
Instruments for Managing the EU Labour Market in the Face of the COVID-19 Crisis

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Abstract:

Purpose: The article presents in a multifaceted manner the instruments used in the EU member states to mitigate the effects of the COVID-19 pandemic in the labour market.

Design/Methodology/Approach: Theoretical issues were examined on the basis of the analysis of available source literature on labour market economics and risk management. The research methods used in this paper include, critical analysis of the source literature, the method of comparative analysis and secondary data analysis.

Findings: The article identifies actions taken by the EU member states to support the labour market and to develop a model of instruments intended for EU authorities and member states to reduce the risk of labour market disturbances during the COVID-19 pandemic.

Practical Implications: The analysis and evaluation carried out in the article indicated that risk management on the EU labour market during the pandemic requires integrated protective measures. The results obtained may be used to formulate a long-term strategy for the EU labour market and programmes to counter the effects of the crisis.

Originality/value: The issues as presented in the article concerning the instruments used to manage the EU labour market in the era of the COVID-19 pandemic have not been studied in Polish and foreign literature.

Keywords: Labour market, management, crisis, financial instruments, operational instruments, pandemic, COVID-19, European Union.

JEL classification: F16, F38, G01, J20, M51.

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1. Introduction

Job losses and rising unemployment are dramatically reducing the sources of income for many Europeans. The European Commission's forecast predicts that the unemployment rate in the European Union (EU) will rise from 6.7% in 2019 to 7.7% in 2020 and 8.6% in 2021, before falling to 8.0% in 2022 (European Commission, 2020a).

The crisis we are facing on account of the COVID-19 pandemic has a significant human dimension as well as serious adverse socio-economic effect on the EU labour market. It is essential that the EU and its member states act together and take firm actions in a spirit of solidarity to halt the spread of the virus and, with regard to the labour market, actively counteract negative economic and social effects and achieve a labour market equilibrium.

Instruments supporting the labour market depend on the country and its specific nature, however, greater diversity may be observed in the operational instruments used than in financial instruments. The 27 EU member states examined use almost identical financial instruments (in the strict sense) to support the labour market. The selection and applicability of financial instruments (in the broad sense) and operational instruments depend on the specific nature and characteristics of a given state's labour market. The group of operational instruments is particularly diversified, as the selection of these instruments is to a large extent contingent upon the former economic activity of the society and the sectoral structure of the national labour market.

2. Scope and Methodology

The aim of the article is to present instruments used in labour market management during the COVID-19 crisis and to attempt to answer the following research question: *“is it possible to balance the labour market and what instruments should be used to avoid the loss and reduction of jobs.”* The research question was answered and the objective formulated achieved through a critical analysis of the source literature, comparative analysis and analysis of secondary data. The research was based on quantitative data on the labour market in the EU member states obtained from the official EU statistics and European Commission reports as well as the analysis of available source literature.

The stages of the research process included, assessment of the current state of knowledge about the labour market in the time of crisis and research on labour market management instruments during the pandemic caused by COVID-19. Theoretical issues were examined on the basis of the analysis of available source literature on labour market economics and risk management. The study, which concerned all EU member states, analysed the financial and operational instruments used actively to stabilise the labour market. As a result of the analysis, a model of

instruments used by EU bodies and member states was developed.

In pursuit of the research objective, the first part of the article provides a literature review, the second part includes research related to labour market management instruments during the COVID-19 pandemic. The conclusions are presented at the end of the paper. Since the examined issue is wide and multifaceted, the article discusses only the most important problems.

3. Literature Review

The COVID-19 pandemic has severely disrupted the economy and labour markets in all regions of the world. Labour market programmes are a key element of the political actions the governments have taken to protect jobs, businesses and income from the effects of the pandemic. As in previous crises, labour market policy-makers in emerging and developed economies have adopted labour market policies to counter by different means the rapid deterioration of the labour market situation. In particular to reopen workplaces more quickly, adapt skills, facilitate workforce reallocation and mitigate temporary income losses after periods of involuntary unemployment. However, unlike previous crises, the current crisis forced labour market institutions to face not only a decline in aggregate demand, but also the effects of restrictions, lockdown and physical distance measures aimed at limiting the spread of coronavirus.

