

Employment in

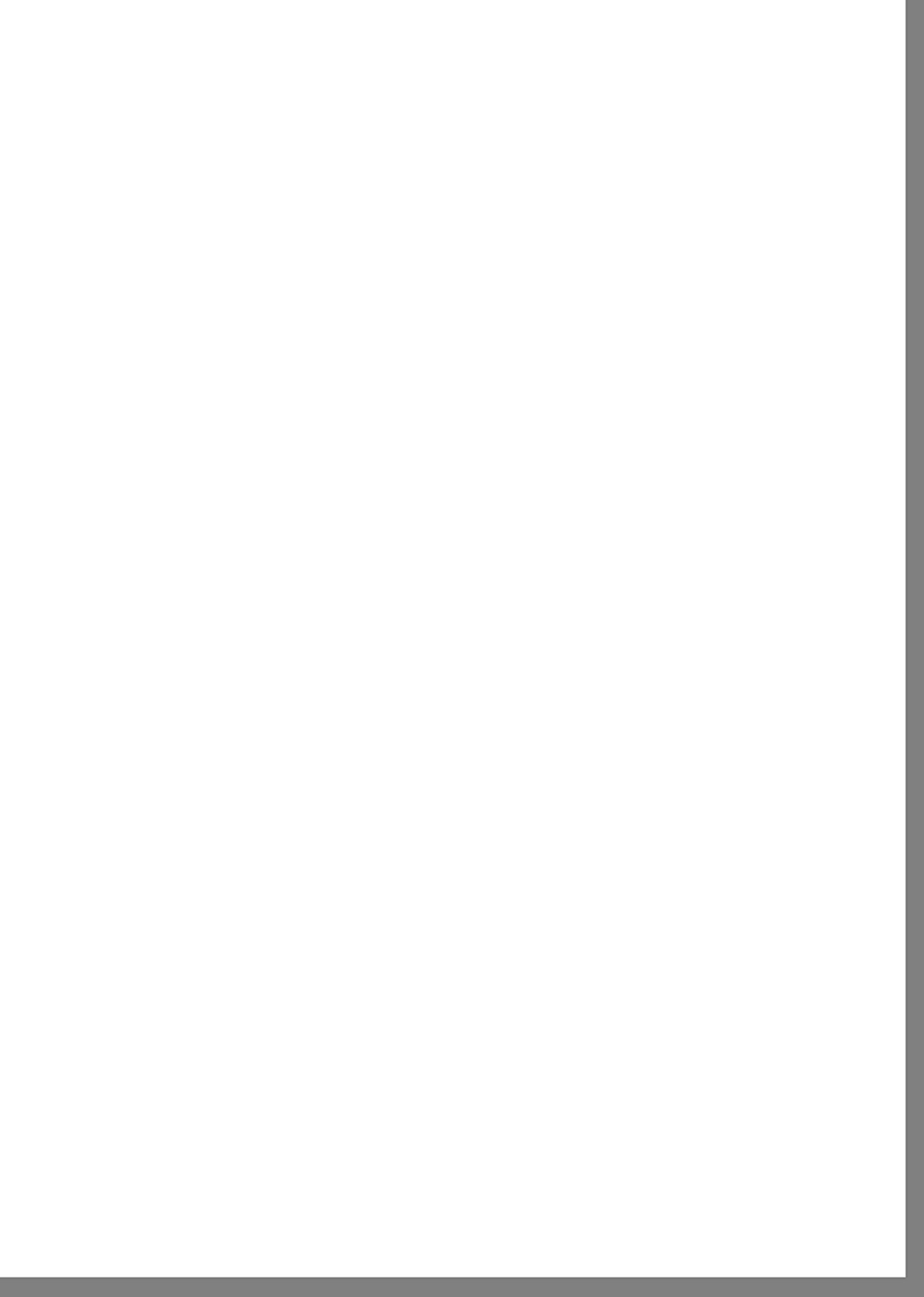
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Directorate-General for Employment,
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Foreword

The Community enters the 1990s in a spirit of considerable optimism. Over the past four years economic growth has been strong and over 7 million extra jobs have been created. The prospects for this year and next are for further employment growth of the order of a million jobs a year.

Many challenges remain, however. Unemployment is still an obstinately resistant problem. Little of the new job growth in the recent past has gone to the unemployed - 85% of the new jobs have gone to new entrants to the labour market. In consequence, unemployment has fallen only slowly and remains above 8% and, even more worryingly, long-term unemployment has improved little. Moreover the scale of both overall and long-term unemployment varies markedly across the Community.

Wider social problems are now clearly intertwined with labour market difficulties for many unemployed people who are prevented from participating fully in society. Such exclusion undermines social cohesion in the Community, especially in the context of progress towards Economic and Monetary Union.

Despite high employment growth in recent years, the Community still has a low rate of employment activity - under 60 per cent of the population of working age is at work compared with over 70 per cent in the United States and Japan, and 65 % in Central and Eastern Eu-

rope. Much of this difference is accounted for by the lower rates of employment of women in the Community.

The Community also has to shake off a number of residual ideas from the 1970s and early 1980s, when the emphasis was on holding down unemployment and keeping people out of the labour force. Now we must see the priority as removing obstacles which inhibit people from working. This is particularly true for women as Chapter 6 of this Report shows. We must also avoid diverting or containing people in narrow segments of the labour market, preventing them from achieving their full potential. This is especially the case for people working part-time or under temporary contracts.

