EUROPEAN UNEMPLOYMENT TRENDS AND SOCIAL DUMPING - FINANCIAL CRISIS AFTERMATHS -

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Abstract

High unemployment is widely regarded as the most important challenge facing European policy-makers today. At unemployment rates of between 6.5% and 25% across the countries of the Union, Europe's performance compares particularly unfavourably with that of the United States. But does this answer for an inability to understand the fundamental causes of the problem, being them economic, social or political or a failure to find the economic policies that will solve it? Or is there merely a lack of political will in the social system application? Is 'social dumping' still present under a common EU social policy of the Lisbon Treaty and if so, which is its 'face 'now? Is social dumping to be welcomed, as a healthy energy which will oblige countries to lighten the excessive and harmful regulations imposed on EU labour markets? How should the circumstances of the new EU member states be taken into account when applying labour legislation concerning social policy and when tackling unemployment?

Keywords: *unemployment, social dumping, migration, EU labour market, market rigidities*

Introduction

The facts are that the OECD, a think tank of rich countries, expects to attain a post 1945-high of 10% unemployment or some 57million people in late 2010.[1]

In E.U, as in the world, states are pursuing divergent routes in their way out of the 2007-2009 financial crisis. Except for solutions with strong political, economic and social contents, present integration theories in Europe spin around three main ideas: federalism, neofunctionalism and liberal inter-governmentalism, with the later acquiring the leading position[2]. Strictly related to the labour market, some solutions rely on general politics, others on trade unions, while others on the flexibility of the wage contract, facts which lead to a centre-periphery type positioning among countries. Since the Maastricht treaty did not manage to shift towards the 'flexibility' solution entirely, the Lisbon treaty now in force, with article 28 states that workers may "take collective action to defend their interests, including strike action", it immediately qualifies this "fundamental right" by explaining that "the limits for the exercise of collective action, including strike action, come under national laws and practices".

Under this context of law and the need to tackle new involuntary unemployment[3] trends as a result of the latest financial crisis, this paper addresses the area of E.U. unemployment in the main regions of E.U. trying to identify differences and common issues for the purpose of forecasting, utilizing the New Classical Macroeconomics theory, modified so that it comprises agents'

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[1] The World in 2010. Beyond the economic crisis. *The Economist*. 2009.

[2] Richard Baldwin and Charles Wyplosz. *The Economics of European Union Integration*. 3rd Ed. Mc Graw Hill. 2009.

[3] Assar Lindbeck and Dennis J. Snower. *The Insider-Outsider Theory of Employment and Unemployment*. The MIT Press Cambridge, Massachusetts, London, England 1988. pp.47.

engagement in information acquisition and presenting unexploited gains from trade. The analysed data are mainly from secondary and tertiary information as input sources.

The novelty of the study is that it keeps away from analyses set out by previous financial crises except for the first oil price crisis in the 1974, where the author has identified specific common parts related to the topic of the study.

It looks into the specific scenario settings of the latest economic recession in an integrative way at macroeconomic level. For such purpose, the study redefines the unemployment forecasting procedure focusing on four main E.U. models (the continental, the Nordic, the Anglo-Saxon and the South-Eastern European model), rather than by each country characteristics. The reason is dictated by the minimal error input of the most populated countries in E.U., building up to over 90% of total E.U. population and employed population.

Next, since the main concern post crisis and post Lisbon Treaty remains the 'social dumping', the paper reviews the theory of unemployment and social dumping in terms of migration waves and market rigidities, important in productivity determination.

Then, as a spin out of unemployment and as a main concern for corporate and social wage policies, the study looks into the social dumping effect of raising unemployment trend in E.U., providing thus also an analysis of the most recent cases in E.U. (the Rüffert, the Laval, and the Viking cases).

Finally the conclusions relate to the impact of "imported" unemployment on social dumping if any and recommendations regarding possible ways to reduce chronic unemployment and avoid future social dumping effects not through law implementation but rather through practical applications of social work, strengthening of EU social policy that may assist the creation of a high skill and high productivity growth convergence.

1. The European labour market and the premises for forecasting post financial crisis unemployment trends

In order to forecast unemployment, it is recommended to see what kind of unemployment we deal with, specify the terminology employed within this paper, besides the theories used, as well as review some main causes of the concept applied for the financial crisis period and immediately thereafter.

1.1. Terminology

In Keynesian economics, Duffy (2009) declares that involuntary unemployment is represented by the gap between the number of people working when the labor market is in equilibrium and the total number of people available to work. Unemployment is but one symptom of a malfunctioning labour market (Baldwin & Wyplosz 2004, p.429).

The discussion in this paper regards involuntary unemployment type 1, 2 and 3, as mentioned by Lindbeck and Snower (1988). "U1: At prevailing current wages and expected future wages (normalized for productivity differences), the unemployed workers would be better off being employed than remaining unemployed, but they are unable to find jobs.

U2: At prevailing current wages and expected future wages (normalized for productivity differences), some workers are unsuccessful in finding jobs because they face a more limited choice set between work and remuneration than incumbent employees face.

U3: Workers unsuccessfully seek work at real wages that fall short of their potential contribution to society (given the appropriate, feasible intervention) „[4].

[4] Assar Lindbeck and Dennis J. Snower. *The Insider-Outsider Theory of Employment and Unemployment*. The MIT Press Cambridge, Massachusetts, London, England 1988. pp.47.

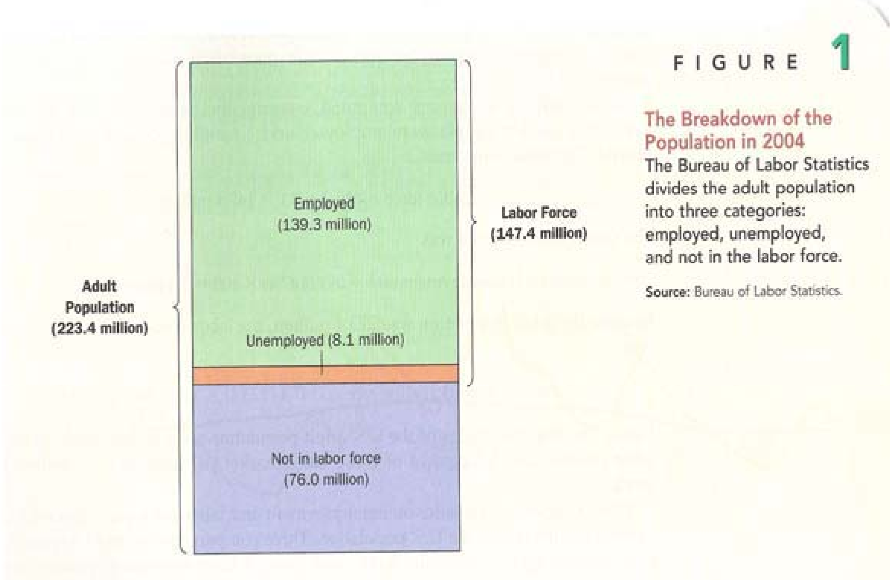


Fig.1. The U.S. example of breakdown of population in 2004 as per the Bureau of Labour Statistics[5].

