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Crisis management for European labour markets

contribution to the
Thematic Review Seminar
Labour market policies in response to the impact of the economic crisis
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Contents

1. The global economic crisis – a reality

There are some commentators on the public scene who would like to have no debate about the economic crisis at all. As the economy depends so strongly on trust and confidence – they say – all these messages about financial turmoil, economic downturn, and rising unemployment are poisoning the business climate and prolonging the duration of what is called a "crisis". Don't look at statistics and don't read economic forecasts – which are not reliable anyway! Activate all your power and fight for the future upswing! These should be the main guidelines for activities rather than moaning about depression while missing the opportunities!

There is some truth in these arguments as we all know. But there is also a considerable risk in closing our eyes while rushing down the growth path at high speed. What will happen to the investment projects are built on false confidence? What counteractions will governments miss if they stick to unjustified optimism? Which opportunities will be lost to address the real causes of the crisis through key reforms? It seems to be better opening our eyes and focusing on the challenges of the global economic crisis.

In fact, the financial crisis appears to be the failure of continued market liberalisation that was declared as THE economic policy credo for more than two decades. There is no doubt that these market forces created an unprecedented upswing in the world economy after the turn of the century, but there is also no doubt that these forces were unable to understand and address the risks involved in the new markets.

Looking at the financial sector in detail, three major factors have contributed to the emergence of the crisis:

- *The opening of capital markets*: hedge funds and other investors have been allowed to enter the markets, borders between financial business and retail activities have been removed, insurance and banking businesses have merged, and traditional banking has been restructured towards investment banking. Lucrative markets emerged and expanded the financial bubble which then exploded in September 2008.

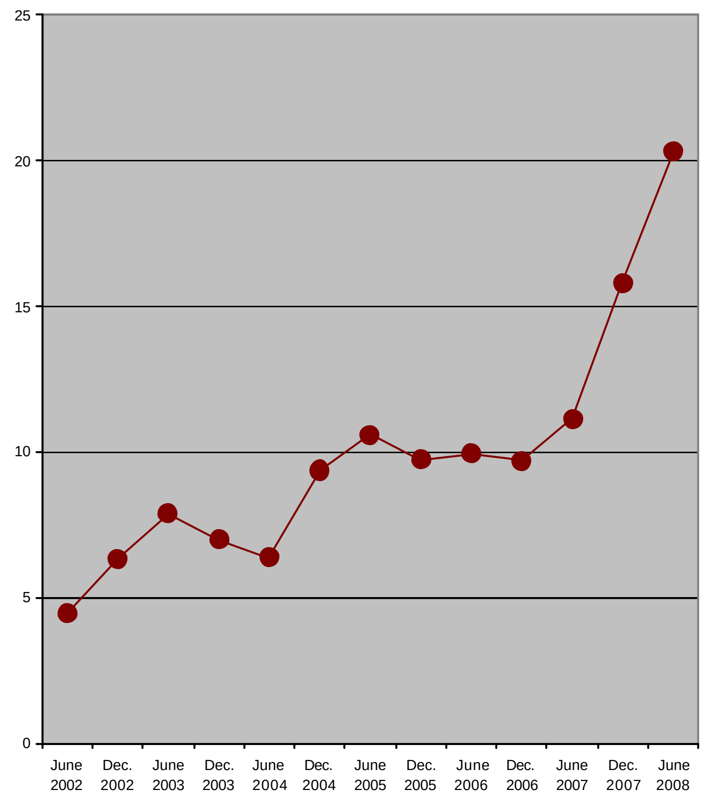
- *The failure of risk management,* which allowed capital investors to re–orient their activities towards short–term profits without assessing long–term risks. This was certainly propelled by the exceptionally strong upswing of the world economy, opening excellent opportunities for short–term speculation but blurring the sense for risks.
- *The failure of public supervision* over financial markets. Neither the International Monetary Fund *(IMF)* nor national and other international authorities were able to identify the accumulating risks of a short–sighted financial business, let alone avoid them. Rating agencies failed to adequately assess securities.

Even if some experts warned against the unhealthy developments on capital markets, the majority of actors felt confident about the new business models and thus could not see the deterioration of fundamental facts. Markets were not able to correct themselves – except through a severe crisis. And this is the point where we are now.