There are also concerns regarding our commitment to raising the quality and competitive ability of the Community labour force. A start has been made in promoting Community-wide cooperation over vocational training and education, but that is not enough. Some Member States are unable to afford the investment needed to improve the basic education upon which training must build. Other Member States need to reassess the present division of expenditure on higher education in terms of how it assists the students' personal development or how it improves their employability. Training standards are being improved with the support of Community investment but, without an appropriate educational base, this investment will not be

able to achieve its full potential. Meanwhile many newly industrialised nations outside the Community are pressing ahead with expanding the appropriate educational investment in their people.

Weakness here is of particular concern given the success of the Internal Market programme which is boosting the growth potential of the Community economy, but which is creating new demands and new challenges as remaining barriers to trade are dismantled. Businesses in all Member States have to face increased competitive pressure from both inside and outside the Community. If the Community is to exploit the opportunities which are being opened up, it must be constantly seeking ways of improving competitiveness, which is more and more dependent on the skills and expertise of the work force. Firms must face this challenge by improving the training and retraining of existing employees, but they must also be able to recruit people with good education and basic training which depends on the policies and actions of public authorities. Governments must be prepared to expand investment in this area to ensure that the Community's human resources are strengthened over the long-term and that individuals, men and women alike, share fully in the benefits from the new market.

No report in 1990 would be complete without a reference to Central and Eastern Europe and this report con-

tains some of the basic facts about employment there. At this stage, we can say little about the prospective effects of democratisation and eventual economic renewal. However, changes in Central and Eastern Europe could, in time, bring far-reaching effects on the Community labour market, over and above the effects of German reunification. Immigration, for example, has not been a major Community issue in recent years but it could easily become so now, given the pressure of population growth in countries to the South, as well as the new potential mobility of our neighbours to the East.

Financial assistance apart, the Community has a lot of valuable know-how to communicate to its Eastern neighbours in the coming months and years - not only about techniques of production, but also about vocational training and our own experience in coping with large scale industrial reconstruction, and with ensuring local economic re-development as employment in steel, coal, shipbuilding and other basic heavy industries declines.

These changes outside our borders make it all the more necessary to continue to develop greater economic and social cohesion within the

Community. The Community is young, and standards of living vary more widely between different areas than they do between, say, the different States of the United States. We must continue the political process of integration that we have begun. In particular, we must give priority to narrowing the gap between rich and poor by raising the living standards of the most disadvantaged areas of the Community, as described in Chapters 4 and 10.

The longer term thus holds many challenges. The Community will undoubtedly grow in economic strength, which will boost employment and income growth. But will it become a more equitable Community? Will it be able to foster the talents and abilities of all its people to the full through education and training? Will it accept that the needs that are now foreseen for improved standards at the workplace are no different in kind, although obviously less revolutionary, than the needs which gave rise to the first factory legislation and public health provisions in the last century? Will we make the necessary effort to ensure that those in a relatively weak position in society or on the labour market, are not the ones who have to bear all the stresses and strains of change and uncertainty?

This Employment in Europe Report covers a number of important issues and contains a great deal of new information about European employment. However, it should not be seen as a research report. Nor should it be looked to as a source of new policy initiatives - the Community has well developed procedures for that. Rather, the Report is in the nature of a review which presents the latest employment developments and prospects in the European economy in, so far as possible, a quantitative form; discusses a series of current issues which are relevant to understanding present and future structural employment trends; and presents changes in the form and direction of Community and national policies which affect the labour market. Its aim is to stimulate, and provide a basis for, debate and greater understanding.

I am pleased that the format adopted in last year's Report was so well received in all quarters. That format has been maintained here and I trust that this new Report, and its successors, will be as important a source of ideas, information and experience as the first.

