too, older people in the work force have, in general, been less affected by job losses than younger age groups. There is, therefore, no sign of any widespread move to use early retirement as a means of making reductions in employment. As indicated above, employment rates of men aged 55 and over, which had declined markedly during the downturns of the 1970s and 1980s, have shown an upward trend since 2000 or so. This seems to have continued in many countries in the early phases of the recession, though often at a much reduced rate, the overall employment rate of those aged 55-64 across the EU increasing only marginally (Figure 23).

Fig. 23 Change in employment rate of men aged 55-64 in Member States, 2008.Q2 to 2009.Q2



Note: LU: data too small to be reliable

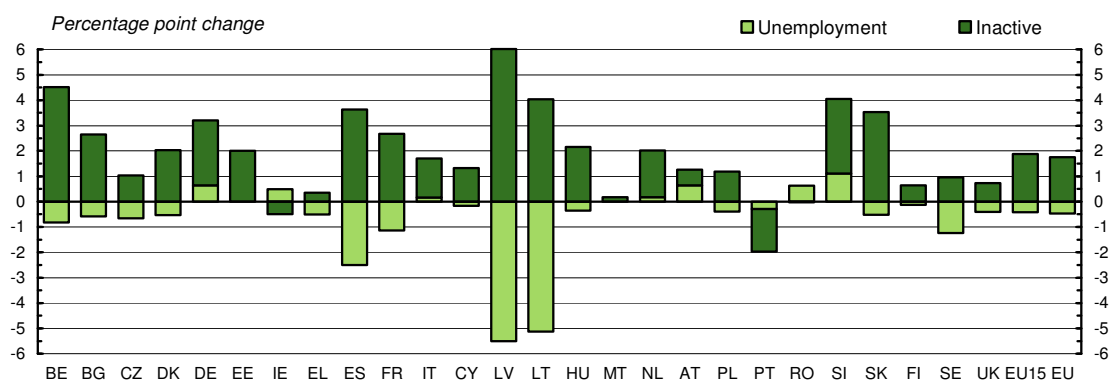
Even in those countries where employment has been hit especially hard – the three Baltic States, Ireland and Spain – the employment rate of men aged 55-64 declined by much less than for men as a whole. Indeed, in Estonia, the employment rate increased over the year up to the first quarter 2009, and in Latvia and Lithuania, it fell by only around half as much or less than the rate for all men). In none of the countries, did the employment rate for older men fall by more than the overall rate for men and in a number, it rose while the overall rate fell.

There has also been no general tendency for the rate of withdrawal from the work force of men in this age group to increase over the initial phases of the recession. Although inactivity rates went up in 9 Member States as employment declined, they went down in 17 countries, in some cases considerably (by over 2 percentage points in Denmark, Cyprus, Lithuania, Luxembourg and Hungary).

The test, however, will be for Member States to avoid resorting to early retirement as a means of freeing up jobs for young people as the recession, or more precisely the low rate of new job creation, continues, which was a major motivation for the adoption of such a policy in the 1970s and 1980s. If this were to happen, it could undo the progress made over the present decade in keeping older people in work and have significant longer-term implications for the growth of the labour force across the EU in the context of a prospective decline in the number of people of working age.

Employment rates of older women, as of younger women, have also continued their upward trend in most countries in the early phases of recession, rising by 1.5 percentage points in the EU over the year up to the second quarter 2009 and falling only in Ireland, Greece, Lithuania, Luxembourg, Portugal and Sweden. Most of the increase in employment, moreover, was associated with an increase in activity rates (Figure 24).