The magnitude of financial risks still is unknown, and thus are the depth and length of the economic downturn. However, we had to learn a lot about the crisis' facts and figures:

- *The enormous expansion of financial markets* which happened during this decade: the volume of financial derivatives has multiplied by four since 2002 and doubled within one year after mid 2007 (Chart 1). Large parts of GDP growth in the USA, the UK and other countries came from financial products.
- *The accumulation of risks:* the latest Global Financial Stability Report by the IMF estimates writedowns of financial assets in the world economy of around $ 4 trillion. These are – to be clear – 7 % of the current world output.
- *The spread of the financial crisis:* pension funds, life insurance, companies and private asset owners have been hit hard by the crisis. Substantial parts of their assets have been devalued. Stock exchange values have declined by almost 50 % since the beginning of 2008.

Chart 1 **Global derivatives market**
Gross market values of over-the-counter derivatives*
in trillion US dollars



* Over-the-counter derivatives are not traded on stock exchange.
Source: Bank for International Settlements

- *Strong effects on the real economy:* output has been declining at extraordinary rates. In February 2009, industrial production in Europe was 17.5 % below the previous year, and there was no country with output growth (Table 1). Unemployment started to rise considerably in the Baltic States, Spain and Ireland. The Scandinavian countries were also affected. Most of the other Member States are presently entering recession on the labour markets (Table 2).
- *Signs of disintegration in the world economy:* on capital markets, the retrenchment from foreign markets is meanwhile outpacing the overall deleveraging process with a

sharp decline of cross-border funding *(IMF: Global Financial Stability Report, April 2009)*. Governments tend to favour domestic suppliers and consumers buy locally. Emerging countries are particularly affected by these trends, in parallel to the New Member States of the European Union.

Table 1 Industrial production

Country	% change February 2009 compared to previous year	Country	% change February 2009 compared to previous year
EU27	–17.5	Bulgaria	-17.4
Estonia	-30.2	France	-16.3
Slovakia *	-29.1	Portugal	-14.0
Luxembourg **	-24.9	Romania	-13.9
Latvia	-24.2	United Kingdom	-13.9
Spain	-22.0	Poland	-12.3
Slovenia	-21.2	Lithuania	-12.2
Hungary *	-21.0	Denmark	-11.8
Italy	-20.7	Austria *	-7.6
Germany	-20.6	Cyprus *	-7.1
Czech Republic	-20.3	Netherlands	-5.9
Sweden	-20.3	Greece	-4.9
Finland	-19.9	Malta	-
Belgium *	-18.6	Ireland	cf.

* Data from January 2009; ** Data from December 2008;
cf. Confidential (–11,9% in Dec 2008); –Data not available
Source: Eurostat

Table 2 Unemployment rates

Country	Feb 2008	Feb 2009	Change (pp.)	Country	Feb 2008	Feb 2009	Change (pp.)
EU27	6.8	7.9	1.1	Portugal	7,7	8,3	0,6
Lithuania	4,4	13,7	9,3	Malta	5,9	6,4	0,5
Latvia	6,1	14,4	8,3	Finland	6,3	6,8	0,5
Spain	9,3	15,5	6,2	Czech Rep.	4,5	4,9	0,4
Estonia	4,1	9,9	5,8	Italy	6,6	6,9 *	0,3
Ireland	4,8	10	5,2	Belgium	7	7,1	0,1
Denmark	3,1	4,8	1,7	Greece	7,8	7,8 *	0
Sweden	5,9	7,5	1,6	Romania	5,8	5,8 *	0
Luxembourg	4,4	5,9	1,5	Slovenia	4,6	4,6	0
UK	5,1	6,4	1,3	Netherlands	2,8	2,7	-0,1
Hungary	7,6	8,7	1,1	Germany	7,6	7,4	-0,2
France	7,6	8,6	1	Poland	7,6	7,4	-0,2
Cyprus	3,7	4,5	0,8	Slovakia	10,2	9,8	-0,4
Austria	3,9	4,5	0,6	Bulgaria	6,2	5,5	-0,7