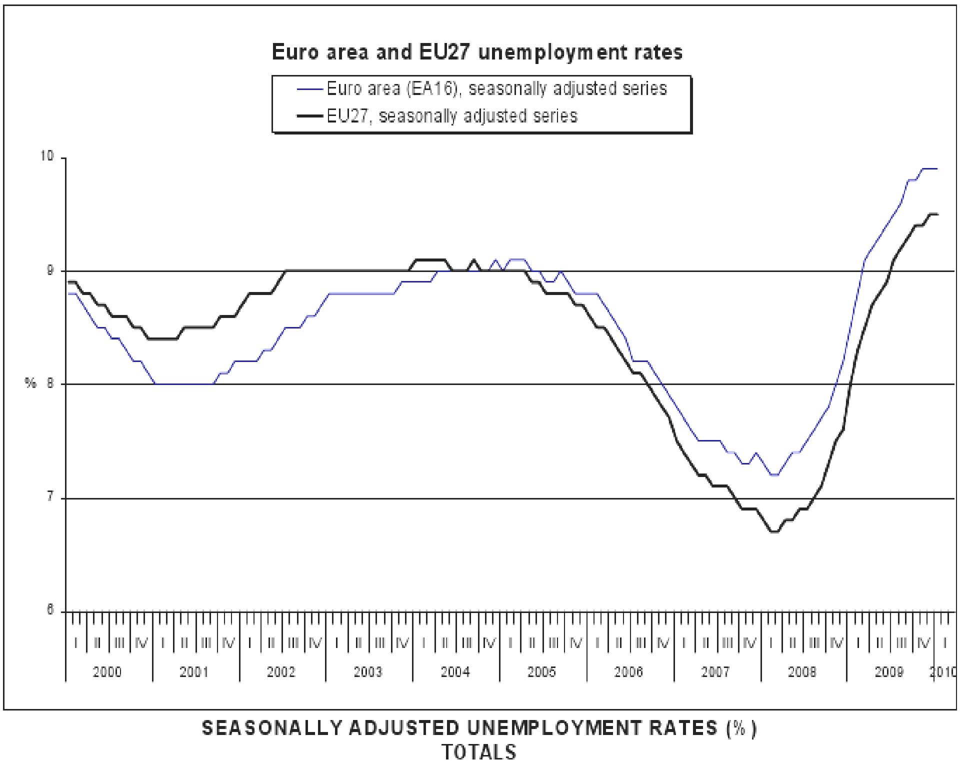


Fig. 2. The EUROSTAT statistics for EUO area and EU 27[6] unemployment rates[7].

[5] Gregory N. Mankin. *Principles of macroeconomics*. Thomson South-Western, 2007.

[6] The euro area (EA16) consists of Belgium, Germany, Ireland, Greece, Spain, France, Italy, Cyprus, Luxembourg, Malta, the Netherlands, Austria, Portugal, Slovenia, Slovakia and Finland. The EU27 includes all countries in the European Union.

[7] The Eurostat News Relese euroindicators. 29/ 2010. http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/ 3-01032010-AP/EN/3-01032010-AP-EN.PDF. (accessed 15 March 2010)

Grant, Vidler with Ellams (2003, p. 92)[8] help us define the term 'unemployment', which indicates that labor markets are not clearing. Some of those willing and able to work cannot obtain a job. The existence of unemployment signifies that a nation shall not be producing on its production possibility curve and so will not be achieving productive efficiency. The extent to which unemployment causes labour market failure is obviously influenced by the number of people who are out of work. Moreover, it is influenced by how long people are out of work. The longer someone is unemployed, the more they get out of touch with the skills needed and the greater the risk that they may quit hoping in finding a job!

1.1.1 How to measure unemployment

Firstly, Mankiw (2007) writes that it is the job of the Bureau of Labor Statistics (BLS), which is part of the Department of Labor to carry this task. The BLS produces data on unemployment but also on other aspects concerning the labor market once per month. For instance, types of employment, length of the average workweek along with the duration of unemployment. The data under discussion are derived from a regular survey of about 60,000 households – named, the *Current Population Survey*. Then, the BLS -based on the answers to survey questions- places each adult (aged 16+) in each surveyed household into 1 of the 3 following categories:

- Employed: This category includes those who worked as paid employees, worked in their own business, or worked as unpaid workers in a family member's business. It also includes those who were not working but who had jobs from which they were temporarily absent due to e.g. vacation, illness, or bad weather.
- Unemployed: This category includes those who were not employed, were available for work, and had tried to find employment during the previous 4 weeks. In addition, it includes those waiting to be recalled to a job from which they had been laid off.
- Not in the labor force: This category includes those who fit neither of the first 2 categories, e.g. full-time students, homemakers, or retirees.

Unemployment rate = (No. of unemployed/Labor force)x 100

1.1.2 Historical background

"All peoples throughout all of human history have faced the uncertainties brought on by unemployment, illness, disability, death and old age [and] in the realm of economics, these inevitable facets of life are said to be threats to one's economic security"[9]. Grant and Vidler (2000, p. 22) hold that unemployment did not exist in communist times. All those of working age were given a job. State-owned companies produced not according to demand but in response to orders from the Ministry of Economics. Many firms employed way too many workers by western standards[10].

1.1.3 Other employed terminology:

- Unemployment rate: the percentage of the labor force that is unemployed (Mankiw 2007, p.878).
- Labor force: the total number of workers, including both the employed and the unemployed (Mankiw 2007, p.875).

[8] Susan Grant, Chris Vidler with Andrew Ellams (2003, pp. 92-4): ECONOMICS A2 for Edexcel. Great Britain: Oxford. Heinemann Educational Publishers.

[9] 'Traditional Sources of Economic Security', http://www.ssa.gov/

[10] N.Gregory Mankiw (2007): PRINCIPLES OF ECONOMICS Fourth Edition. U.S.A.: Ohio. Thomson Higher Education.

- Natural rate of unemployment: the normal rate of unemployment around which unemployment rate fluctuates (Mankiw 2007, p.616)..
- Social: this term derives from the Latin *socius* meaning, a partner or acting jointly11.
- Dumping: The export of products at a price below their cost of production.
- Labour Migration/mobility: labour relocation from one nation to another in search of better wages or other benefits

1.2. Unemployment and its causes

Unemployment level is the difference between the labour that people would like to supply at the going wage (L1) and the number of workers actually hired (L0); this is marked as u0 in the left panel of the diagram (see Fig.3 below).

At the same time collective/unionist negotiations do not necessarily imply lack of unemployment nor higher or lower unemployment rates, but rather a different discourse on other elements of the job, which is job security and or immigration issues (see right hand side of Fig. 3 below). In the case immigration is viewed nota s a substitute, but as a complement, then it raises the demand for native workers and this may results in higher wages, higher employment and an ambiguous impact on unemployment.

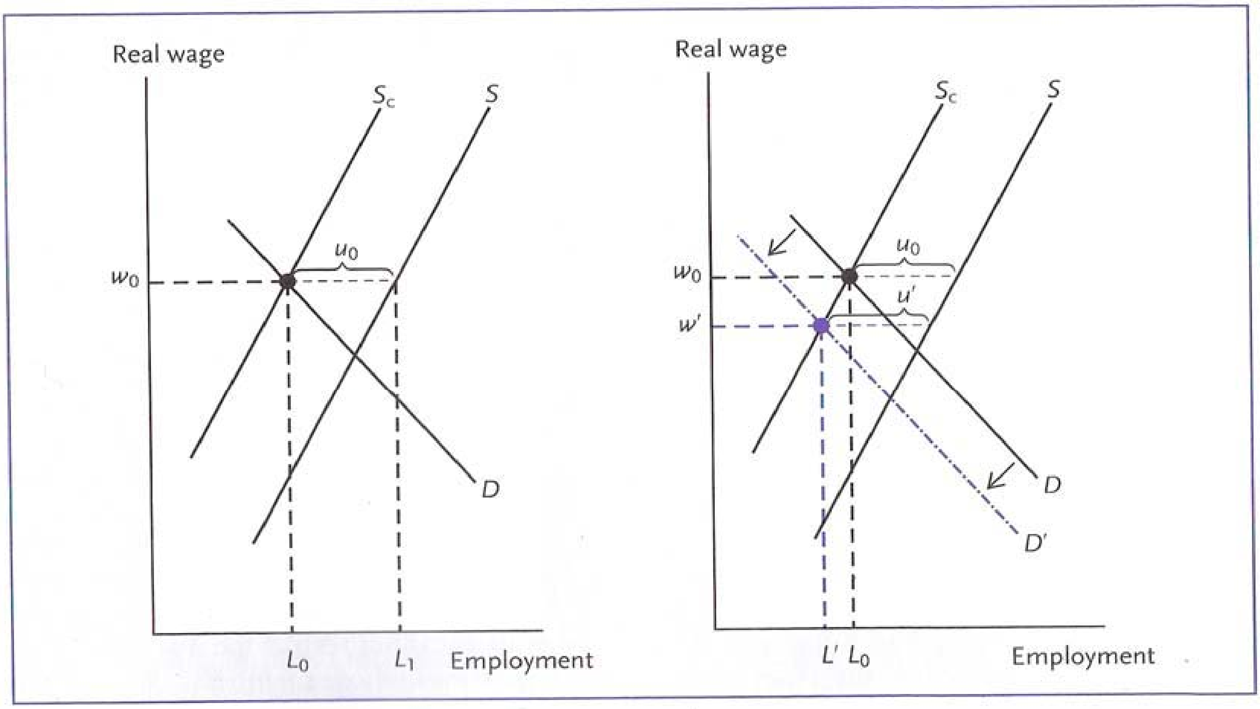


FIGURE 7-13: A SIMPLE MODEL OF UNEMPLOYMENT

Fig. 3. A simple model of Unemployment[12]

Another factor that might lead to a rise in the level of unemployment in an economy is when generous unemployment benefits exist. Some economists in Moynihan & Titley (2000, p.249)[13]

[11] HEINEMANN ENGLISH DICTIONARY (1995). UK: Oxford. Heinemann Educational Books Ltd 1979.