Fig. 24 Change in employment rate of women aged 55-64 in Member States, 2008.Q2 to



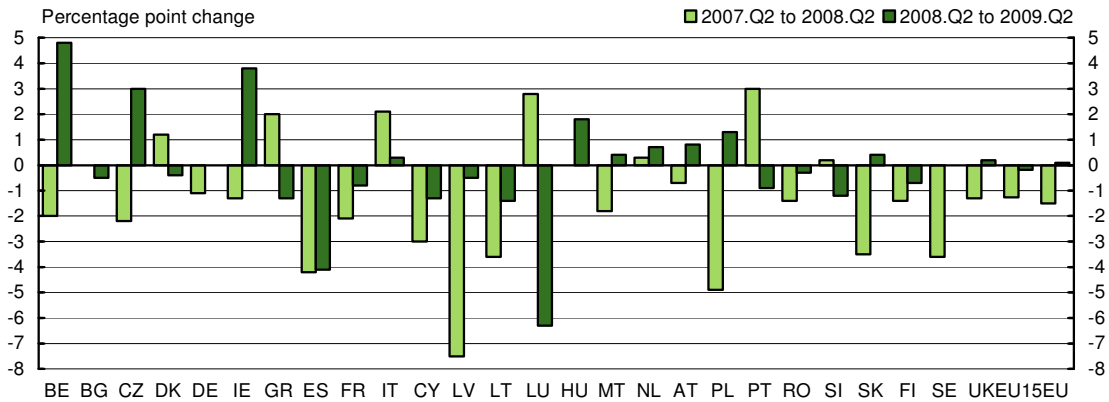
Note: LU: data too small to be reliable

Temporary jobs

There was an overall decline in the proportion of people employed in temporary jobs in the EU in the initial phases of the recession, especially in the EU15. The decline, however, was largely concentrated in Spain, where the proportion of employees in such jobs fell by around 3.5 percentage points over the year up to the second quarter 2009 in respect of those aged 25 and over, and to a lesser extent in France, Italy, Portugal and Sweden (where it fell by around 1 percentage point in each case). Except in these countries, therefore, there is little evidence of any tendency for those in such jobs to be the first victims of the downturn in economic activity.

At the same time, a large proportion of those employed in temporary jobs are young people under 25, the relative number of whom until the recent past has tended to increase in most Member States. Over the past few years, however, there has been a widespread tendency for the upward trend to moderate and to go into reverse. In the year up to the second quarter of 2009, however, there was a slightly increase in the EU as a whole in the proportion of those aged 15-24 in jobs with fixed-term contracts.. The increase was concentrated in relatively few countries, in a number of the EU12 countries, especially the Czech Republic (where it rose by 3 percentage points), Hungary and Poland, though also in Belgium (by almost 5 percentage points), Ireland (almost 4 percentage points), the Netherlands and Austria. In these countries, therefore, a growing proportion of young people who either remained in or entered employment over the period were in insecure positions, perhaps reflecting increased uncertainty about future employment needs. The increase in the countries offset the large reduction in Spain (where the proportion of employees in temporary jobs fell by 4 percentage points) and to a lesser extent in Greece, Lithuania, Luxembourg and Slovenia, where, therefore, there is some evidence of the reduction in employment being concentrated on such jobs (Figure 25).

Fig. 25 Change in temporary employees as share of total employees 15-24, 2007.Q2 to 2009.Q2



Note: EE: no data available

On the other hand, in Germany, Italy, Belgium the Netherlands and Austria, the proportion of young people in work employed in temporary jobs increased, in contrast to the fall in the previous year. Accordingly, in these countries, there was a shift towards jobs of this kind, or, more tentatively, the creation of opportunities for young people to gain work experience.

Part-time employment

There was an increase in the proportion of men and women employed in part-time rather than full-time jobs in the EU as a whole between the second quarters of 2008 and 2009. The increase was widespread across the EU and was particularly pronounced among both men and women in the three Baltic States (especially in Estonia), Ireland, Slovenia and Slovakia, while in both Hungary and Austria, the proportion of women in work employed part-time went up by almost 2 percentage points. The reduction in the number of people employed was, therefore, accompanied in many cases by more of those remaining in employment working part-time (Figure 26).

Fig. 26 Change in part-time working of women, 2007.Q2 to 2009.Q2