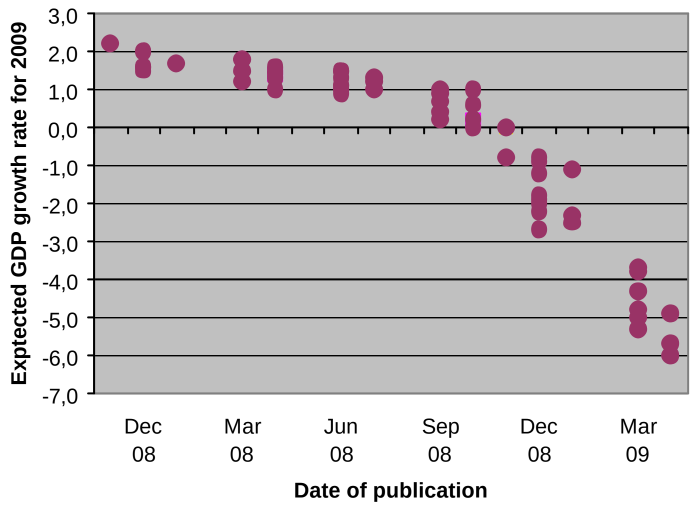
* Data from December 2008

Source: Eurostat

These few observations underline the dimension of the crisis. Comparisons between the current and previous US recessions reveal that various statistical indicators are far more severe than during previous recessions. Residential investments and private consumption have declined with exceptionally strong rates, output and employment have shrunken considerably and unemployment is increasing rapidly *(IMF: World Economic Outlook, April 2009)*. Other countries in the world – the European countries in particular – are following the US and are operating significantly worse compared to former recessions.

The exceptional economic situation is also demonstrated by the GDP forecasts published for Germany for the year 2009 (Chart 2). None of the public and private research institutes were able to forecast the crisis. Even in October/November 2008 the institutes still expected at least a stagnation of the German economy in 2009. Meanwhile, GDP forecasts range around –5 %. Recession is expected to arrive in this country with full power.

Chart 2 GDP forecast for Germany 2009



GDP forecasts as published by 19 economic research institutes, including the German Council of Economic Advisors and international organisations (OECD, IMF, European Commission).
Source: Institut für Arbeitsmarkt- und Berufsforschung, Economix

Expectations are actually divided between hope and despair. The latest interim forecast of the European Commission (January 2009) indicates a strong decline of economic activity in 2009 and a gradual recovery in 2010 (Chart 3). This might happen if the financial crisis is solved rapidly and confidence returns to markets soon. It is the optimistic version of the European future.

However, the analysis of past financial and economic crisis tells another story. The observation of the Swedish and Japanese banking crisis at the beginning of the nineteen-nineties is that economic growth was well below former trends several years after the start of the crisis.

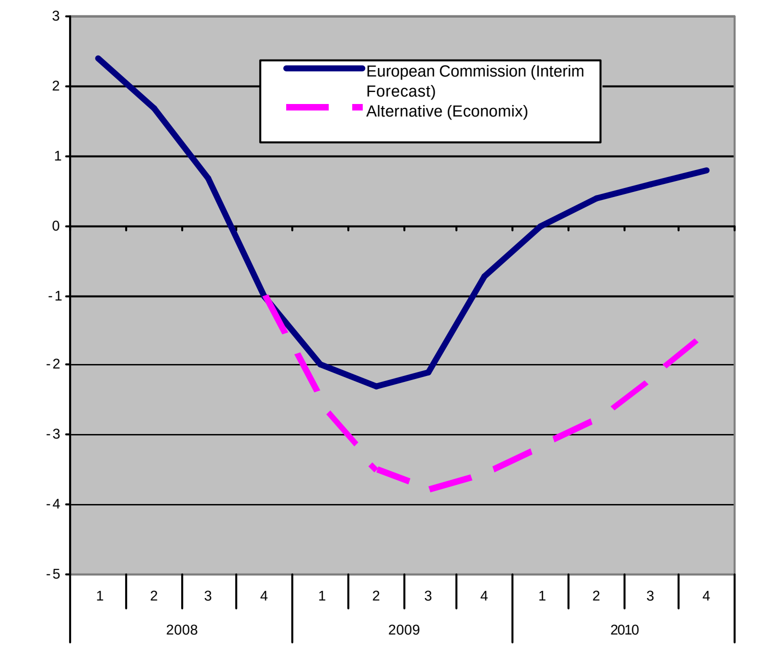
The IMF concludes from the analysis of the past that recessions associated with financial crisis have typically been severe and protracted. Recoveries from these recessions are often held back by weak private demand and credit. Moreover, globally synchronised recessions are longer and deeper than others. The IMF summarises: "Past episodes of financial crisis have shown that restoring the banking system to normal operation takes several years, and that recessions tend to be deeper and longer lasting when associated with financial crisis." *(IMF: World Economic Outlook, April 2009, p. xii).*