[12] Richard Baldwin and Charles Wyplosz. *The Economics of European Union Integration*. 3rd Ed. Mc Graw Hill. 2004. p.203.

[13] Dan Moynihan & Brian Titley . 2000. *ECONOMICS ~ A Complete Course ~ Third Edition*. UK: Oxford. OXFORD UNIVERSITY PRESS. pp. 249, 259, 279-287,312

textbook, argue that these so called 'unemployment benefits' may reduce some people's willingness to find work. Maunder, Myers, Wall and Miller (2000, p.225-6)[14] offer the example of the UK, where people have had to show that they really are available for work before unemployment benefits are paid. However, others argue that these benefits actually reduce the costs of searching for employment and thus, help the unemployed to look for work (Moynihan & Titley 2000, p.249).

One common belief is that immigrants cause unemployment (Baldwin & Wyplosz 2004, p. 202) while other authors find little or no effect of immigration on the risk of being unemployed, which has to do with the economic notions of "complementarity" and "substituability" (Baldwin & Wyplosz 2004, pp.200-204). More generally, immigrants who have skills that are complementary to the skill mix in the receiving nation are typically less likely to create losers in the receiving nation.

1.3. Unemployment and macroeconomic indicators

Many blame structural market rigidities for the underperformance of European labour markets. After the completion of the European Monetary System, it is vital to understand how labour market institutions will interact with other structural changes taking place in the E.U. and abroad, especially in the U.S.

Either obtaining an absolute or a relative efficiency, which everyone generally targets, becomes likely to turn out to be more important within the monetary union context, since increased specialization and more intense competition should lead to increased opportunities for workforce reallocation, increased migration waves and directions. At the same time, free mobility of capital will worsen the economies of those countries and regions which are relatively inefficient. Most of the cross border FDI and international portfolio investments into emerging markets dries up till recovery comes back.

Yet, since labour demand becomes more turbulent, the E.U. may call for measures to protect employment, especially since there is a limited maneuver space for the use of monetary and fiscal policies. Such policies are usually needed to offset asymmetric and economic shocks which, at their turn, lead to radical changes in major macroeconomic indicators, such as the Gross Domestic Product (GDP) and unemployment.

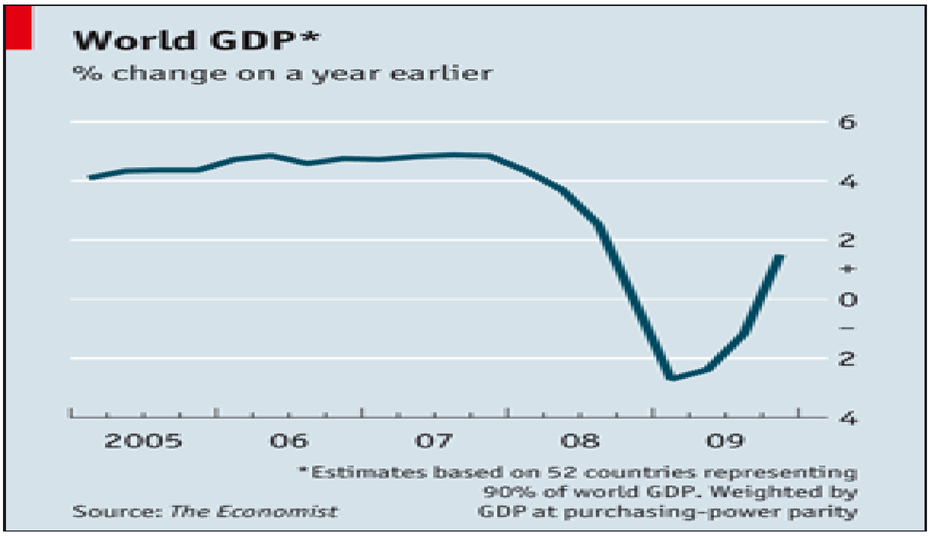


Fig. 4.World GDP forecast for 2010.

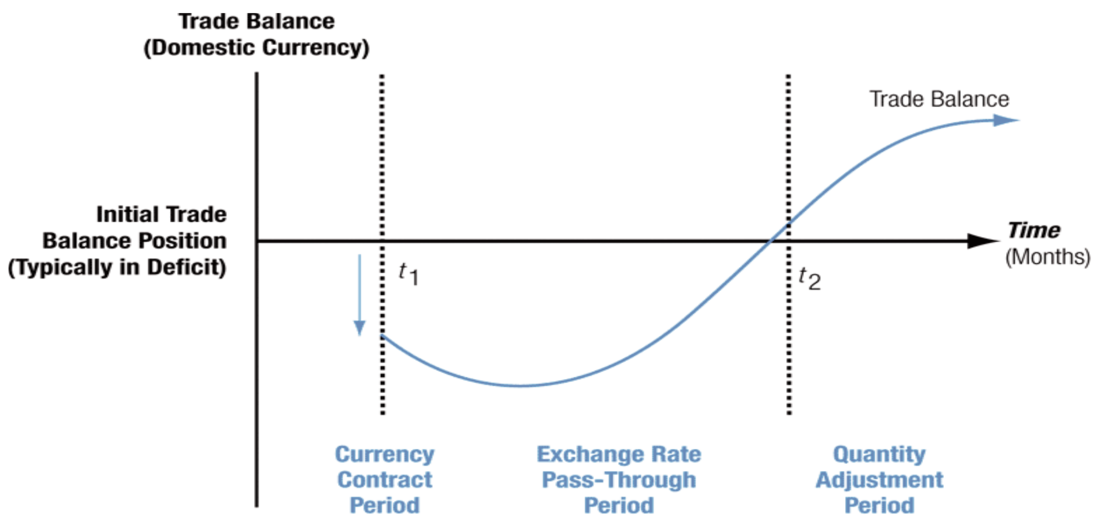
[14] Peter MAUNDER, Danny MYERS, Nancy WALL & Roger LeRoy MILLER: *ECONOMICS EXPLAINED*. UK: London. HarperCollins *Publishers* Limited. Pp. 225-226.

Which other indicators can show the way towards unemployment forecasting?

In other shock analyses[15], the explanations of the 1980s slump in Europe finds the principal source, or at any rate a major source, in the fiscal and monetary shocks originating in the USA in the first few years of the decade 1980s.

Again, after the 1990s and the IT bubble, the 2007 U.S lead financial crisis, due to sizable trade and financial deficit as a result of the bailout system applied in the U.S. and in some large E.U. economies for the purpose of backing up the mistakes of banks under the cover of financial innovation, these countries are now compiled to devalue their currency. Devaluing currency means an automatic spur in exports as in the J-curve as per Fig. 5 below.

However, the spur in exports does not necessarily reflect a more efficient way of producing such goods and services nor does it mean that these are produced mostly by the employed national people and not by immigrants. The economic problem arising when product quality is assessed through the product price have been studied in the context of many markets (e.g. Akerlof, 1970; Arrow,1963), not just the labour market, taking the forms of adverse selection and moral hazard. Besides, these also converge with the findings of Weiss, 1980 and Malcomson, 1981 in the "productivity differential models", where one cannot be distinguished the diference between high-productivity and low-productivity workers.