The COVID-19 crisis caused an economic contraction and increased fears of unemployment. The pace and scale of shock was unprecedented, as exemplified by the entrepreneur and consumer trust indicators, which have dropped sharply worldwide and certain components have reached their lowest levels ever (Gurria, 2020). Moreover, the economic slowdown has fuelled fears of potential job losses, which has been reflected in an increased interest in job offers and job search websites.

The most severe pandemic of the century caused one of the worst economic crises since the Great Depression. Countries often responded with strict containment and mitigation policies, effectively limiting the spread of the virus to avoid the collapse of health care systems and, most importantly, to reduce the death rate. Therefore, the combination of great uncertainty, fear of contagion, as well as individual restrictions imposed by national and EU public guidelines and mandatory lockdowns have resulted in an immediate and severe recession. Furthermore, in many countries the first months of the crisis saw an increase in the number of the new unemployed, and forecasts indicate that the unemployment rate in the EU will be much higher than during the peak of the global financial crisis.

However, the severity of the shock on the labour market is considered to be much greater: despite the massive shift to telecommuting, the number of active employees

has decreased in all countries as companies have discontinued or significantly reduced their economic activity and retained part of their workforce through subsidised job retention schemes. The available evidence suggests that the most vulnerable groups, i.e. the low-skilled workers, young people, emigrants and women, sustain the greatest losses during the crisis.

It should be noted that by the first half of April 2020, EU member states imposed some form of non-pharmaceutical interventions (i.e., restrictions on individual mobility and on economic activity) to stop the spread of the virus: most member states closed schools, limited travelling abroad but also within countries and banned public gatherings. The nature and scope of these measures varied considerably (Hale, Atav, Hallas, Kira, Phillips, Petherick, and Pott, 2020). In certain countries, such as Italy and Spain, restrictions were mandatory and applied throughout the country. In others, such as Sweden, restrictions were recommended yet not mandatory and were limited to specific areas / groups. Business restrictions varied as well: in a few countries all unnecessary businesses were closed down, in others only businesses or sectors with a high concentration of people, such as entertainment, catering or hospitality, were restricted.

Containment and mitigation policies had an immediate impact on mobility patterns in all countries. As governments introduced mandatory restrictions and/or recommended restrictions on physical contacts to their citizens, individual mobility began to decline as people began to seek refuge in their homes. Even in countries where restrictions were less severe, e.g. Sweden, the number of people commuting to work and public transport hubs decreased significantly from the beginning of the pandemic to the end of March 2020. According to Maloney and Taskin (2020), a decrease in mobility primarily results from local and national COVID-19 cases and the accompanying greater awareness, fear or social responsibility.

“Physical distancing” resulting from voluntarily limited mobility and/or mandatory containment and mitigation strategies has been effective in limiting the spread of the virus and preventing the collapse of health care systems, which in turn would cause a significantly higher number of deaths (Deb, Furceri, Ostry, and Tawk, 2020). However, the subsequent closure of entire sectors of the economy or, in certain cases, merely great uncertainty and fear of infection, had an immediate and dramatic impact on EU economies and labour markets.

Initially the COVID-19 pandemic caused a supply shock. The spread of the virus broke international supply chains, first in China and then in most countries and regions, and reduced the working time of employees during quarantine, disease or lockdown. When people started staying at home and employers could not provide their employees with healthy and safe conditions, companies were forced to suspend or reduce their activities due to mandatory downtime and declining demand. Many

organisations started to face liquidity problems and some could not continue to remunerate their staff. Despite unprecedented government interventions, uncertainty about the spread of the virus and, in many cases, the decline in household disposable income have led people and businesses to reduce investment and consumption and make savings. Supply shock quickly transformed into demand shock.

Early reports on the impact of coronavirus, available to many EU countries, indicate a major economic shock, not only in countries which have introduced strict mandatory measures (Grima *et al.*, 2020). Economy significantly contracted when governments relied more on social adjustment and/or social capital. This probably reflects people's reactions to non-binding recommendations and their greater awareness of the severity of the COVID-19 pandemic (Khan *et al.*, 2020).

Certain services, considered “essential”, were provided even at the peak of the health crisis, while less necessary companies had to suspend their activities. Moreover, certain sectors are inherently more vulnerable to infection due to the fact that, for example, production may not take place outside the company's premises or that they rely on personal contacts between employees or between employees and customers to a greater extent (Barbieri, Basso, and Scicchitano, 2020). In addition, a decline in demand caused by job rotations, lower incomes and disruptions in supply chains particularly affected and will continue to affect certain sectors (Barrot, Grassi, and Sauvagnat, 2020). Domestic and international trade also contributes significantly to the spread of viruses (Boerner and Severgnini, 2011; Adda, 2016; Oster, 2012).