Vasso Papandreou

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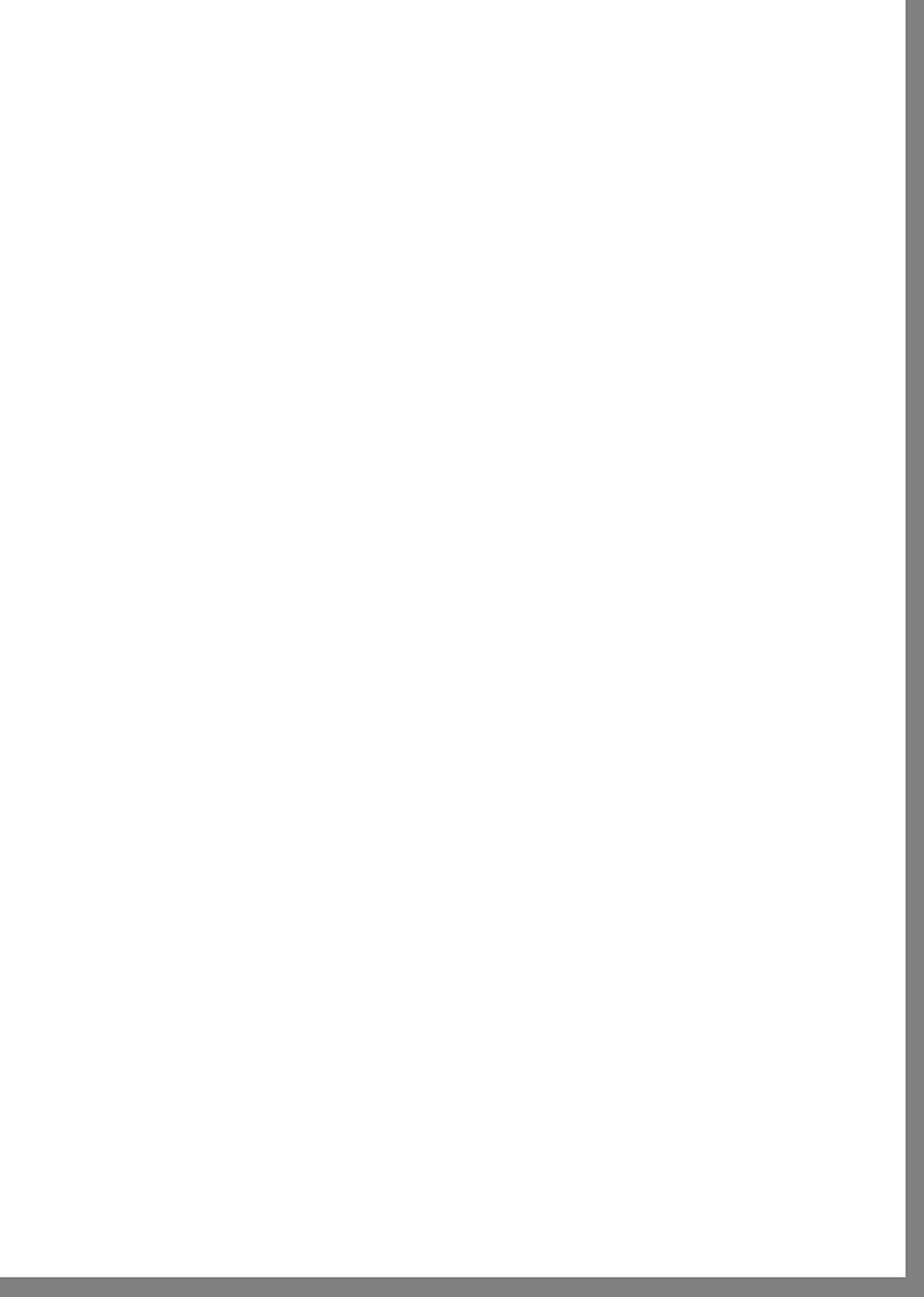
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Summary and Conclusions

Introduction

As we enter the 1990s, most parts of the European Community are enjoying economic growth, substantial job creation and low inflation. Employment in the Community has been increasing at a higher rate than at any time since the 1950s and, although unemployment remains high, it has come down significantly. Against this background, the Community can look forward with some confidence to the decade which lies ahead.

This decade promises to be a period of immense opportunities for the Community. The completion of the Internal Market, in conjunction with prospective moves towards monetary union and closer coordination of other aspects of policy, offer the potential for stronger economic performance, more balanced development and closer social cohesion within the Community.

The changes in Central and Eastern Europe open up the possibility, not only of closer trade and commercial links, but also of closer political understanding which could have far-reaching consequences for the economic strength, prosperity and stability of the European economies, in the West as well as in the East.

Everyone can benefit from these developments. Businesses stand to gain from the expansion of existing markets and the opening up of new ones. Employees stand to gain from

the additional jobs which investment in new production facilities to meet the extra demand will create. All members of society, whether employed or not, stand to gain from the higher real income which increases in efficiency and economic growth will generate and from the improvements in living standards and in the level of social provision which increased income will allow.

Challenges

However, although the opportunities are great, there are equally substantial problems and challenges which have to be faced and overcome if the Community is to take advantage of them.

Firstly, producers in the Community face intense and growing competition for markets from producers outside Europe. In particular, large US and Japanese companies tend to dominate markets for high-tech, high value-added products, such as computers or telecommunications equipment. These are not only the areas in which demand is growing most rapidly, but they are also of strategic importance for many other industries and activities as new technology spreads through the economic system, changing both the methods of production and the goods and services produced.

But competition for markets is also increasing in other areas as developing countries industrialise and look to emulate the export-led

growth path followed by European and other developed economies. In the past, developing countries have tended to make the biggest inroads into markets for basic manufactures like textiles or clothing, but increasingly many of them, especially the countries in South-East Asia, are directing production and export efforts towards more advanced products like electronic goods as they become more developed and their labour forces more skilled.

The Internal Market programme, designed to sweep away restrictions on the ability of Community producers to sell in each others markets, is a response to these developments. Although it will increase still further the degree of competition within Europe, it will favour the expansion of the most efficient companies and in critical high-tech areas, in particular, promote an increase in the scale of operations so that Community firms can compete on more equal terms with foreign-owned, transnational, companies.

The programme of measures is being progressively introduced with the end of 1992 as the target date for completion of the Internal Market, but it is already having a significant effect on business development, the organisation of production, and on employment, as set out in Chapter 3. Companies are already adopting a more European perspective when formulating business plans and, in a number of cases, are beginning to rationalise their operations on a European rather than a

national basis. The clearest, quantitative, evidence of the effect on business behaviour is the documented increase in merger activity.

Secondly, there is the challenge of expanding trade with Central and Eastern Europe. Present levels of trade are low, and most Central and Eastern European countries have accumulated large external debts which severely limit their ability to finance the growth of imports which are essential for their economic development. Moreover, isolation over many years from world markets and global competition has retarded the introduction of new technology and the adoption of modern production methods, which means that their industries are, for the most part, uncompetitive. It will take time and considerable investment before they are capable of competing effectively with industries elsewhere, and of generating the growth in export earnings which their long-term development requires.