If export products are predominantly priced and invoiced in domestic currency, and imports are predominantly priced and invoiced in foreign currency, a sudden devaluation of the domestic currency can possibly result—initially—in a deterioration of the balance on trade. After exchange rate changes are passed-through to product prices, and markets have time to respond to price changes by altering market demands, the trade balance will improve. The currency contract period may last from three to six months, with pass-through and quality adjustment following for an additional three to six months.

Fig. 5 The J-curve.[16]

What we can infer from Fig. 5 above is that a period of 6 to 12 months of adjustment of trade balance deficit may be a way of buying time for redressing the foreign exchange course and the entire balance of payments.

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[15] Jean-Paul Fitoussi and Edmund S. Phelps, The Slump in Europe. Reconstructinfg Open Econopmy Theory. Basil Balckwell. 1988. pp53.

[16] David K Eitman, Arthur Stonehill, Michael H. Moffett, Multinational Business Finance, 12th Ed. Pearson International Edition. 2010.

However, some devaluation can be self-destructive, it makes imports more expensive, then the solution is that instead of importing the goods one needs to get the production efficiency in the domestic market by “importing” the 50% costs of production, which in general is the labour cost, in brief, one should apply to the migrant’s work force.

Studies held in the 1980s, also show that the package of policy innovations, by raising real interest rate in Europe and lowering the real value of the European currencies had predominantly contradictory effects upon both employment and output in Europe over the five year period of study 1981-1985. In that case some elements were missing compared to the new settings: the migration factor, the new wages costs, the subsidies in investments and bailouts, and possible liquidity spur and credit supply enhancement.

In this case EU should see increased employment in its consumer–good markets to offset reduced employment in the capital/financial-good market, thus the prices in the consumer-good markets should be over those in the capital–good market. But, a higher consumer-good price level entails a higher indexed or contractual wages, an effect which acts to reduce aggregate output and employment, leading to accelerated retirement of workers rather than re-employment at new firms, on top of further lay offs.

When considering the starting point of the financial crisis, the U.S. financial markets, the study tries to show the real domino effect into the E.U. markets, including the labour one.

Doesn’t anyone know the Brahms-Solow lore that the higher interest rates in the US depress output in Europe? (the rise in interest rats spurs the fixed quantity of European money and to achieve faster velocity and thus push up output and that the sole effects of the reduced investment expenditure are to increase the amount of output that must be exported at a given interest rate. A real depreciation of Euro will drive mark-ups up thus cubing the supply of real balances and reducing output in EU and to reduce mark up sin the US thus boosting real balance there until the two interest rates are brought into a line.

The same structural balance of payments deficiencies will occur in E.U, the same devaluation of currency and the same trend to spur exports and then the need for ‘imported’ labor. However, the pure economic issue becomes then the labour efficiency or productivity or its costs. Thus, the trade between a flexible-wage in the U.S. and a rigid-wage Europe in a theoretical landscape is in fact a move from autarchy to free trade that may more or less double European unemployment, especially in certain countries. Why is that?

1.4. Today’s unemployment compared to the post 1973 crisis one

Unemployment has been steadily increasing since the first oil shock in Europe, while the rate of increase unemployment in the US has been three times lower in the 1980-1984 period than in the period following the first oil shock. These trends reflect contrasting evolutions, as unemployment rate has actually decreased in America since 1982 and there is not a single year where it did so in Europe until the bumpy recovery that began in Germany, UK and Italy in 1986. In the period 1974-1980 the annual job creation was higher then the previous period of rapid growth of GDP in 1964 to 1973. In contrast, in the 1981-1984 period, employment increased by 5.8 million in the US and decreased by 2.6 million[17] in Europe, bearing in mind the two regions have similar size of labour force.

Not so recently, the U.S. wages have risen to the European level, due to their flexible structures. Also, such entry as that of the unskilled "South" to world markets raises European unemployment. Europe's commitment to the high wage and limited hours of work wholly protects

[17] Jean-Paul Fitoussi and Edmund S. Phelps, The Slump in Europe. Reconstructinfg Open Econopmy Theory. Basil Balckwell. 1988. pp33-34.

the U.S from further unemployment shocks. Immigration to U.S. raises American income, but shrinks European income dollar for dollar, while European unemployment escalates, as shown in fig. 5 below.

As presented in the following Fig 6., in 2009, the U.S hours worked on average per employee dropped by 5.1 hours compared to only 3.1 hours in EU-15. Conversely, the GDP has dropped more in EU than in the U.S, but not yet the employment level. Comparing figures and patterns, we can see very similar reactions of macroeconomic indicators including the unemployment trend within the EU and the U.S. after the recent financial crisis and the post crisis period of the first oil-price crash in 1974.

Different strokes

GDP and productivity, % change, 2009

	United States	EU-15
Hours worked	-5.1	-3.1
GDP per hour	2.5	-1.1
GDP	**-2.5**	**-4.2**
Employment	-3.6	-1.9

Source: The Conference Board

Fig. 6. GDP productivity change in 2009 the U.S. vs. the EU 15.

One reason is the levier effect of the financial crisis that has not fully hit the bottom in the E.U., others base it on the shortening of the working hours per week in EU compared to the U.S., or others take the work force productivity as a whole, while other linked all these to the social dumping effect within the E.U. as a result of the latest integration wave from east to west.

Bearing all these in mind, we come back to the issue of capital and labour mobility. It becomes interesting to see if the recent EU enlargements have stirred the dispute about whether labour migration from the east to the west is causing the unemployment relocation, unemployment traps[18] and social dumping in the EU, with the effect of distressing traditional national systems of labour market regulation.

In general, studies[19] have shown that there is little evidence of greater labour mobility causing new social dumping pressures on a widespread basis. However, it goes on to suggest that the situation may change if the EU adopts neoliberal policies at the same time as promoting greater labour market openness between the Member States, as the Lisbon treaty does.

Regarding social considerations, the job and opportunity to work fairness, the income stability post the 2007-2009 financial crisis and the job security seem to be tackled by Europeans in their quest for building a dynamic knowledge-based economy, capable of sustainable growth with more and better jobs and greater social cohesion.

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[18] Unemployment trap is created when, due to social insurance systems, the unemployed cannot afford to accept a job once they compare the wages that they would get with the unemployment benefits they receive, usually more rewarding.

[19] Jimmy Donaghey and PauTeague l. The free movement of workers and social Europe: maintaining the European ideal, *Industrial Relations Journal,* 37. Issue 6, Pages 652 – 666, 1 Nov 2006.

In concluding this section, it becomes key to understand the impact of GDP change as element of economic competitiveness, the migration issue and more the general response of the social systems (difficult to be quantified) for predicting future EU unemployment trends.

2. The four main E.U. models: the continental, the Nordic, the Anglo-Saxon and the South-Eastern European and the EU unemployment trends

Most EU countries put a high weight on social concerns relative to economic efficiency, while US and the UK incline to the other way.

In EU, labour market inflexibility and post financial crisis need for redress will incur higher costs in terms of unemployment and reduced growth potential, where unemployment may raise through migration of unemployment-prone workers towards areas with best social protection, while the best prepared and trained/educated will target more flexible labour markets. Thus, the choice is high social protection and heavy tax burdens, needed to compensate for it, alongside with economic effectiveness with low unemployment and moderate taxes and labour policies.

In E.U., we have identified four models, geographic-wise, coming also from a more egalitarian and solidarity type of labour markets, but inflexible towards more flexible ones, but individualistic. These are the following: the continental, the Nordic, the Anglo-Saxon and the South-Eastern European

2.1 The Continental Model

This model borrows from Bertola et al (2001), and it generalise things rather than playing on differences. We consider in this model countries, such as Austria, Belgium, France and Germany, countries concerned about detailed labour market legislation and all aspects of employment, with fairly high minimum wages, strict restrictions on dismissals, generous unemployment benefits which makes unemployment long-lasting and low employment rates with low hours worked and inflexible, where citizens are protected by highly developed welfare systems. This model faces high unemployment threats upon economic crisis due to their social model. Its representative countries have an unemployment level for end of 2010 ranging from 10% to 10.9 %, close to the average of 11% of the EU, due to government pump-priming in the labour markets.