With the recent outbreak of COVID-19, economic researchers started to integrate SIR and SEIR models into the economic environment to assess the potential economic consequences of COVID-19. The studies on the macroeconomic implications of Covid-19 in the economic literature are noteworthy. For example, Berger, Herkenhoff, and Mongey (2020), Atkeson (2020), Eichenbaumet, Rebelo, and Trabandt (2020) and Alvarez, Argente, and Lippi (2020) include the SIR or SEIR epidemic models in macroeconomic models. Atkeson (2020) is predicting disease pathways and assessing its economic impact. Berger, Herkenhoff, and Mongey (2020) are establishing the quarantine technology and evaluating the SEIR model by means of tests. They demonstrate how testing instrumentally mitigates the economic effects of quarantine and further flattens the coronavirus curve. Farboodi, Jarosch and Shimer (2020) are considering a simpler model of economic decision-making and analysing optimal policies in this environment and, using location data, are able to quantify the endogenous response of business entities to the presence of COVID-19.

Guerrieri, Lorenzoni, Straub and Werning (2020) present the theory of Keynesian supply shocks, according to which supply shocks can cause greater changes in aggregate demand than the shocks themselves. Hall, Jones, and Klenow (2020)

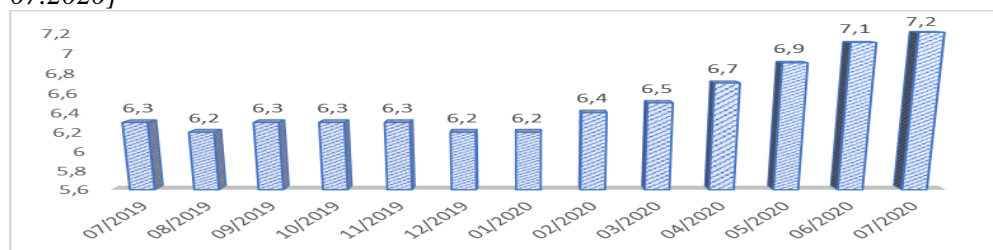
present a compromise between the consumption and death of COVID-19. Barro, Ursúa, and Weng (2020) and Correia, Luck, and Verner (2020) are investigating the Spanish flu pandemic of 1918. Greenstone and Nigam (2020) are analysing the implications of social distancing measures, while Glover, Heathcote, Krueger, and Ríos-Rull (2020) are focusing on the effects of the COVID-19 spread. Another line of research is concentrated on optimal policies in affected economies, such as an optimal fiscal policy by Faria e Castro (2020) and an optimal quarantine and testing policy by Wells et al (2020), Piguillem and Shi (2020), Gollier and Gossner (2020). Dewatripont, Goldman, Muraille, and Platteau (2020) suggest that testing, whether priority or random, is necessary to relaunch the economy. They claim that mass testing is technologically feasible and is only a logistical scaling problem.

In conclusion, most EU member states have implemented decisive non-pharmaceutical interventions (NPIs) to slow down the spread of COVID-19. Although the effectiveness of these policies in terms of health effects has been demonstrated in several studies (Juraneck and Zoutman, 2020; Born, Dietrich, and Mueller, 2020; Conyon, He, and Thomsen, 2020), there are serious concerns about the potential damage to the economy and labour markets caused by the NPIs (Kong and Prinz 2020; Andersen, Hansen, Johannesen, and Sheridan, 2020). In particular, it is assumed that severe restrictions and social distancing measures forced by many countries (i.e. lockdowns) are causing a serious economic problem (Baldwin and Weder di Mauro, 2020). Thus, the decision problem faced by national governments is often considered as a compromise between public health and the state of the economy which is difficult to reach.

4. The Labour Market in the European Union in the Face of the COVID-19 Crisis

In the first quarter of 2020, EU member states began to introduce numerous restrictions on the functioning of their economies to prevent the spread of COVID-19. This affected the labour market situation in each of these countries. The unemployment rate for the EU-27 in July 2020 was 7.2%, an increase of 0.1 pp compared to June 2020 and an increase of 0.9 pp year-on-year (Figure 1).