This recommends developing an alternative scenario where these observations are expected to become a reality. Chart 3 gives an indication what might happen in the negative case should the governments' efforts not be sufficient to resist the destructive power of the present downward trends, if the disintegration of the world economy continues, and if the banking system will not become sustainable.

This will unavoidably enforce the negative impact of the financial crisis for a long period, lead to high and increasing unemployment and raise social inequality. It will lower incomes, enforce the debate on fair income relations and raise the question of governance and responsibilities. Political earthquakes will become more frequent and social stability might be in danger.

Even if this appears to be a worst case scenario, it has to be considered as one of the conceivable alternatives, which might become true under the accumulation of negative factors. Policy actions have to be prepared for these cases – or better to avoid these developments as early as possible.

Chart 3 GDP forecasts for the European Union



Source: European Commission; Economix

2. Policies against the crisis – what has been done up to now?

Thanks to the European Employment Observatory and the review article presented by GHK *(2009)* we have a detailed picture about the policy actions presently under way in the European Union *(Table 3)*[1].

The overview of the different types of stimuli shows that in financial terms the focus is on general economic support measures including tax cuts, wage subsidies e.g. in the form of reductions of social security rates, state guarantees for vulnerable companies, or financial support to SMEs. A second focus is on infrastructure spending and sector-specific support measures for the automobile sector, tourism, construction industries etc. While most of the countries included some sort of improved unemployment benefits and flexible work contracts in their programmes, only very few concentrated their resources on such measures. This includes in particular short-time work schemes and flexible working hours. Training measures and placement activities are also applied by many countries but none of the EU Member States put this area into the centre of the policy programme.

The detailed picture of measures shows that EU Member States apply a broad set of instruments to combat the crisis on labour markets *(Chart 4)*:

- Two thirds of the EU Member States are planning to raise infrastructure expenditures for transport, housing, training facilities etc. In many cases this is combined with EU Structural Funds resources.
- In addition, sector-specific programmes are launched e.g. for the construction industry (CY, ES, LT), the automobile sector (GE, FR, IT, AU, ES, PT), transport and tourism (CY, GR, NL, PT), and steel industry (LU).

1 The table has been produced on the basis of the GHK background paper from 11 April 2009 (GHK 2009) and amended with information from national sources, regarding in particular general economic measures. The list of measures does not include stabilisation programmes for the financial sector.

Table 3 **Use of different types of stimulus measures by Member States**
State: April 2009

	General support measures/ guarantees/tax cuts	Sector specific subsidies/ guarantees	Infrastructure spending	Training, qualification and placement activities	Unemployment benefits/public work/more flexible work contracts
Austria	■■	■	■■	■	■■
Belgium*	■			■	■
Bulgaria			■■		■
Cyprus			■■	■	■
Czech Rep.*	■■			■	
Denmark	■■	■	■		
Estonia	■■				■
Finland	■■			■	■■
France	■■		■■	■	■
Germany	■■	■	■	■	■■
Greece	■■	■		■	■
Hungary	■■			■	
Ireland	■				
Italy	■	■			■■
Latvia	■■				■
Lithuania		■■			■
Luxembourg		■■	■	■	■
Malta*	■		■		■
Netherlands		■	■■	■	■
Poland	■■		■		
Portugal	■	■■	■	■	
Romania			■	■	■■
Slovakia*	■		■	■	■
Slovenia	■■		■	■	■
Spain	■	■	■■		■
Sweden	■	■■	■■	■	■
United Kingdom	■■		■	■	■

■ adopted or planned measure
■■ relatively most important measure (in terms of financial volume)
* no detailed information about financial volumes available