Thirdly, the rapid pace of technological advance is continuing. Moreover, the speed with which innovations in production techniques and the development of new products spread from one country to another is increasing. Producers need constantly to update their methods of production and the products and services they sell if they are not to be left behind in the competition for markets. The need for rapid adaptation puts a considerable strain on management and workers alike. Managers have to keep themselves informed about actual and prospective developments and to be constantly looking to exploit new market opportunities and new ways of increasing efficiency. Work forces have to be capable of performing new tasks and opera-

ting new kinds of equipment, which means that workers have to become more adaptable and multi-skilled which, in turn, means that there is a growing need for appropriate training and retraining in a wide variety of areas of the labour market.

This more rapid adjustment of production capabilities has to take place at the same time as the number of young people coming into the Community's work force declines, and as the average age of the work force increases. This will put greater emphasis on the retraining of the existing labour force, or of re-entrants or late entrants to the labour market while, at the same time, making it more difficult to carry out such training effectively, given that the ability to acquire new skills tends to diminish with age.

Included in this new effort will be the need to attract women into the labour force and to develop the inherent skills which they possess but which have often been underdeveloped, or allowed to go to waste, because of discrimination and/or a lack of childcare facilities.

Fourthly, problems of the environment - notably of the threat from global warming, of the increasing destruction of natural resources and of growing pollution - impose new constraints on economic development. This does not mean that we should accept or even welcome slower growth of the European economy, still less of the world economy. There are far too many parts of the World in desperate need of growth in order to further their development, create employment and raise living standards closer to acceptable levels. It does mean, however, that the need to protect and improve the environment must play an increasingly important role

in determining the direction of development, the pattern of growth, the kind of goods produced and the methods used to produce them.

The Community has recognised the urgency of action to protect the environment against further damage and has incorporated specific provisions in Community legislation to enforce minimum standards on toxic emissions, on the quality of water and on the extent of pollution generally. These developments mean that the Community can look to a major expansion of the environmental industry both in terms of its activities and the number of people it employs, and to changes in the chemical and transport industries.

Fifthly, the Community faces the challenge of ensuring a more balanced economic development within its borders and greater convergence of real incomes, of standards of social provision and employment opportunities across the Member States. Although there are signs that growth since 1986 has been highest in the least developed parts of the Community - in Spain and Ireland in particular - differences in levels of income per head and in the rates of unemployment remain substantial both between and within Member States.

While the Internal Market programme and the other moves towards economic and monetary union offer the potential of higher growth and more employment in the Community as whole, they will not automatically benefit all regions and all social groups. The programme of structural and regional support that has been put in place is essential in order to ensure that all parts of the Community - the peripheral, less developed areas as well as the more central developed regions - share in the gains.

An important element is the prospective doubling of the Structural Funds by 1993. It is also important, if social cohesion is to be maintained and strengthened, to develop and expand policies aimed at securing more equal access to stable employment with decent working conditions across the Community.

European Labour Market Responses

The immense changes which are taking place in the Community, as in the world economy as a whole, have major implications for the European labour market. The intensification of global competition combined with the rapid pace of technological change implies substantial changes in the demand for labour. Similarly, the increased priority which needs to be attached to protecting and improving the environment will inevitably give rise to significant changes in the structure of the Community economy, with equally important consequences for labour demand.

These labour market changes have a number of dimensions. They imply major shifts in the occupational and sectoral distribution of the work force. They are likely to entail changes in the geographical distribution of activity. They will almost inevitably be associated with the appearance of significant imbalances in the demand for and supply of particular types of skill in many parts of the Community and in many areas of activity. Already companies across the Community are reporting serious shortages of skilled labour, especially highly-qualified scientists, engineers and technicians, while at the same time there are large numbers of unemployed in many areas who cannot find work.

These kinds of imbalance, however, are not new. They are arguably an inherent consequence of rapid changes in technology and in the economic environment. Indeed the more rapid and extensive the changes which occur, the more pronounced will the imbalances tend to be at any moment in time, simply because adjustments of supply to demand do not happen instantaneously. Historically, in periods of high growth, there has always been excess demand for particular skills or types of labour and excess supplies of others. Historically also, employers have tended to complain about skill shortages even when significant numbers of people seemingly possessing those skills have been recorded in the unemployment figures.

The critical issue is whether, and to what extent, skill shortages are seriously weakening the long-run competitive position of Community producers and/or adding to inflationary pressure, both locally and nationally, and therefore constraining the development of the Community economy. As yet the answer is unclear. Surveys of business suggest that difficulties of recruiting skilled labour are a constraint on the ability of companies to expand output, but hard information about the levels of skill attainment in the labour force is scarce.

Nevertheless, it is clear that the skills and capabilities of its work force will be a crucial element in the capacity of the Community to respond to the competitive and environmental challenges of the 1990s. In practice, much of the responsibility for this lies with employers since, in many cases, the skills and techniques required to carry out particular tasks can only be fully acquired by actually perform-

ing them. Companies therefore need to provide adequate facilities for training and retraining both new recruits and their existing work force. Because of the rapid changes in processes of production and the kinds of products produced, against a background of a diminishing supply of young people coming onto the labour market, retraining is becoming increasingly important. It is equally important that workers recognise that remaining in one job doing the same kind of work will become less and less possible and accept that they may need to acquire several different skills during their working lives.

At the same time, the onus is very much on Member States to ensure that young people have the right kind of general education and basic training to equip them with the ability to learn quickly and develop new expertise across a broad range. In many countries, this requires a re-orientation of the education and vocational training systems to take explicit account of the changing working environment and the increased need for labour to be able to adapt to new ways of doing things. It also requires the introduction or expansion of teaching facilities in areas where the demand for labour is growing, such as in the environmental industries.