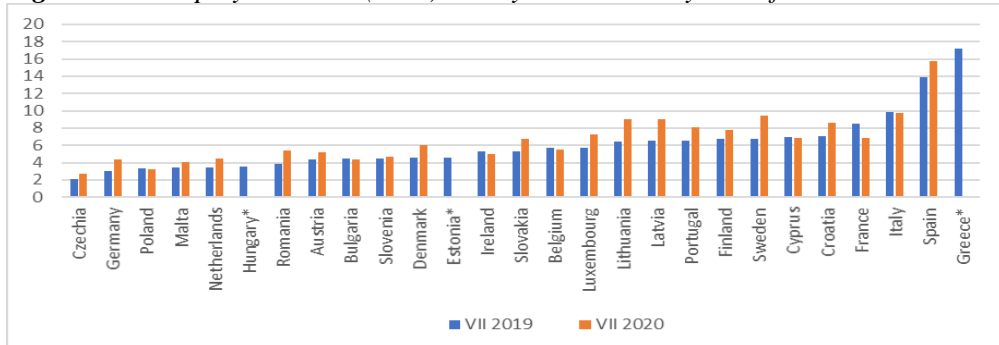
Figure 1. Unemployment rate in the European Union (EU-28 / EU-27) [07.2019 - 07.2020]



Source: (Eurostat, 15.09.2019; PARP, 2019; PARP, 2020).

In July 2020, the highest unemployment rate was reported in Spain (15.8%), Italy (9.7%) and Sweden (9.4%), and the lowest – in the Czech Republic (2.7%), Poland (3.2%), Malta (4.1%), Germany and Bulgaria (4.4% each), as shown in Figure 2.

Figure 2. Unemployment rate (in %) in July 2019 and July 2020 for the EU-27

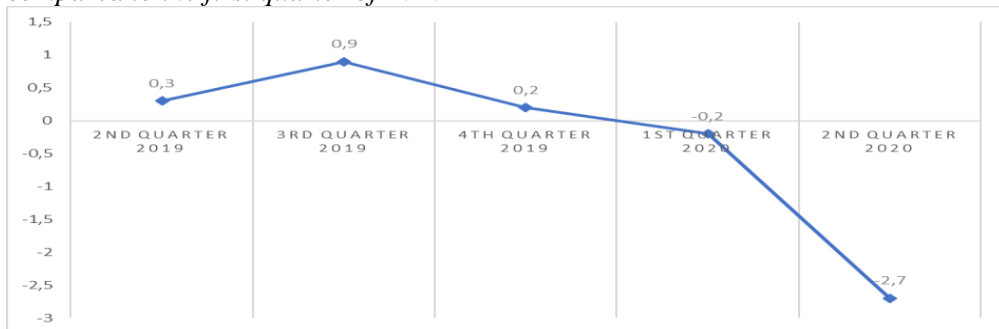


Note: *No data from July 2019 and 2020 for Hungary, Estonia and Greece (June 2019).

Source: PARP, 2020.

In the second quarter of 2020, in the EU-27 the employment rate declined by -2.7% compared to the previous quarter (Figure 3).

Figure 3. Change in the employment rate in the European Union (EU-28/EU-27) as compared to the first quarter of 2020



Source: Eurostat, access date 16.09.2020.

In the second quarter of 2020, the employment rate decreased in all member states as compared to the previous quarter, with the exception of Malta (+0.6%). The largest drops were recorded in Spain (-7.5%), Ireland (-6.1%), Hungary (-5.3%) and Estonia (-5.1%).

The data presented confirm that the emergence of a new and completely unforeseen factor, i.e. the COVID-19 epidemic, was of key importance for the economic processes in the EU. In terms of both the health issue and socio-economic situation, the outbreak of the epidemic has posed entirely new challenges for the EU member states. At the time of preparing this article, in most EU countries, for which available

data cover only the period until June or July 2020, labour market statistics do not yet reveal particularly noticeable effects of the crisis.

Today the recovery from the lockdown is still hindered primarily by the increasing number of COVID-19 infections. Contrary to the recommendations of the World Health Organisation not to impose a second quarantine, the risk of declining consumer demand due to possible restrictions is still restraining development ambitions of companies and makes them unwilling to hire new employees. There is also a risk of synergy between the second wave of COVID-19 and influenza in the winter season, and a reduced government aid as a result of rising public debt in many countries. These factors may aggravate the economic crisis in the EU.