Depending on the continental model needs of skilled and unskilled people, the rules of the game are played by labour laws modifications. Germany, a very common continental model labour market, as a whole is underemployed. When “guest workers” from Turkey, Italy and Greece, apart form other non-EU citizens, flooded in to ease labour shortages in the 1950s and 60s, Germans thought they would eventually leave. Since1980s the government has tried to pay them to go. For the past decade though, it accepts that Germany is an “immigration country”. A citizenship law adopted in 2000 mentioned that people not born German could become so was followed in 2005 by an immigration law that inched open the doors for skilled foreigners.

However, for various reasons, immigrants play a disproportionately small role in Germany’s labour force. Nearly 30% of Germany’s Turks, the largest group of immigrants, have no secondary-school diploma, and just 14% qualify to go to university. Some 16% are dependent on welfare, twice the share of native Germans. In 2005, for example, the unemployment rate among Turks was 23%, compared with 10% for native Germans.

While Anglo-Saxons were caught in consumptions, Germans kept saving. Domestic investment has not kept the pace. The result of Germans’ efficiency at exporting, combined with their reluctance to spend and invest, has brought in huge trade surpluses. Most recently, Germany’s excess savings have been directed abroad–often into subprime assets in America and government bonds in such countries as Greece. It would be not sustained to keep on thinking a prudent Germany is responsible for Greece's high deficits or Spain's property bubble. But it is likely that, within a single-currency zone, usual surplus countries tend to be matched by usual deficit ones.

2.2 The Nordic model

Nordic countries including Sweden, Norway, Finland, Denmark and Netherlands offer even a more extensive welfare system than the continental one, with the exceptions of the Baltic countries[20] which may soon follow anyway the Lisbon treaty. The Scandinavians are deeply attached to income equality, achieved through wage compensation although not risk or talent rewarding, a heavy and progressive taxation, and by combining a unique degree of solidarity and social cohesion with relative harshness in tackling unemployment. The Scandinavians are however opposing the continental model on the ground of economic and social inefficiency, despite being themselves on the extreme side of large welfare state. Its representative countries have an unemployment level for end of 2010 ranging from 6.2% to 10.7 %, much under the average of 11% of the EU, due to strong social protection and efficiency re-boosts in their economies thanks to Norway's oil and gas resources, but not neglecting Sweden's exposure to the Baltic banking markets and Netherlands involvement in banks bailouts..

2.3 The Anglo-Saxon Model

In the past decade Britain has come across experimenting new active unemployment policies, yet structurally the U.K. in the post Margaret Thatcher era got closer to the US flexible labour system than the continental one. The relatively recent "welfare to work' program aims at paying people to work rather than servicing unemployment benefits, but together with the Scandinavians, Britain signed the Lisbon treaty, getting now closer to balancing economic efficiency with social cohesion, despite its visible closeness towards the US model. The U.K and the Irish economies are hit by levels of 10 to 12% due mainly to their exposure to the US markets, which means their unemployment rate will go faster down than in the one in the EU on the short term.

2.4 The South-East European Model

Most of the EU Mediterranean states (Spain, France, Italy, Portugal and Greece) and the Central-Easter EU states form apparently a disparate group, with a recent adoption of social welfare systems, with low social protection, ungenerous unemployment benefits. On the other hand, taking the example of Spain, this model has a tradition of strict employment protection. Under the Franco dictatorship, temporary work was illegal in Spain. Nowadays this issue is not valid, while the emphasis starts to be put slowly towards wage equality, relying though on still income sharing within the family, as a tradition.

In Spain, rigid labour market made most employees too costly to fire but condemns a third of workers to unstable, unprotected temporary jobs, under the context of delayed pension and labour reforms.

This is why this model tends to push for more employment rather than wage rigidities, but is becomes very vulnerable to diseconomies or market inefficiency. As far as it concerns the Eastern block, they have discover capitalism is harsh and their transitory phase to EU integration brings then closer to the continental model, keeping though their traditions and cultural closeness with the South Eastern Europe model.

[20] Unemployment in Latvia at 22.8%, is the highest in the EU. Growth is unlikely to resume until late 2011. (EIU).

The South Mediterranean countries are hardly hit by unemployment spurs, as well as other Easter countires such as Poland, Romania, Bulgaria, Greece, Spain and Italy that all have to follow tight fiscal policies and really watch closely macroeconomic indicators, under the close control of the EU and of the IMF.

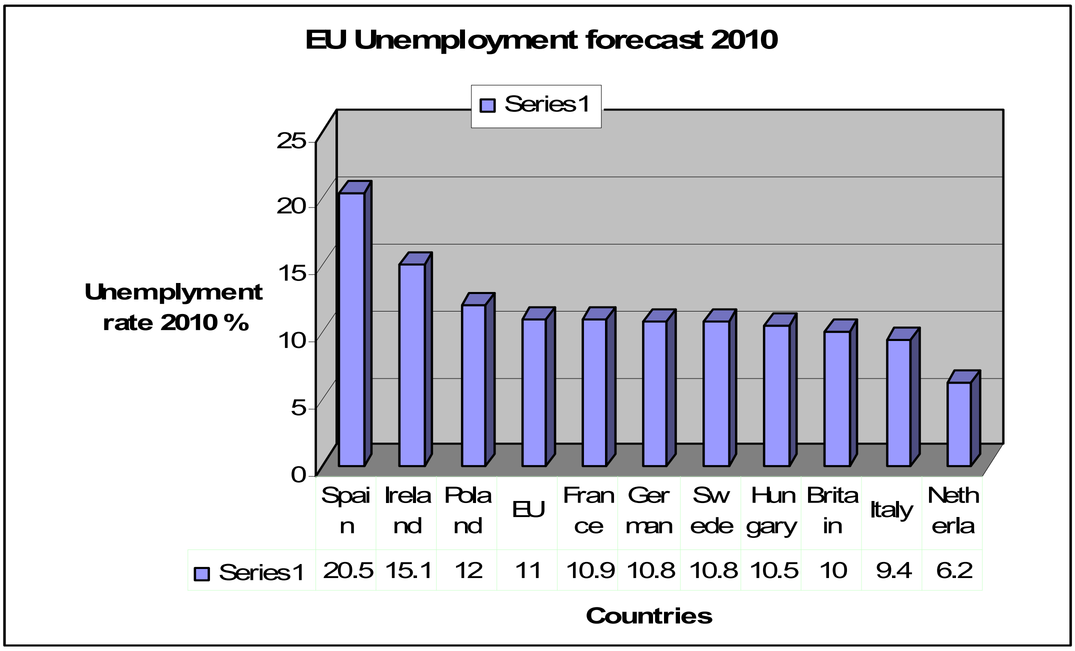

Fig. 6. Source: Economist Intelligence Unit, The Economist, 2009

In Greece, a multi-recession hit country, most recently the government wants among other things that high-earners pay more income tax and then wishes to cut back the public-sector payroll. By also raising the retirement age from 58 to 65 to the EU level, Greece early retirement has spurred. The number of female civil servants applying for early retirement has already jumped by 25% in 2010, yet its most productive workers are often women in their 40s and 50s. “It’s the most efficient female colleagues who are lining up to leave”. Thus, such effects may be unproductive on a short to medium term.

2.5 The details of the EU unemployment dynamics immediately post 2007-2009 financial crisis

The euro area (EA16) seasonally adjusted unemployment rate was 9.8% in October 2009, the same as in September. It was 7.9% in October 2008. The EU27 unemployment rate was 9.3% in October 2009, compared with 9.2% in September. It was 7.3% in October 2008.

Among the Member States, the lowest unemployment rates were recorded in the Netherlands (3.7%) and Austria (4.7%), and the highest rates in Latvia (20.9%) and Spain (9.3%). Compared with 2008, all Member States recorded an increase in their unemployment rate. The smallest increases were observed in Germany (7.1% to 7.5%), Austria (4.0% to 4.7%) and Romania (5.7% to 6.4% between the second quarters of 2008 and 2009). The highest increases were registered in Latvia (9.1% to 20.9%) and Lithuania (4.8% to 13.8% between the second quarters of 2008 and 2009). Between October 2008 and October 2009, the unemployment rate for males rose from 7.3% to 9.7% in the euro area and from 7.0% to 9.5% in the EU27. The female unemployment rate increased from 8.5% to 10.0% in the euro area and from 7.6% to 9.2% in the EU27.