While there is a general need in the Community for a labour force with better and wider skills, the precise nature and scale of the need varies from region to region. There is a clear geographical dimension to the labour market imbalances which at present exist and which, if reduced in importance, could significantly improve the productive efficiency of the European economies. There are two ways of approaching this. The first is to encourage people who are unable to find employment in the

area they happen to live to move to another region where their skills are more in demand. The second is to encourage companies which have difficulties in meeting their labour requirements locally to relocate their production facilities in areas where labour is more plentiful.

The 1992 Internal Market programme includes measures to remove restrictions on the ability of labour to move from one part of the Community to another in search of work, both to improve the efficiency of the European labour market and to increase the employment opportunities of people who happen to live in more deprived areas.

It is also accompanied by a substantial increase in transfers to the more deprived areas, through the Structural Funds, aimed at strengthening their economies so that they are more capable of generating activity and employment. Part of the objective is to reduce the necessity for people to move and so deprive a region of the skills which make it attractive as a location for prospective investors. A further intention is to improve the regional balance of economic activity across the Community and thereby, not only hasten the development of poorer regions, but also reduce problems of congestion in the more prosperous and more developed areas.

An important element in the locational decisions of companies are the skills possessed by the local labour force. The availability of abundant unemployed labour does not mean necessarily a plentiful supply of the particular skills that a firm is seeking. Areas of high unemployment tend also to be areas with large numbers of unskilled workers

or people possessing skills which are no longer in demand. In such cases, investment in education and training may be critical to improving the attractiveness of a region to firms looking to relocate or expand productive capacity.

Given the imbalances in the Community labour market which are likely to manifest themselves increasingly during the 1990s, it is important, as stressed in Chapter 6 of the Report, to make it easier for women to work. The evidence indicates that significant proportions of women would like to work if the obstacles which at present prevent them from so doing - a lack of suitable childcare facilities, for example - were removed and if acceptable, good quality jobs were available. Measures to make fuller use of the potential contribution of older people to production and to training are also needed. These might take the form, for instance, of establishing more flexible retirement schemes.

Employment Changes and Unemployment

Despite the substantial increase in employment at the end of the 1980s, unemployment is still high in the Community and rates of participation in the labour force, particularly among women, remain low. As a result, the proportion of the working-age population in work in the Community is only 60% - well below levels in the US, Japan and the rest of Europe.

A growing proportion of those in work in the Community are employed in service activities and a diminishing proportion in manufacturing. The main exceptions are

Spain and Portugal where the manufacturing sector is still expanding significantly, and where a sizeable proportion of the work force is employed in agriculture. The tendency for services to provide the bulk of new jobs as the Community economies develop and real income levels rise is clear. It is also clear that the trend towards the increasing importance of services is much less pronounced in the FRG than in the other more developed parts of the Community. In the FRG, manufacturing accounts for a proportionately larger share of employment than in comparable Member States, which is a key factor underlying its economic strength.

The large numbers of extra jobs created in the Community over the past few years have made only a small impact on unemployment. These jobs have been filled, not so much by the unemployed, but by young people coming onto the labour market for the first time and by people, predominantly women, who until finding work had not been counted as part of the labour force at all and therefore not part of the unemployment figures. Between 1985, when employment began to rise again, and 1988, two-thirds of the additional jobs were taken by women, while only a quarter were full-time jobs for men. One third of the extra jobs were part-time rather than full-time.

Over the 1990s the average age of those available for work will increase progressively. Similar trends towards the ageing of the labour force are evident in the Community's main competitor countries, US, Japan and the South-East Asian economies, although in the latter the work force will remain

significantly younger on average than elsewhere. The same trends as in the Community are also evident in Central and Eastern Europe.

Effects of the 1992 Programme

With two years to go before the completion of the Internal Market programme, significant numbers of companies are beginning to take action to prepare themselves for the more competitive business environment. The effects on employment seem to have been particularly positive. Whereas the Cecchini Report foresaw the 1992 programme eventually creating an additional 2-5 million jobs, employment has already increased by some 7 million since 1985. Although only a part of this can be attributed exclusively to the 1992 factor, it puts former fears about initial job losses into perspective.

Because of this strong employment growth, attention is now focused on the sectoral and regional impact. The Commission has identified those industrial sectors which stand to be most affected by the 1992 measures. These sectors account in most Member States for around half of employment in industry. In Northern States, these sectors tend to be both high-tech and more traditional heavy industries, in many cases protected by public procurement policies. In Southern States, they tend to be labour-intensive industries such as clothing, footwear or textiles.

In the North of the Community, further rationalisation - which is likely to realise economies of scale in production, R&D and marketing - seems likely as national protection

is removed. In the South, countries face a choice of continuing to specialise in current manufactures, or of exploiting the opportunities offered by the 1992 programme and diversifying their industrial structures to be more like those in more developed economies. There are signs in Spain and Portugal - in the form of high investment growth, both internal and from abroad - that industrial transformation is underway.

Further evidence that 1992 is affecting company behaviour is the upturn in merger activity. The number of mergers among the largest 1000 industrial companies has increased more than threefold since 1983-84, and the number of transnational mergers by even more.

The New Environmental Imperatives and Employment

Responses to the environmental problems created by excessive pollution, the proliferation of toxic waste and the depletion of natural resources, as well as urban decay, will have far-reaching consequences for the pattern and direction of economic development and for employment.