Source: European Employment Observatory; Economix

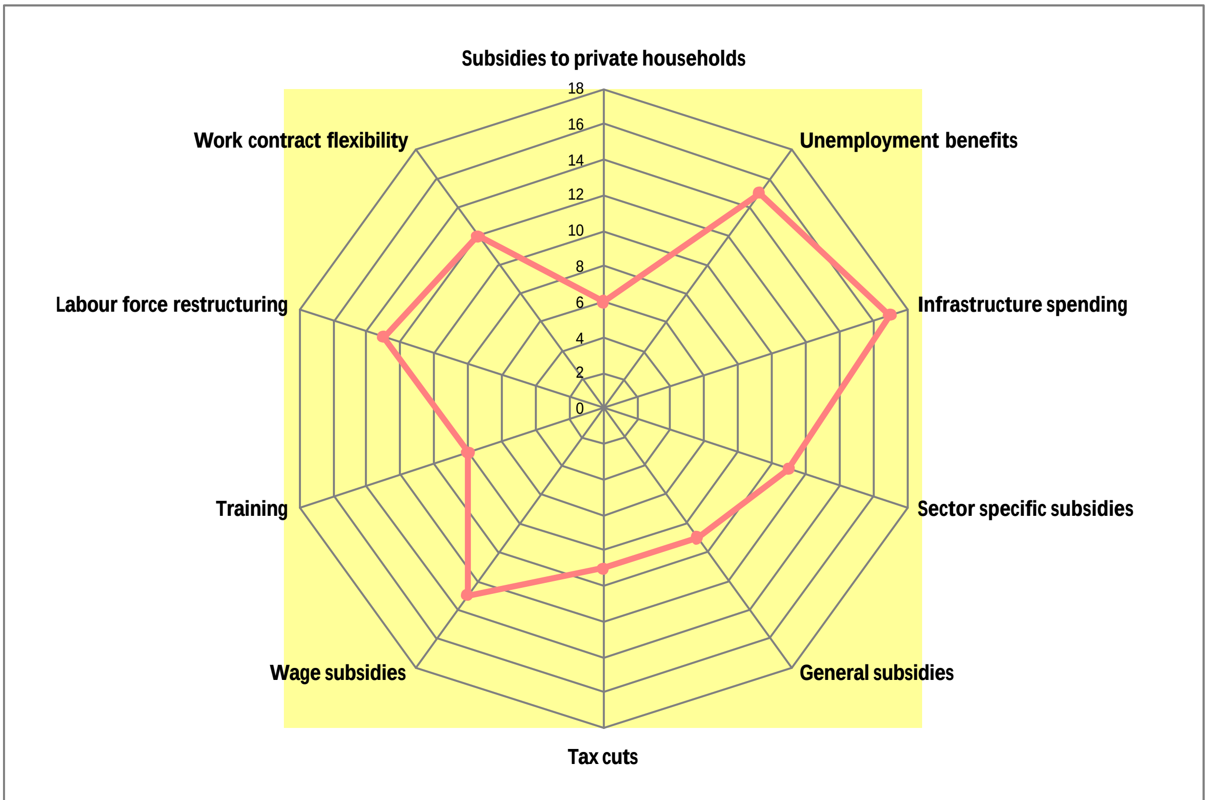
- Half of the Member States provide general subsidies or state guarantees to (non-financial) businesses or allow tax reductions. Germany e.g. launched a guarantee program for SMEs with a volume of € 100 bn. Hungary and Slovenia apply similar instruments. Other countries provide tax preferences, credit subsidies, and direct subsidies to SMEs or new business foundations. Finally, general cuts of income tax (AU) or VAT (UK, DK) are given. Italy even allows a tax relief for productivity bonuses.
- Also half of the Member States allow lower social contribution rates (CZ, ES, GE, SK) or give wage subsidies to specific labour market groups (FR). Employers are supported if they generate jobs or provide outplacement services (HU).
- Investments in training are less frequently represented in the programmes. Only one third of the Member States emphasise this measure. This includes the creation of ap-

prenticeship training (AU, UK), training of redundant workers (FR, CY, FI, NL, PT) or the expansion of adult training in general (GE, SE, HU). Some countries include the education and training sector into their infrastructure programmes.