Harmonized Unemployment Rate by Gender- total- 2009m 10

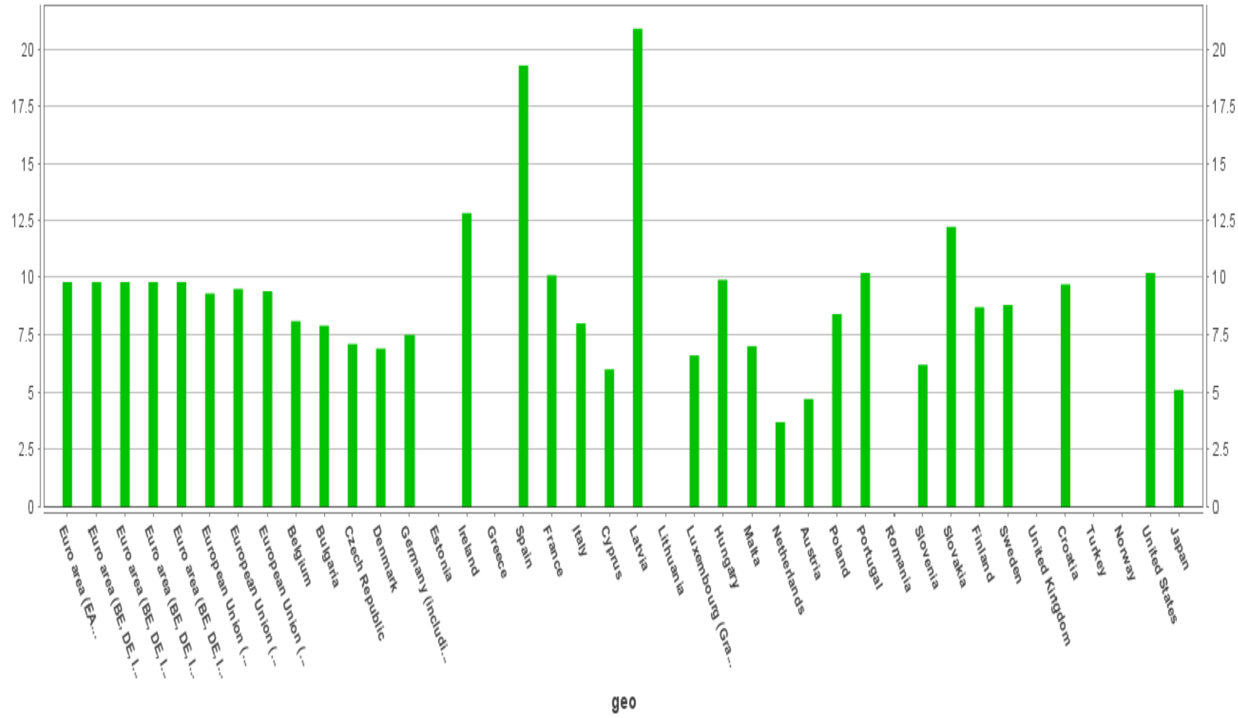

Fig. 7 Harmonized Unemployment Rate by Gender- total- 2009m 10

Unemployment has been rising sharply in the European Union since March 2008 as a result of the economic crisis. The increase was felt in every European Union country, by both males and females, young and old. However, the onset of the increase as well as its severity varies widely between countries. Men are clearly affected more than women, and young people appear to be quite vulnerable too.

Men have clearly been affected more by the current crisis on the labor market in the EU27 than women. Sectors such as construction, the financial sector and the automotive industry have been hit hard, thereby affecting predominantly men. Between the end of 2002 and early 2007, the unemployment gap was stable at around 1.3 percentage points, the female rate being higher. But in the last two years, most markedly since the first quarter of 2008, both rates have converged. In the first quarter of 2009, the male unemployment rate has moved closer, to only 0.3 percentage points below the female rate.

Working women make up a fast-growing percentage of the global workforce, which is now estimated at 46 per cent of the total[21]. In emerging markets, most working women are self-employed, earning low and irregular incomes, whereas most of immigrants women non-EU do not work for cultural and religious reasons.

In 14 Member States the female unemployment rate still exceeds the male one, most noticeably in Greece, Italy, Slovakia and the Czech Republic. In contrast, in Latvia, Ireland, Lithuania, Estonia and Romania the unemployment rate for males exceeds the female rate by more than 2 percentage points. Between the first quarters of 2008 and 2009, the male unemployment rate increased more than the female rate in all Member States except Malta, Poland and Romania.

[21] Insead Knowledge. Top 10 articles.(Q1 2010). http://knowledge.insead.edu/contents/top10.htm (accessed 31March 2010).

However, this situation may or may not be related to these countries increasing GDP growth nor to the U.S capital markets nor migration issues.

Youth unemployment has been increasing in the euro area and EU27 since the first quarter of 2008, in line with total unemployment. But the increase has been at a much higher pace for young people. Youth unemployment increased by 3.9 % between the Q1 of 2008 and the Q1 of 2009 in the euro area reached 18.4 %. In the EU27 the increase was 3.7%, leading to a rate of 18.3 % in the Q1 of 2009. In the same period, the total rate increased by 1.6 % in the euro area and 1.5 % in the EU27, which coincidently has been in line with inflation drop for the same period.

Estimated at 10.1% in 2009 from 7.2% in 2008 and forecasted at 11% in 2010[22], the EU unemployment imports not only the over the Ocean effect, but it reflects closely, coincidently or not, the social system patterns applied to each of the four models above presented and correlations with macroeconomic indicators.

3. Three representative cases of Social Dumping in EU just before the financial crisis?

Social dumping has become an important EU issue, yet few studies provide an economic assessment of the potential size of such effects. This paper examines the several social dumping effects in an era of greater European economic integration and the recent post financial crisis. First, in the previous section we have shown there are large differences within the EU in the composition of labour costs and labour market regulations, thereby establishing the potential for social dumping effects.

The development of the differences in employers' social security expenditure over the last thirty years appears to be of no evidence that high social charge economies have performed poorly during this period. The process of intra-union trade within an European economic and monetary union has been examined by Adnett (1995) and the conclusion made was that further European economic integration is unlikely to create significant dumping effects.

Also, Adnett (1995) explains how differences in productivity levels and the relative importance of direct earnings largely counterbalance the differences of social charges, while increased specialization within the EU reduces direct competition between 'low' and 'high' social charge EU states. The failure to find evidence of major social dumping effects does not automatically mean support for knocking down social welfare provisions in the EU. On the contrary, developing a strengthening of EU social policy may lead to the creation of a high skill and high productivity growth convergence in the EU under the protection of the European Union Charter of Fundamental Right.

This document sets out in a single text, for the first time in the European Union's history, the whole range of civil, political, economic and social rights of European citizens, residents in the EU. These rights are divided into six sections: Dignity Freedoms Equality, Solidarity, Citizens' rights and Justice. Fortunately, the recently adopted Lisbon Treaty gives the Charter the same legal effect as EU treaties.

Another important statement is "The Solemn Declaration on Workers' Right"s. This document highlights the Union's aim of achieving full employment and social progress, its recognition of the rights, freedoms and principles of the Charter of Fundamental Rights, its commitment to combating social exclusion and discrimination, its commitment to promoting social justice and protection and equality between women and men. The Solemn Declaration makes it clear that the EU Council must act unanimously when concluding international

[22] The World in 2010. Beyond the economic crisis. *The Economist*. 2009. p.46.

agreements in the field of trade in social, education and health services, when these could disturb the delivery of those services at national level. Hence, it simply provides enhanced room for labour market harmonization.

3.1 The Rüffert Case- Germany- 2008[23]

The Rüffert Case concerned the reward of public contracts to foreign workers by a district in Germany to carry out building work. German company Objekt und Bauregie (O&B) employed a Polish sub-contractor to employ Polish building workers, posted to Germany, on less than half the minimum wage agreed by German trade unions and employer associations. When it was discovered the 53 foreign workers were earning almost half of the applicable minimum wage for the construction sector for that German region, the local authority withdrew the contract and demanded payment of contractual penalties.