5. Instruments Used in EU Labour Markets in Response to COVID-19

The current market mechanism which reveals major flaws is strongly influenced by the uncertainty caused by the COVID-19 pandemic. Dysfunction in this area is contributing to a rapid rise of unemployment, as it significantly affects the labour market (Pouliakas and Branka, 2020). It is indisputable that the coronavirus pandemic came as a shock to the European and global economy. EU member states have already introduced or are introducing measures to maintain financial liquidity and policy actions to increase the capacity of national health systems and help citizens and sectors particularly affected by the pandemic to support the labour market effectively. To alleviate the financial impact on citizens and the economy as a whole, the European Commission (EC) adopted an action plan as a comprehensive economic response to the coronavirus pandemic, fully utilising the flexibility of EU fiscal rules, reviewed existing state aid rules and developed an investment initiative in response to the coronavirus, with a budget of EUR 37 billion (Official website of the European Union, 2020) to provide liquidity to businesses and the health care sector. The European Commission has additionally launched an initiative referred to as SURE – support to mitigate unemployment risks in an emergency. This measure is intended to help preserve jobs and support households.

SURE will take the form of a lending scheme underpinned by a system of guarantees from member states. The introduction of this programme will allow the EU to (Council Regulation, 2020):

- expand the volume of loans that can be provided by the SURE instrument to member states requesting financial assistance under the instrument;
- ensure that the contingent liability for the Union arising from the instrument is compatible with the Union budget constraints.

For the first time ever, the EC launched a generalised escape clause under the Stability and Growth Pact. This allows the EU member states to put in place adequate crisis management measures and temporarily refrain from the requirements of the European budgetary framework, which usually apply.

In order to mitigate the severe economic impact and to support businesses, the EC has introduced the most flexible state aid rules so far. They allow member states to provide direct support to companies which are most affected by the pandemic and at the risk of closure if not aided.

Labour market support instruments may be divided into financial and operational instruments. The financial instruments (in the strict sense) used to a greater or lesser extent by all EU countries include primarily (European Commission, 2020b):

- direct grants (or tax benefits);
- subsidised state guarantees on bank loans;
- public and private loans with subsidised interest rates;
- using the existing capacity of banks to grant loans (for example, working capital loans);
- additional flexibility to enable short-term export credit insurance provided by the state where needed or to indemnify credit insurers (most EU Member States).

These measures are intended to ensure that companies can survive in the market or temporarily suspend their activities without adversely affecting their long-term development prospects and, in particular, to mitigate the negative impact of COVID-19 on jobs.

The financial instruments (in the broad sense) used in EU countries include the following forms of support (European Commission, 2020b):

- various forms of unemployment benefit, for example, allowance for unemployed professionals with higher education, housing allowance, social assistance benefits, one-off “solidarity allowance”, a special allowance for seasonal workers, automatic extension of unemployment benefit by the duration of the state of emergency, unemployment insurance, etc.,
- flexible conditions for the payment of social security contributions, e.g., their temporary deferment, cancellation, payment by instalments, reduction of the applicable rate, etc.,
- tax facilities i.e:
 - accelerated settlement of tax payments (e.g. VAT refund) for the private sector in order to maintain financial liquidity of employers and the self-employed;
 - reduction of administrative burdens on businesses (extending time limits for submitting tax documents, cancellation of the tourist tax, exemption of catering entities from “public space use” charges, no penalty for late payment).

The main operational instruments include (European Commission, 2020b):

- increased flexibility of work (flexible working hours, simplified procedures regarding special leave requests for family reasons due to school closures, improvement of excused absences systems, etc.),
- increased protection of employees, for example: better protection against dismissal for employees on sick leave, extending the short-term work programme,
- websites (Luxembourg “JobSwitch”, France “Mobilisationemploi”) connecting the unemployed, short-term employees and the self-employed with companies seeking employees,
- training support and training vouchers (e.g., Greece EUR 600), development of the digital skills of employees,
- other measures dedicated to national labour markets.