The key issues relate not only to the action which is taken but to the distribution of the costs, how those costs are financed and what systems of compensation are put in place. There can be no question of leaving the less developed countries and regions to cope with the problems themselves, still less of calling a halt to economic growth, given the enormous disparities in income and

employment opportunities which still exist.

The most directly affected companies will be in the environmental industry (such as those manufacturing filtering and monitoring equipment) as well as in the building and construction industry, as polluting plant and decaying infrastructure are replaced. These shifts will pose problems in terms of both relocation and retraining. They will also mean increased R&D effort to resolve problems of environmental protection, requiring a commitment both of finance and manpower. Further changes will, however, spread throughout the economy and the labour force, especially in the transport and chemical sectors.

Although the changes in the pattern of economic development and structure of employment will be large, they are unlikely to be any greater than have resulted from major changes in technology in the past. The main difference is that the changes required now demand explicit action by Government - it is not possible to rely on market forces alone because pollution costs are not generally borne by the polluters.

Recent estimates suggest that around 1% of the Community labour force is employed directly in environmental industries (a significant proportion in public utilities) with a much larger number of jobs concerned indirectly. The future growth of employment in these industries depends very much on Government policy and on the commitment of public expenditure. The environmental market at present is larger in the FRG than elsewhere and is smallest in the Southern States, where consequently growth prospects are greatest.

Most people working in the environment industries are employed in relatively low-skilled jobs, but around 20% are involved in management or technical activities which will need to be expanded. If environmental aims are to be achieved, a significant increase in the number of skilled people employed, and in the amount and quality of training they receive, is essential.

The Community, in the long-run, stands to lose markets unless its products are environmentally-friendly and incorporate sophisticated pollution controls. At present, much of the technically-advanced equipment used in the environment industry is imported or produced under licence.

Women's Access to Employment

The participation of women in the labour force remains low in the Community, suggesting that women are still an under-utilised resource. There are currently 21 million economically-inactive women in the Community in the 25-49 age group. A major reason for this is that the obstacles to employment are much greater for women than for men.

The ageing of the Community labour force and the reduced numbers of young people entering the labour market each year increase the importance of this issue.

The labour force participation of women with children is around 50% in the Community as a whole, with substantial differences between Member States. While appropriate vocational training is a necessary requirement in order that women

can achieve their potential in the labour market, adequate childcare arrangements are a key requirement for many women to participate at all.

Although women account for 38% of total employment in the Community, many women have non-standard terms of employment and inferior working conditions. 28% of women's employment is part-time and a significant proportion of women filling such jobs would prefer full-time work. Large numbers are also employed in temporary jobs, half of them because they could not find permanent-ones.

Research suggests that the greater tendency for women to work in part-time jobs below the level of their qualifications contributes to lower income and job devaluation.

Improved social amenities are required to facilitate the entry of women to the labour market. Areas where improvement is needed include: pre-vocational training courses; transport arrangements for travelling to and from work; co-ordination between working hours and school hours; childcare and creche facilities; systems of parental and family leave during pregnancy and early infancy.

Women need little encouragement to rejoin the labour force but lifting barriers is essential in order to provide women with an effective right to work. Policy measures are being directed at remedying the specific barriers which prevent women from working, and reduce their entitlement to equal treatment. The Community is supporting training and retraining measures from the Structural Funds and the Commission has supported a large research programme into childcare,

different forms of leave and social amenities affecting women's employment.

Community Vocational Training Policy

The 1990s will be a period of intense pressure on systems of education and training in the Community as they respond to the increased emphasis of employers on technical skills, to a labour market becoming increasingly European in character, and to production with a progressively more international perspective.

There are signs that training is being accorded more importance in Member States and that the inadequacy of existing provisions in many areas is being perceived.

The Commission has a duty under the Treaty to develop a common vocational training policy and has already made commitments to prepare an instrument giving right of access to training, to rationalise existing Community-level training programmes and to hasten the establishment of equivalence in training qualifications across the Community. The evolution of Community policy, however, has to work through national systems.

There are significant differences at present in education and training provisions as between Member States, in the amount and duration of schooling and normal training which young people receive, both compulsorily and voluntarily. In some countries, the FRG in particular, education and training are closely linked, with people commonly moving between the two. In

some other Member States, vocational training has a lower status. In the UK, for example, a high proportion of young people have no training or education past school-leaving age, according to the evidence of the mid-1980s.

The main priorities are to improve: the status of vocational training; the relevance of content and method to new needs; cooperation between providers of training; apprenticeships and other work-based schemes; vocational guidance; training of women in technical and scientific fields.

The need for closer links between education and initial and continuing training is fundamental, allied with greater partnership between Government and both sides of industry.

Wages and Labour Costs

Over the long term, there has been a broad tendency for wages to increase in line with inflation. Since 1983, however, real wage growth has slowed down and as a result unit labour costs have fallen steadily and are now lower as a proportion of value-added than in the 1960s.

Although the reasons are not fully understood, this may be a factor explaining the unusually rapid increase in the rate of employment creation which has occurred in recent years and which has been associated with a relatively modest rate of economic growth.

Over the past 20 years, nominal wage growth and inflation have been significantly higher in the less developed economies of the Com-

munity than in the more developed ones. When wage increases are valued in terms of ECU, however, the differences tend to narrow, countries with rapid wage rises experiencing depreciation in their exchange rates to partially offset wage inflation.

Wages levels vary markedly across the Community when measured in terms of ECU. Differences in real income, however, are much less pronounced once differences in the pattern of consumption and in relative prices are taken into account. Differences in real wages between Member States have tended to narrow in the last 20 years, but more so in the 1970s than in the 1980s.