- Restructuring of the labour force is supported by transition measures, in particular by the combination of outplacement and training measures, the creation of "re-employment cells" (BE), or by "professional transition contracts" (FR).
- Work contract flexibility is improved by the expansion of short-time work (AU, BE, BG, CZ, FR, GE, HU, LU, MT, NL, SI, ES), and the reduction of working hours. The maximum duration of short-time work – which is intended to be a transitional measure – is expanded e.g. to 18 months (AU, GE). Short-time work benefits are raised (HU) or employers are exempted from social contributions (GE).
- Subsidies to private households e.g. are given to low-income earners or young unemployed (FR, IT), to parents with children (GE), or as housing subsidies (ES). Denmark decided to allow the withdrawal of savings from the compulsory pension scheme.
- Unemployment benefits are partly improved (BE, FR, GR), payments are accelerated (ES), and placement services are strengthened (LT, MT, ES, SE, UK).

Chart 4 Crisis-related measures

Number of countries applying the measure*



* Unweighted number of countries

Source: GHK, Economix

The great variety of instruments is applied in various combinations and with different weighting for single measures. Nevertheless, typical combinations of these instruments can be discerned which merge to three sets of national approaches:

- The *state-oriented approach:* France e.g. has a strong focus on public investment (including the support of specific sectors) and combines it with various redistribution measures for low-income earners, unemployed, young persons etc. The government takes the responsibility for employment growth and tries to compensate the negative social effects of the crisis.
- The *stability-oriented approach:* Germany e.g. emphasises state guarantees for companies, the extension of short-time work, and supports important sectors (automobile

industry). Redistributive measures play a minor role compared to general tax cuts or wage subsidies. Restructuring of the labour force is also less important.

- The *liberal approach:* like in the UK where priorities are set on tax reduction (VAT) and the functioning of the labour market (recruitment premiums, improved labour market services). This also includes restructuring measures for the labour force, like in Belgium.

Trying to classify the EU countries – with all caution that is necessary to assess the programmes adequately – the three groups are occupied as given in the following Table:

Approach	**Member State**
State-oriented	CY, ES, FR, LU, MT, (AU)
Stability-oriented	BG, CZ, GE, GR, IT, LV, LT, NL, PO, SE, SI
Liberal	BE, DK, FI, HU, PL, SK, UK, (AU)
AU has strong elements of both, a state-oriented and liberal approach. EE, IR, and RO were not classified.	

Source: Economix

The majority of countries currently follow a stability-oriented approach trying to lead their economies through the crisis and stabilise employment as far as possible. The second group applies liberal instruments of general economic stimuli combined with incentives for restructuring. State-oriented approaches with a central role of public investments and sectoral interventions are the third and least frequently selected option.

3. Assessment of the approaches – will they work?

The three approaches identified in the former Section describe different logic underlying the strategies to combat the crisis:

- The state-oriented approach counts on the strength of public and private spending which is expected to re-direct the economy to the former growth path. It depends on high multiplier effects of expenditures, being able to compensate the loss of demand in the economy. Negative effects arising from expanded credit absorption by the governments are not important, as well as price effects of strong public demand.
- The stability-oriented approach assumes a short crisis. It is expected that a strong upswing will soon bring the economy back to former activity levels. Only transitional public support is required in order to stabilise employment.
- The liberal approach, finally, counts on the dynamics of the economy. Restoring profit rates and supporting consumption will be sufficient to recover from the slump. In a long-term perspective, restructuring of the economy towards growth sectors will help restoring economic dynamics.

These are quite strong assumptions, which need to be scrutinised in detail in the light of recent research, in particular the investigation of the OECD about the effectiveness and scope of fiscal stimulus (2009). This study results in four central statements:

- Short-run multipliers of increased government spending generally exceed those of revenue measures: direct spending by government does not suffer from leakage to savings at the first round stage and estimated multipliers tend to be slightly higher than 1.0.
- Multipliers from revenue measures are smaller; a personal income tax cut tends to have a slightly larger effect (0.5 to 0.8) than other forms of tax cuts (0.2 to 0.6).
- Multipliers tend to increase slightly between the first and second year. This is particularly the case for tax measures.
- Multipliers are systematically smaller for open economies.

