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# Tackling Europe's unemployment crisis



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New and better solutions are needed to tackle the worsening unemployment crisis in Europe, which rose to a three-year high of 8.5 per cent in January.

However, the European Unions Lisbon Strategy (which aimed to turn the EU into a dynamic knowledge-based economy by 2010) and flexicurity should form the cornerstone of such solutions, said speakers at this year's European Business Summit (EBS). The EU's Lisbon Strategy aims to improve its economic competitiveness, while flexicurity aims to support an optimal balance between labour market flexibility and security for employers and employees.

Winning the battle of jobs is actually winning the war against the (economic) crisis, says **Vladimir Spidla**, EU Commissioner for Employment, Social Affairs and Equal Opportunities. To win this battle, we have to operate at three levels maintaining employment, developing skills and reinforcing social inclusion.

Spidla believes that the EU must stick to the Lisbon Strategy and implement flexicurity throughout its 27 member states, giving priority to social protection, geographic mobility and public labour services. Towards those ends, the EU's 400 billion euros (US\$546 billion) economic recovery package for 2009-2010 is a step in the right direction, Spidla says.

### **The wrenching pace of technological innovation**



But **Will Hutton**, executive vice chairman of The Work Foundation, warns that the accelerating pace of technological changes means that wrenching economic disruptions will become the norm.

Speaking to INSEAD Knowledge, Hutton, a former journalist and an INSEAD alumnus (MBA78J), points to the rapid emergence of general-purpose technologies (GPTs) in the past couple of centuries.

GPTs - such as the wheel, the railway, and the internet have increased from just four in the 19th century to eight in the 20th century. Innovation

theorists, says Hutton, predict between 12 and 16 GPTs this century.

The devastating impact of GPTs, such as those that the internet has had on the media industry, means that most of today's business models will not exist in their current forms in 40 years time.

Hutton also warns of the resurgence of extreme political parties amid widespread unemployment due to the current global economic crisis which is being exacerbated by GPTs.

Dismal economic conditions in the 1930s, Hutton notes, had helped the Nazis rise to power in Germany.

In the next decades ahead, industry after industry is going to suffer that change, and we have to devise ways of protecting ordinary people through this disruption.

## **Adapting to change**



Jrgen Rnnest, Director of International Affairs at the Confederation of Danish Employers, points out that we have to acknowledge that the standard picture

of employment as lifelong employment with the same employer is gone for most of us.

To sustain their welfare systems, EU countries have to adapt to challenges arising from technological changes, amid shifts from manufacturing to services industries, demographic changes and increased competition.

There also needs to be a change of attitude towards employment by employers and employees, says Rnnest, who adds that legislation can help lower the barriers to change.

But Rnnest acknowledges that as peoples working hours, their compensation and responsibilities are reduced, pension incentives should be improved so as to retain people longer in the workforce.

Other necessary employment reforms include new economic and labour risk management systems, says **Ton Wilthagen**, Professor of Social Law and Social Politics at the University of Tilburg.

By that, Wilthagen means that employers should accept transition responsibility for developing the skills and capabilities of their employees to enable them to move to other jobs, even out of their companies.

On their part, employees should accept the shift from job security to employment security because jobs-for-life have become obsolete. Therefore employees have to take greater responsibility for upgrading themselves, Wilthagen says.

Governments, private companies, public employment services and educational institutions should help promote and facilitate this new social agreement, he adds.



But for **John Monks**, Secretary General of the European Trade Union Confederation, peoples need for job security is not old-fashioned because they may not find new jobs easily even if they upgrade their skills.

Monk believes that the best companies strive to invest in and cultivate their own loyal talent. The move away from these traditional virtues helped bring about today's global financial crisis, says Monk.

The best companies, if you look in the different sectors, have got cadres of people at all levels who are loyal, who are committed, who really don't just work for the bonus but work for the company with a sense of pride.

Furthermore, flexible employment may neither be financially equitable or efficient.

Greater equality is at the heart of making flexisecurity a success, says Monk. Because people wont move and wont move easily, and will fight for every job they can, if the consequences of not doing so are that you take a big, big drop in your living standards.

The toll on the public purse from helping people move from one job to another is also very high, as seen in Denmark. And its not easy for middle-aged people to learn new skills, notes Monk.

Old dogs don't learn new tricks very easily. It takes a lot of sympathetic and extremely good teaching, and so on, to do it.

But because there are supportive wage policies as well as income support for workers in Denmark, the country also has less social and financial inequality than in many other countries, says Monk.

## **Rethinking the socio-economic structures**

In any case, the current global financial crisis has shown that the character of capitalism and the present socio-economic structure have to change, argues Hutton of The Work Foundation.

I think were moving towards - we have to move towards - a capitalism that companies accept that actually wealth generation does not come from financial engineering and shareholder value maximisation, says Hutton.

But (wealth generation) comes from innovation, responsiveness to customers and engaging the people who work for you.

Hutton also argues that the traditional mortgage and pension systems have to be overhauled, and more sophisticated systems for lifelong learning have to be developed.

And given the lack of employment security in today's world, it is extraordinary that people have to bear the risks of mortgages over 25 years or more without getting insurance on the equity that they've invested in their homes, says Hutton.

Mortgage payments, says Hutton, should be contingent upon homeowners incomes; this means that mortgage payments should be suspended or reduced if homeowners have to take pay cuts or become unemployed.

Furthermore, people should be able to insure their incomes and consequently their standards of living, says Hutton. This would be beneficial for businesses and consumers, as this would result in more even levels of demand for goods and services, and help bolster business confidence in consumers purchasing power.

To be sure, the fast-growing knowledge economy will also be playing a key role in driving and reshaping economic activities. Notably, industries that engage in general-purpose technologies (GPTs) currently account for between 40 and 45 per cent of the gross domestic product (GDP) of most EU countries. Hutton adds that 20 years ago, they accounted for just 25 to 30 per cent.

In this knowledge economy where companies are increasingly investing in intangible assets such as brand equity, human capital, and research and development, the manufacturing-service sector is where the future lies, says Hutton.

Indeed, he adds, the emergence of this sector carries profound implications in terms of economic and employment risks for the future. Unless we in Europe actually adapt our systems, we could have pockets of profound unemployment (and) people facing profound risks.

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