In all Member States, the rate of increase in real wages was much less in the 1980s than in the 1970s, and in two countries, Belgium and Denmark, real wages actually declined. Despite this fall, Belgium experienced a reduction in employment in the 1980s.

The gap between male and female wages remains significant across the Community, despite legislation on equal pay, with men earning 25% more in manufacturing than women, but with marked differences between Member States. Although there has been some narrowing of the gap between male and female wage rates, this occurred much more in the 1970s than in the 1980s.

Non-wage costs in the Community - covering such matters as social security contributions, pensions, holiday pay, etc - vary widely, ranging from almost half the cost of employing someone in France to as low as 16% in Denmark. These differences reflect different methods of

financing social provisions. Taking account of non-wage costs changes considerably the relative levels of labour costs across the Community.

Differences in wages and labour costs across the Community largely reflect differences in labour productivity. Labour costs per unit of output do not vary much from one part of the Community to another. The incentive for producers to relocate from high to low-wage areas may therefore not be great.

There is little evidence of any close relationship between relative unit labour costs and competitiveness as measured by trade performance in the Community market, suggesting that competitiveness is affected by many factors apart from labour costs.

A policy focused primarily on low rates of pay will therefore not necessarily secure a shift in market shares towards the weaker countries in the Community. That depends more on their economies becoming stronger through improved infrastructure, better education and a more skilled and enterprising work force. To the extent that labour productivity can be raised during this process, the way is opened to sustainable growth of wages and real incomes and greater convergence of economic prosperity across the Community.

Managing Human Resources

While dynamic small and medium sized firms remain crucial as the source of new job creation, and as a key to adaptation and recovery within the European economy, the importance of large companies came more into focus as the decade

ended as they sought to exploit the market prospects opened up by the 1992 programme.

The way large firms recruit and manage their labour forces has an important impact on standards and practices within the labour market generally. Over the past decade, large firms have learnt to appreciate the benefits of flexible operations and the importance of people from smaller businesses, and have incorporated these ideas in their own organisations.

The tightening of labour market conditions and the current demographic trends are obliging companies to give more attention to human resource management.

High among the current concerns of large companies are: the education and skill ability of the labour force; working time patterns; flexible production systems to meet global market conditions; the relationship of the company to local conditions and communities.

The globalisation of markets is being matched by the globalisation of different management ideas. Much rethinking is going on about appropriate styles of management and about the degree of involvement of the work force in the decision-making process.

The Japanese ways of doing things or the strategies of US multinationals are becoming as much a part of the European labour market management scene as the practices of indigenous European companies.

National Labour Market Policies

Member States spend an average of 2.5% of GDP on labour market pro-

grammes, a figure which has declined in recent years as unemployment has fallen. Two-thirds of this is spent on unemployment compensation, with active policies on training, employment subsidies and special youth and disability schemes together accounting for a third of spending.

Most Member States now put emphasis on adult training, labour market adjustment and special measures to help those who have been out of work for a long period at the expense of early retirement schemes and direct job creation programmes. Despite the fall in unemployment as a whole, long-term unemployment has persisted and particular attention has had to be given to the problem.

With fewer young people coming on to the labour market, the introduction of new skills into the work force has to be achieved more through the re-training of existing employees. Adult training schemes are therefore becoming increasingly necessary and account for a growing share of labour market spending.

In some countries, notably the UK and France, the scale and focus of labour market policies have changed frequently while in others, notably the FRG, there have been only limited changes. This is partly attributable to differences in the degree of autonomy of the labour market agencies in the Member States, and the extent of decentralisation.

The demographic changes in the 1990s provide an opportunity to reduce unemployment further and to reintegrate those who have been out of work for a long time. At the same time, there will be pressure to improve the skill levels of those in employment. Responding to both

social and economic objectives will thus remain a challenge for the labour market agencies.

The Community's Structural Funds

Disparities in income per head and in unemployment remain substantial across the Community. From the beginning, the Community has committed resources to structural readjustment and the alleviation of serious social problems. These have increased and been given more coherent purpose under the Single European Act as the Community has expanded to include poorer, less developed countries.

Under the recent reform of the Structural Funds, policy has been directed at five objectives: promoting the development of the least developed regions; assisting areas suffering industrial decline to readjust; combatting long-term unemployment; helping young people into employment; speeding up the adjustment of agricultural areas and promoting rural development. Allied to this, the Funds have been linked to specific policy initiatives, in a variety of areas such as environmental protection, science and technology, women's employment, and rural development.

The main policy emphasis is on strengthening regional and local economies through investment in infrastructure and the expansion of productive capacity and through the training and education of the work force. Structural Fund expenditures will double in real terms between 1988 and 1993 when they will account for 25% of the Community Budget. Over 60% of expenditure from the Funds will go to assisting less developed regions

in the least developed Member States.

The key operational elements of the reform are closer cooperation with national, regional and local governments and the adoption of multi-year planning programmes. The aim is to pursue national, regional and local development objectives at the same time as Community goals within a coordinated and coherent framework for taking decisions.

Systems of monitoring and evaluation have been established so that the performance of each programme can be reviewed and the content and direction of spending adapted where necessary.

Combatting Long-term Unemployment

Although unemployment has fallen significantly in the Community over the past few years, the proportion of long-term unemployed - those out of work for a year or more - remains high and the duration of long-term unemployment has increased. Long-term unemployment has become a particularly entrenched problem in many deprived areas of the Community, although it is by no means confined to such regions.