These findings strongly support the state intervention strategy and all types of public spending programmes within the other approaches. As the OECD states, fiscal stimuli may even be more effective than in other circumstances in the present state of the crisis, as the economy is constrained by dysfunctional financial markets and the sharp decline of demand. In any case, they appear to be more effective than monetary stimuli.

However, there are two principal risks involved in this strategy:

- *Timing of public expenditures:* the model calculations of the OECD assume that public spending is effective in the period of observation. Spending programmes however need time for preparation – big programmes for construction in particular. The programmes will therefore become effective only in parts during 2009.
- *Rising savings rate:* in addition to the overall decline of private incomes due to shrinking employment, private households will adjust to the crisis with higher savings rates.

This tends to reduce multipliers in general and particularly in 2009 when expenditure programmes are starting.

Until 2010 the OECD estimates expect a GDP contribution of around 3 % by the fiscal packages of Spain, Luxembourg, Finland, Czech Republic, Germany and Sweden, around 2 % in Belgium, Netherlands, and Great Britain, and 1 % or even less in Austria, Poland, France and Italy. Compared to the sharp decline currently forecasted for the EU economies, the programmes will thus only be able to compensate parts of the losses. The hopes will be more on 2010 than on 2009.

This indicates that there is a strong need for a stability-oriented approach regarding employment levels in particular. Support measures like short-time work and financial guarantees for vulnerable companies appear to be important instruments to sustain jobs.

The findings also indicate that in countries with a liberal approach the recovery must be expected to take more time. Tax cuts and other revenue-oriented measures need longer adjustment periods in order to become effective. Many of these countries therefore can only expect medium or low effects from their rescue programmes in the short-run. The positive effects of restructuring the labour force will only become apparent in the course of rising labour demand.

Envisaging the high risk of a prolonged labour market recession, the ILO suggested a "Decent Work Agenda" (2009). It criticises that fiscal packages do not focus sufficiently on decent work and are not coordinated internationally. They will thus fail to boost the economy. The crisis is expected to threaten social stability due to rising unemployment and the imbalances of pension systems – private pension systems in particular. The ILO expresses the concern that the crisis is affecting all groups while the gains of the pre-crisis expansionary period had been distributed unequally. Five points need to be addressed in combating the crisis (ILO 2009, p. viii):

- The credit system needs to be revived
- Fiscal packages should address employment and social protection
- Protectionist responses have to be avoided and the development dimension needs to be considered
- Wage deflation should be excluded
- The structural causes of the crisis have to be tackled

This is a warning that the crisis will have long-lasting impact not only on economic growth but on the structure of societies, the functioning of the world economy, and on international relations. A global job pact is suggested in order to avoid beggar-thy-neighbour solutions. Decent work is pivotal to this approach as it is seen as the foundation of sustainable and fair globalisation.

4. Priorities for labour market policy– what should be done?

In face of this severe crisis, labour market policy is moving into the centre of action. In addition to fiscal and monetary macro-policy, it has to stabilise jobs on the one hand and remove social imbalances on the other. This is not a new role but the scope of tasks to current labour market policies appears to be bigger than ever.

The priorities of the anti-crisis agenda should be set on five points:

- Restructuring the financial sector
- Defending existing jobs
- Preserving vulnerable jobs
- Restructuring the labour force
- Addressing social imbalances

Restructuring the financial sector

While this is the major task of fiscal stabilisation programmes and new regulatory frameworks for financial markets, employment-related policies should address the need for adequate training and increased R&D investments in this sector. Obviously, the financial sector was unable to establish a sustainable business model and to assess risks correctly. This is not only a matter of management and business regulation. It also depends on the deep understanding of the functioning of financial markets.

Following the study on "Skills Scenarios for the European Financial Sector" *(Kaisergruber, Vogler-Ludwig, forthcoming)*, two priorities emerge in this context:

- Training policies should be re-oriented towards the economics of capital markets, the principles of decent client consultation, controlling and risk assessment. Governments should take initiatives to implement such new types of training in the financial business sector.
- As the tools of risk assessment failed to indicate long-term risks, R&D programmes should be launched to improve these instruments. Controlling principles should be reappraised in order to develop strategic controlling.

Human capital appears as the key to restructuring in this sector, and public institutions can raise the pressure on the financial sector to develop a sustainable business model.