6. Prospects of Recovery from the EU Labour Market Crisis Caused by the Economic Slowdown Triggered by COVID-19: Discussion

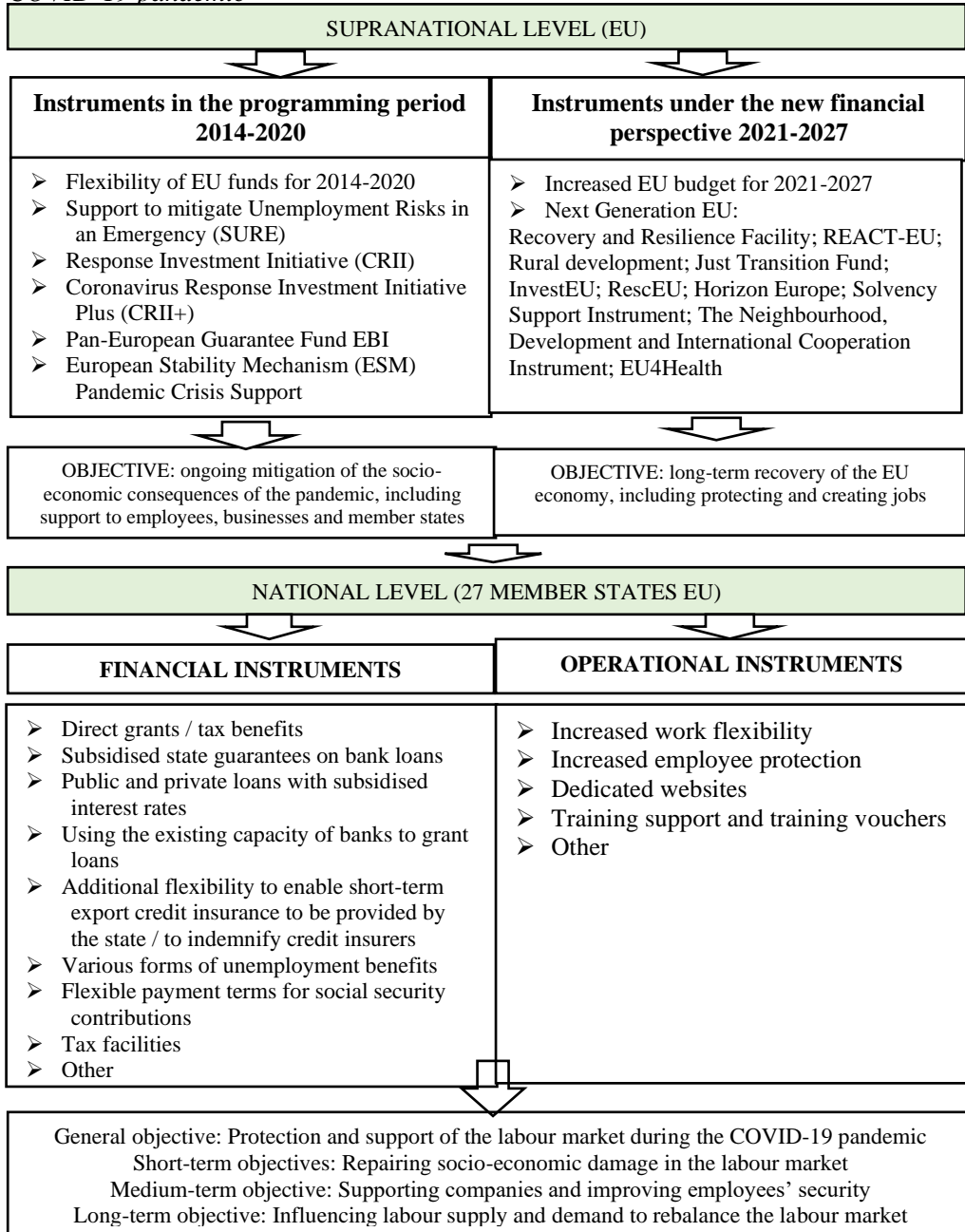
Each EU country faces a crisis in the EU labour market following the economic slowdown triggered by COVID-19. The development of the recovery plan by the EU member states is twofold and is based on a number of instruments, both common, developed within the EU, and country-specific (Figure 4).

