

European Ideas Network
**"THE SOCIAL AGENDA:
THE IMPACT OF THE FINANCIAL CRISIS ON DAILY LIFE,
EMPLOYMENT AND INCOMES"**

Seminar, Brussels, 26 January 2009

This seminar was the second in a series on the economic and financial crisis. It was held under the Chatham House Rule.

EMPLOYMENT AND INCOMES

In the present situation the level of **employment** is:

- **the key factor of household revenues** in every OECD country (with diminished revenues from properties and savings);
- **the determining factor for macro-economic demand** and business expectations;
- **the first political priority among citizens** in the EU;
- **the first criteria for judging political credibility** in the months to come;
- **the factor that may destabilize the social arrangements** in the different countries of the EU, especially those that have not reformed sufficiently their pension schemes and health benefits, and those that have not addressed labour participation issues (in these countries seniors, students, part-time workers are still face discrimination).

The meeting discussed possible long term consequences:

- the present social arrangements are not sustainable;
- the additional costs or taxes on labour will destroy, or at least reduce, the impact of any economic recovery on employment;
- tax and social burden reduces purchasing power and the impact of salary increase or part-time work earnings;
- on average, revenues and savings of households will be reduced further by increased taxation needed to finance the present recovery packages and exceptional tax cuts;
- the whole system of social payments will have to be addressed with new mechanisms that decrease the tax burden on labour; possible ideas for further investigation include for example: (1) a social VAT system that would alleviate taxation on labour and investment; (2) a flat universal social benefit - whose mechanism and level remain to be determined - that would also reduce the administrative costs associated with the present welfare systems.

In the short run, the situation will become more difficult for both structural and conjunctural reason:

- **the participation rate** in the labour market is still low (i.e. women, young), part-time work is underdeveloped, access to the labour market is restricted for non-qualified workers and those above 65; the fall in household revenue will create a pressure for increasing part-time job opportunities - as seen in the US - with a massive rise of part-time jobs held by seniors; labour markets have not been reformed to match this growing demand: people will resent to be legally forbidden to work on reaching a certain age;
- **the labour market relies on SMEs: 99.8%** of European companies qualify as SMEs; the great majority of them are micro-firms, of less than 10 employees and a turnover of

less than 2 million euros; these companies are the first to be effected by the credit crunch and the recession; late payments, liquidity problems, deficiencies among suppliers and clients affect them greatly. SMEs do not benefit from heavy state subsidies or from public recapitalization; the situation is even worse for micro-entrepreneurs;

- **the EU unemployment rate is expected to increase from 34m early 2009 to 42m mid 2010**, a dramatic increase in recent history; every sector is going to be affected, especially services and the high-tech where SMEs predominate on the supply-side;
- **for younger people the situation is going to worsen** as they will be the first victims of labour inflexibility both in terms of access to jobs and revenue; their levels of stress and anxiety, closely associated with their job prospects, will be increased; the 'catch 22' problem for many of them - "no experience no job; no job no experience" - will become widespread.

RESPONSES TO THE CRISIS

The wrong public answers are floating around and will distort the market further:

- expensive job creation schemes;
- massive sectoral state aid;
- bail-outs much higher than market prices;
- protectionism against foreign labour.

The meeting considered how the crisis is a good time to elaborate further on such ideas as how to:

- 1) **simplify measures** for business:
 - Societas privata Europea;
 - simpler accounting requirement for SMEs: cash and balance sheet;
 - a reduced need for auditing.
- 2) **advocate an emergency special package for SMEs:**
 - Small Business Act;
 - alternative sources of credit, through "factoring" and micro-credit mechanism for instance;
 - facilitate creation of companies and right of establishment;
 - decriminalizing business failure to create more incentive for risk taking and micro-entrepreneurship;
 - general tax and social exemption for all SMEs below 50 employees following the very successful Australian model.
- 3) **improve the tax treatment of self-employed independent entrepreneurs;**
- 4) **remove discrimination for retired people** to rejoin the workforce under a certain age;
- 5) **remove tax disincentives to work for women** (i.e. separate taxation);
- 6) **improve dramatically labour mobility**, still very weak within the Single Market as demonstrated by the Lamassoure Report:
 - complete recognition of diplomas and grades, beyond the present limits of the Bologna Process;
 - finalize dual citizenship and dual taxation efforts;
 - organize better transferability of social rights;
 - harmonize property law for EU citizens in EU countries.