Defending existing jobs

There is the opinion that the crisis also has some healthy aspects, helping to restore sound business structures. Market forces should therefore not be hindered to lead the economies back to normal paths. This however means trivialising the situation. Market forces have been responsible for the creation of the financial bubbles and no forces appeared to keep markets on sustainable tracks. Actually, the crisis is going to destroy many healthy jobs which will have to be generated again when the storm is over.

It makes sense to defend jobs at least in businesses which can be expected to stay on a sound economic basis. Short-time work is a proven instrument to bridge market turmoil. The instrument has been applied for many years in countries like Germany or Austria and plays an important role in present crisis management. It is recommended to use this measure on a broader European level.

This should be amended by general working time flexibility. Long-term working time accounts can be used to reduce working hours in periods of low activity without making workers redundant. Works councils should play an important role to organise such adjustments.

As an ultimate instrument to defend jobs, workers might be willing to make wage concessions, at least for a transition period. In contrast to the ILO argument that wage deflation must be avoided due to the negative demand effects, lower wages might help to defend jobs. As purchasing power is the product of wages and the number of jobs, rather than wages alone, the wage deflation strategy works. Governments could contribute to this strategy by lower non-wage labour costs.

Preserving vulnerable jobs

The present rescue programmes include measures to stabilise employment through liquidity support measures (state guarantees for companies) and public investment programmes. The problem with investment programmes in particular is that money flows strongly discriminate between sectors. Construction industries are usually the main beneficiaries. Even if the money is broadly disseminated in the economies after some time, strong advantages are given to the beneficiaries of the first round.

There might be more ingenuity regarding public procurement. Significantly more money could be spent on education and training, in particular for direct jobs and the extension of training facilities. Some national programmes include such measures but they appear as an exception. Moreover, R&D expenditure could be extended instead of high speed traffic tracks or bridges. The re-orientation of public spending programmes towards immaterial investments is urgently required as human capital determines future growth rather than infrastructure and machinery.

Looking at the business sector, companies need to be prepared for crisis management. Ignoring the crisis is the worst companies can do, and they need some public support in developing the adaptation strategies. Employer associations and other support structures should develop master plans for crisis management and give individual consulting to vulnerable companies – small companies in particular. Governments can help by opening easy access to public support programmes and raising the speed of approval for public grants.

Finally, redundancies could be limited by incentives to employers who preserve jobs. Risk premiums in unemployment insurance e.g. might be able to provide such incentives. Companies will be rewarded if they think about alternatives to cutting jobs. This will not avoid job losses in case of bankruptcies but it will stimulate the thinking about job preservation in companies which are better off.

Restructuring the labour force

The world will be different after the crisis: strong competition will force a series of companies out of their markets, high productivity will be a key to survival, emerging countries will see new opportunities to enter European markets, and workplaces will disappear for ever. It will therefore be crucially important to adjust the labour force with a long-term perspective to changing markets.

This can be done with programmes supporting entrepreneurship, which generally help to detect market opportunities much better than public investment packages.

Moreover, the phases of underemployment might be used to retrain the labour force. Lifelong learning programmes should be extended and income support might be given for courses of long duration. Human capital accumulation should be accelerated in such a phase of depression not only to compensate the loss of qualification associated with high unemployment but to escape from the crisis with better human resources.

In parallel, it is important to exploit all job opportunities available. Usually, labour force transition rates are declining in recessions. Public programmes thus might compensate the higher risks of going to a new job, in particular if the new job is in a distant region.

Regional mobility programmes therefore might be important to improve the allocation of labour in the economies.

Addressing social imbalances

Unemployment strongly discriminates between skills and social groups. The burden of recession is often taken by the lower skills groups. Professionals, managers and civil servants are usually less affected.

This urges for a new type of solidarity pact between the social groups which targets at two directions. It will be important to keep the unemployed employable, and it will be important to demonstrate solidarity among the labour force. A solidarity contribution by those who have a job could be used to finance an increased amount of public work. This would give jobs to the unemployed, sustain or even improve the level of social services, and underline that the work force sharing the burden.

In addition to skills, unemployment is discriminating between regions. EU Structural Funds could be re-oriented to combat local origins of unemployment. In general public spending programmes should consider the strongly different labour market situation among regions and allocate resources in order to compensate for local disadvantages.

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