The construction company took legal action as a result. In deciding this case, the to the European Court of Justice (ECJ) essentially applied the provisions of the Posting of Workers Directiv. On 3 April 2008, the ECJ ruled that O&B should not be bound by the local Lower Saxony law that states public building contractors must abide by the existing collective agreements.

The court found that while member states may impose minimum pay rates on foreign companies posting workers in their state, the local law restricted the “freedom to provide services” and was not justified by the aim of protecting the workers because workers in the private sector were not covered by such protections! In essence, this ruling outlaws above-minimum wages and conditions being included in public tender contracts.

3.2 The Laval Case- Latvia -2008[24]

In 2004, Latvian firm named “Laval un Partneri” posted construction workers from Latvia to Sweden and refused to acknowledge the existing collective agreement with the Swedish Building Workers’ Union. Swedish unions took action against Laval over the company’s refusal to sign a collective labour agreement. Laval was party to a collective agreement under Latvian law. The case was brought to the Swedish Labour Court who referred it to the ECJ. Laval claimed to the ECJ that it was being discriminated against on the grounds of nationality and that the Swedish union was infringing upon its right to provide services. ECJ stressed that Article 49 of the Treaty of Europe (i.e. the free movement of services) rules out a Member State from constraining Foreign Service providers’ ability to move freely with its staff on the territory of the Member State. However, Member States may apply their own rules on minimum wages, where it is appropriate for the protection of posted workers.

On the issue of the collective action and its justification, the ECJ mentioned that although the right to strike is an exclusive national competence, it must be exercised consistently with Community law. The ECJ states that the right to take collective action is a fundamental right which forms an integral part of Community law.

In fact, the ruling has struck the Swedish establishment "like a bomb", leaving the labour market minister to promise new laws that will make it mandatory for companies which conclude contracts in Sweden to follow the collective agreements settled between the Swedish employers union and the trade unions.

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[23] Eurofound. Industrial Relations. Ruffert case. Available on: http://www.eurofound.europa.eu/areas/industrialrelations/dictionary/definitions/ruffertcase.htm

[24] Eurofound. Industrial Relations. Laval case. Available on: http://www.eurofound.europa.eu/areas/industrialrelations/dictionary/definitions/lavalcase.htm

The ruling though has potentially wider political implications. This is something experienced in the UK, where ministers, confronted with unpopular EU law, try to sham their way round it – hence Brown's "British jobs for British workers" pledge – but the cold light of day will doubtless bring reality to the front.

Until the news broke, the chance of Sweden rejecting the Lisbon treaty or giving the voters the right to have a say to less was minimal, but the situation is now transformed, with the chances having increased substantially.

3.3 The Viking Case-Finland - 2007[25]

In order to cut costs, the Finnish shipping company Viking Line tried to re-flag its ship operating between Helsinki and Tallinn, under he Finnish flag, and with a predominately Finnish crew who benefit from a collective agreement negotiated by the Finnish Seamen's Union (FSU).

In 2003, the Finnish Viking shipping line decided that it could gain a competitive advantage by re-flagging its ferry as an Estonian vessel. Following legal actions in both the Finnish and British Courts the case was passed on to the ECJ in an attempt to clarify whether the EC Treaty prohibits collective actions seeking to prevent an employer from relocating its assets to another EU Member State where salaries and benefits are lower.

As part of its judgement, the ECJ declared that the right to take collective action is a fundamental right as recognised by the European Social Charter, the International Labour Organisation (ILO), the Charter of Fundamental Social Rights of Workers and the EU Charter of Fundamental Rights. The right to strike must therefore be recognised as a fundamental right which forms an integral part of the general principles of Community law.

And again, in December 2007, while the court found that collective action to protect posted workers from exploitation was legal, the unions had restricted Viking Line's right of establishment.

Three things come out from these cases and from the text of the Lisbon Treaty:

i. The right to take collective industrial action is not guaranteed as it is subject to member states' national laws;

ii. The right to take collective action to prevent the exploitation of posted workers by foreign service providers is subject to the company's right to freedom of movement and establishment under the EU Services Directive – a right which the ECJ has repeatedly and consistently upheld as being superior to workers' rights

iii. The collective action of workers and unions taken against foreign service providers is only deemed legitimate if it is "proportional" – that is, in defense of the most basic minimum conditions agreed on by EU bodies or set in law by the host country. What happens if workers want to take collective action in order to improve their conditions? The pattern will emerge where the minimum standards become the maximum. The higher-than-average conditions that may be included in public sector agreements are an infringement of the right to establishment.

We should not consider social dumping a phenomenon exclusively European, there is a considerable number of cases in the North American Economy[26] and other Developed regions.

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[25] Eurofound. Industrial Relations. Viking case. Available on: http://www.eurofound.europa.eu/areas/industrialrelations/dictionary/definitions/vikingcase.htm

[26] The Mexican maquiladora program, which was initiated in 1965, regarding the social dumping case between US and Mexico under the NAFTA. In the 1990s, more than half of all maquiladora (former Mexican employees from agriculture plants) employment was concentrated in the auto parts and electronics industries in the US, key industries in which employment has fallen sharply in the US. Though precise figures are not available, most if not all of the growth in maquilas represents the relocation of plants and the shift of jobs from the US.

4. Social dumping redefined under the international trade theory and unemployment

Social dumping is a term that is used to describe a temporary or transitory movement of labour, whereby employers use workers from one country or area in another country or area where the cost of labour is usually more expensive, thus saving money and potentially augmenting profit. In brief it means a diversion of investment towards countries with lax employment laws.

The Lisbon Treaty includes a new social clause. This clause obliges the European Union, when defining and implementing its policies and activities, to take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health.

There is a controversy around whether 'social dumping' takes advantage of an EU directive on internal markets: the Bolkestein directive. In the UK, circa February 2009, this is an issue that has become a political '*hot potato'*.

In the goods market, social dumping is also a practice involving the export of a good from a country with weak or poorly enforced labor standards, where the exporter's costs are artificially lower than its competitors in countries with higher standards. Hence, it represents an unfair advantage in international trade. It results from differences in direct and indirect labor costs, which constitute a significant competitive advantage for enterprises in one country, with possible negative consequences for social and labor standards in other countries.

However, Will Martin and Keith Maskus (2001) also show that, contrary to the argument that weak labour standards provide an illegitimate boost to export competitiveness and a "race to the bottom". At the same time low labour standards tend to reduce competitiveness when they are the result of workers discrimination, abuse of market power etc. in the exporting country.[27] Competitiveness increases only in the medium-to long-run with productivity improvements.

According to international trade theory, "each country should specialise in what it can produce competitively, exploiting its comparative advantages"[28]. Developing countries have lower wages due to their lower labour yield and relative scarcity of physical and human capital – in labour intensive sectors, their inferior wages more than compensate for their lower productivity, so they tend to specialise in goods that are concentrated in their use of low-skilled labour, cheap land or abundant natural and energy resources. In developed countries, on the other hand, the higher wages are more than compensated by their high productivity that stems from their plentiful physical assets, technology and innovation. As a result, the developing countries cannot compete with the developed nation exporters.

The effectiveness of national social policy is influenced by the degree of economic integration, so deeper EU integration will emphasize the pressure for social policy reform and harmonisation – ultimately though, policy makers should make every effort for minimum standards which will be acceptable to all countries. Yet, harmonisation can be successful only between countries that are at similar standards of development and with comparable social preferences in the trade-off between efficiency and redeployment to the poor. Income discrepancies are already great among the existing EU members, and this is also applicable in labour market regulations and in the system of government of social policies.

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[27] Will Martin and Keith E. Maskus. Core labour standards and competitiveness: implications for global trade policy", *Review of International Economics..* 9 Nº 2, 2001.