At supranational level, the measures taken are focused primarily on current EU labour market support and the repair of economic and social damage. The EU institutions have mainly used the funds approved for 2014-2020 for this purpose. The flexibility with respect to spending funds has been changed and part of the funds has been allocated to instruments dedicated to countering the effects of coronavirus, e.g. Coronavirus Response Investment Initiative. The instrument which is to directly aid employees in maintaining their income and companies in surviving in the market is the so-called SURE solidarity fund (approx. EUR 100 billion). For small and medium-sized enterprises, on the other hand, the Pan-European Guarantee Fund EIB in the amount of approx. EUR 200 billion was established, which is aimed at stimulating investments. It is also worth noting that the Eurozone member states have introduced an additional instrument, Pandemic Crisis Support, under the ESM, which focuses on the healthcare sector. The total value of the EU instruments dedicated to the current coronavirus crisis management in support of employees, businesses and member states is approx. EUR 540 billion.

Moreover, the EU has been working to develop long-term recovery programmes, including economic recovery as well as job protection and creation. In this respect, the EU has increased its programme budget for 2021-2027 (EUR 1,074 billion) and has prepared a new instrument, the so-called Next Generation EU (EUR 750 billion) aimed at economic recovery. It will provide the EU budget with funds acquired on the financial markets. Next Generation EU consists of other, smaller instruments to

support specific socio-economic areas in the EU countries. They will have both direct and indirect impact on the labour market.

Figure 4. Instruments to support and protect the EU labour market during the COVID-19 pandemic



Source: Own study.

However, it is worth noting that one of the most important instruments dedicated to the labour market, and especially to the area of employment, is the Recovery and Resilience Facility (EUR 560 billion). At national level, individual EU countries have developed a range of instruments to support and protect national labour markets.

Once emergency aid has been provided to businesses and employees, governments are expected to focus on improving employees' security. This will be important for the economies with a significant drop in employment levels and a rise in an unemployment rate. It seems that the measures taken by the governments to influence labour supply and demand in order to rebalance the labour market will remain a long-term objective. The recovery period and scenarios will vary from one EU country to another and will depend, inter alia, on:

- guidelines on the entitlement to various EU support instruments;
- the capability of individual countries to support the internal labour market, which is determined by their economic and financial situation;
- the sectoral structure of national labour markets (the so-called regional economic specialisation), which is particularly important for countries with a significant contribution of tourism to GDP;
- the professional activity of the society (inter alia, in terms of gender, age, skill level, employment status and salary level);
- the number of COVID-19 cases among citizens and the situation of health care considering the priority given to this area;
- the scale of state intervention (taking into account the number, type and duration of restrictions and/or limitations on the labour market, economic lockdown);
- the adopted state policy on the support and protection of the labour market (taking into account the number, value and nature of the applied financial and operational instruments, the issue of their optimal selection and effectiveness of implementation);
- actions taken by entrepreneurs and employees to obtain and use available instruments supporting the labour market.

Research has shown that there is no one, universal scenario for overcoming the crisis on the labour market, and there are numerous factors which determine the way out of this crisis. A number of instruments have been developed for this purpose, however this requires cooperation, commitment and determination from all labour market entities and institutions.

7. Conclusions

EU countries have taken numerous measures to improve access to support instruments and increase the power of their labour market interventions. The

outbreak of COVID-19 pandemic and its rapid spread around the world has proved to be the worst public health crisis in over a century. The pandemic forced countries to impose strict containment and mitigation policies and seriously affected social and economic activity, leading the global economy into a severe recession. Most countries reacted immediately and at the early stages of the crisis introduced an unprecedented package of labour market and social policies to mitigate the economic shock and support employees, their families and businesses.

Although the COVID-19 crisis has gone through the first phase of lockdowns and company closures, the situation on the labour market, although already unprecedented, is likely to deteriorate significantly in the future. Since the beginning of the COVID-19 crisis, the unemployment rates in individual countries have varied significantly, reflecting fundamental differences in political responses, but also the complexity of the collection and comparison of labour market statistics during the pandemic. The recession triggered by the COVID-19 pandemic affected all EU economies to varying degrees. However, the final severity assessment of the collapse of individual economies is currently difficult, due to the fact that the coronavirus pandemic has escalated in the fourth quarter of 2020 and its effects are already much more serious in many countries than in the first and second quarter of 2020. The increase in the number of infections in certain countries is expected to affect the economic situation and is likely to deepen the recession. This is to be countered by instruments designed to protect and rebuild EU economies, including their labour markets.

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