[28] Guillermo de la Dehesa .Are developing countries engaging in "social dumping"? .2007. available at http://www.voxeu.org/index.php?q=node/213

Establishing a single minimum wage or a single unemployment benefit level throughout the EU would not make sense since an average level would be too low for the richest countries and too high for the poorest ones, with the possibility of causing even higher unemployment. If harmonisation were to develop into measures obstructing the shift of production sites across countries, then this would harm the competitiveness of firms and would be counterproductive. Health and safety regulations and similar working conditions must not clash with different national tastes and customs, as this is undesirable. As one can understand, poor countries do not benefit from the burden of higher labour standards but rather from internal economic and social development.

Recent research has shown that the traditional view of social welfare in Southern Europe as 'rudimentary' is a misreading of its distinct nature: welfare arrangements in the region do not 'lag behind' as a whole, rather they suffer from serious imbalances that cause inequities and inefficiencies. Research performed on Greece and Spain labour markets shows that the welfare policies pursued in these two countries over the last 20 years were marked by strong expansionary trends that clearly outbalanced occasional cut-backs. This evidence lends no support to the 'social dumping' hypothesis. If anything, 'catching up with Europe' in terms of social as well as economic standards seems to have been elevated to something of a national ideal, shared by both government and opposition. As the expansionary thrust of 'welfare state building' is being exhausted, the biggest challenge facing Southern European welfare states is the construction of welfare institutions in tune with a changing society[29].

Increasingly, the charge of “social dumping” is heard as a rational for protectionist measures against developing country exports. Many labour unions politicians and businessmen in developed nations believe that lax working regulations and conditions, as well as weak political and social rights, provide developing-country exports with an unfair advantage. To counter this, they argue that either developing-country exports of cheap manufactured goods should be subject to antidumping duties to eliminate the “unfair” competitive factors, or these countries should impose higher labour standards.

5. Recommendations

This paper is for reduction of involuntary unemployment through watching macroeconomic indicators (as presented in section 1 above) and by arguing for a better policy mix which would on the one hand involve the EU maintaining its commitment to the free movement of workers and on the other hand strengthen labour standard-setting mechanisms at both the EU and national levels.

Labour standard-setting mechanisms can be enhanced by:

1. Skills and competence development for improving job quality through:
   - Training, education and employment performance either by the government, employer or self-conscious;
   - Skills and access to training;
   - Participation in work-related training;
   - Increasing working time spent on training;
   - Skills / job match;
   - Training and the information society.

[29] Ana M. Guillen and Manos Matsaganis Testing the 'social dumping' hypothesis in Southern Europe: welfare policies in Greece and Spain during the last 20 years, Journal of European Social Policy, 10, No. 2, 120-145 .2000

In brief, work quality facilitates the refining of polices for the benefit Europe's workforce as well as its other 'work quality' dimensions and its economy: increasing flexibility and adaptation to new forms of work organization and better balancing flexibility and security; insuring better career prospects for employees; improving health and safety at work improving social dialogue and work relationships. Member States' policies should consider the operating dynamics of this vicious circle (work quality-productivity-economic growth) and to utilize the positive interactions between quality and productivity.

2. Wage and earnings. Member States should consider setting national employment rate targets in addressing these objectives, action should concentrate on the following priorities:

- Improve adaptability of workers and enterprises,
- Increase investment in human capital through better education and skills,
- Retain and attract more people in employment, increase labor supply and modernize social protection systems.

3. Ensure employment-friendly labor cost developments and wage-setting mechanisms by:

- Reviewing the impact on employment of non-wage labor costs and where appropriate adjust their structure and level, especially to reduce the tax burden on the low-paid staff.
- Encouraging social partners within their own areas of responsibility to set the right framework for wage bargaining in order to reflect productivity and labor market challenges at all relevant levels and to avoid gender pay gaps,

Increase investment in human capital through better education and skills Europe needs to invest more and more effectively in human capital. Too many people fail to enter progress or remain in the labor market because of a lack of skills, or due to skills mismatches. To enhance access to employment for men and women of all ages, raise productivity levels, innovation and quality at work, the EU needs higher and more effective investment in human capital and lifelong learning.

Knowledge-based and service-based economies require different skills from traditional industries; skills which also constantly need updating in the face of technological change and innovation. Workers, if they are to remain and progress in work and be prepared for transition and changing labor markets, need to accumulate and renew skills regularly. The productivity of enterprises is dependent on building and maintaining a workforce that can adapt to change. Governments need to ensure that educational attainment levels are improved and that young people are equipped with the necessary key competences, in line with the European Youth Pact. In order to improve labour market prospects for youth, the EU should aim for an average rate of no more than 10 % early school leavers; and for at least 85 % of 22-year-olds to have completed upper secondary education by 2010.

Policies should also aim at increasing the EU average level of participation in lifelong learning of the adult working-age population (25 to 64 age group). All stakeholders should be mobilized to develop and foster a true culture of lifelong learning from the earliest age. To achieve a substantial increase in public and private investment in human resources per capita and guarantee the quality and efficiency of these investments, it is important to ensure fair and transparent sharing of costs and responsibilities between all actors. Member States should make better use of the Structural Funds and the European Investment Bank for investment in education and training. To achieve these aims, Member States must implement the coherent and comprehensive lifelong learning strategies to which they have committed themselves.

4. Expand and improve investment in human capital through:

- Inclusive education and training policies and action to facilitate significantly access to initial vocational, secondary and higher education, including apprenticeships and entrepreneurship training,

- Significantly reducing the number of early school leavers without discriminating between locals and immigrants,
- Efficient lifelong learning strategies open to all in schools, businesses, and public authorities and households according to European agreements, including appropriate incentives and cost-sharing mechanisms, with a view to enhancing participation in continuous and workplace training throughout the life-cycle, especially for the Low-skilled and older workers.

Conclusions

This study has presented the main concept of involuntary unemployment and its complementary vocabulary under a non-constructive- non-productive economic phenomenon approach in the European region. Also, the paper provides an outlook of the unemployment links with macroeconomic factors under a 'vicious circle' format, explaining the links within the international trade theory and the neoclassic approach to this concept, both as an indirect effect of the most recent financial crisis imported from the United States and as a stand-alone European structural perspective.

In this section of the study, the unemployment post 2007 financial crisis is compared with the one experienced in the period post 1973's economic crisis, emphasizing the common issues and dissociating the differences.

By trying to determine the European unemployment structures, the paper offers four major geographic models for unemployment in the EU, who due to their discrepancies give room for the creation of another concept: the social dumping. Moreover, the four EU unemployment models are used in obtaining details in building an EU unemployment dynamics analysis immediately post 2007-2009 financial crisis.

Therefore, the study has passed to a spinout of unemployment- the social dumping, a non-economic one this time, exemplified by three cases experienced in the EU. Taking into consideration the three mentioned examples, the paper follows then more detailed analysis of social dumping from international trade economics and social welfare viewpoints, linking it with more economic causes through the latest European legislation emerging from the recently adopted Lisbon Treaty.

Eventually, the paper presents several recommendations for diminishing unemployment from it most sensitive perceived effect at social and corporate level: the social dumping. The suggestions relate to improving job quality, setting national employment rate targets by manipulation of social protection systems, ensuring employment-friendly labor cost developments and wage-setting mechanisms and last but not least expanding and investing more in the human capital.

Grant, Vidler with Ellams (2003, p.142)[30] give an excess of policies a government may employ to reduce unemployment. Thus we consider also that the choice of measures shall be drawn upon the cause of unemployment, the rate and duration of unemployment and the circumstances of the other key macroeconomic and socially agreed objectives. As far as the short run is concerned, unemployment can be eliminated by measures that augment aggregate demand but in the long run, supply-side measures are probably going to be more effective social policies that look beyond biased causes of it, such as migration, culture or religion.

[30] Susan Grant, Chris Vidler with Andrew Ellams (2003, pp.142-3): ECONOMICS AS for Edexcel. Great Britain: Oxford. Heinemann Educational Publishers.

It is wellworth taking into consideration Keynes's saying that "economics is a moral and not a natural science", which means that educational courses in micro- and macro- economics should turn into economic and political history, economic theories, sociology, law, moral and political philosophy.

Future research on the same topic we recommend considering collateral and mutual implication of unemployment and social dumping in the economy, not only at EU level, but also at international level or other regional levels, as well as under a longitudinal study framework.

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