It has become increasingly apparent that this problem cannot be tackled by general macro-economic policies alone, and a variety of special measures have been targeted on a category of people who are in

danger of becoming permanently unemployed.

Long-term unemployment is concentrated in particular parts of the Community and among particular social groups. It mostly occurs in backward or declining areas, among unskilled men and women and people with disabilities. In some areas, young people are particularly affected.

All Member States introduced measures in the 1980s targeted on long-term unemployment. The major emphasis was initially on general training or retraining, and on publicly supported job creation programmes. In the North of the Community, national efforts have shifted towards more limited training combined with personal counselling. In the South, however, the emphasis has changed less. Shifts in policy seem to have been motivated as much by budgetary factors as by concerns about the effectiveness of different approaches, given the lack of proper evaluation or even monitoring of most programmes.

Reducing long-term unemployment has become a major objective of Community policy with the reform of the Community's Structural Funds. In addition, the Community has established the ERGO programme in order to raise awareness of the problem, provide information about policy options and to develop evaluation methods to identify cost-effectiveness. Effective targeting is seen to be an important factor behind the success of public intervention.

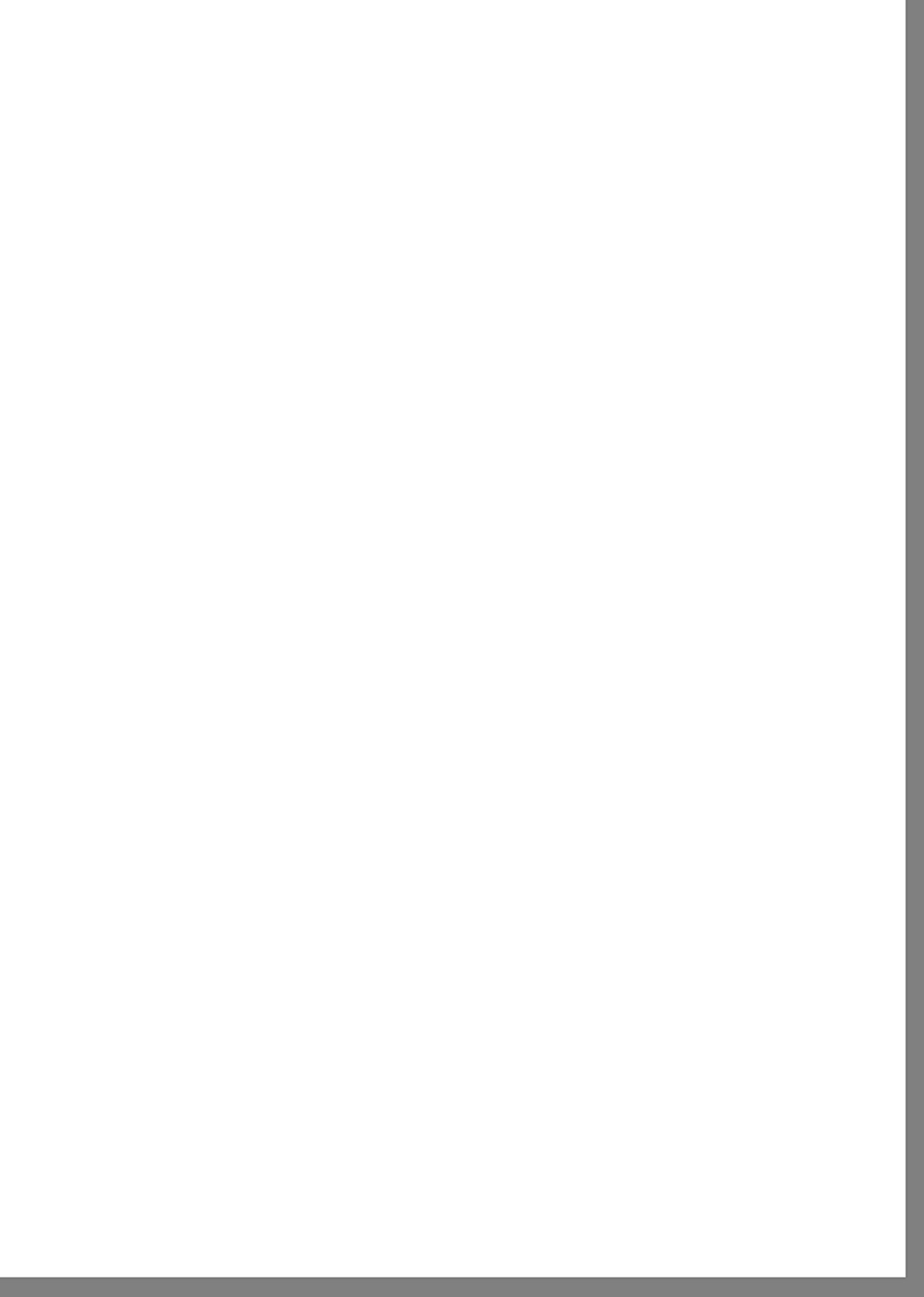
Prospects

The outlook for the Community economy and Community employment remains favourable. Economic growth is projected to moderate somewhat from the high rates in 1988 and 1989, but output should nevertheless increase in 1990 and 1991 by around 3% a year - higher than the annual average in the 1980s.

After the record increases of 1988 and 1989, employment is expected to continue to increase substantially - by 1.5% in 1990 and 1% in 1991. In absolute terms about 3 million jobs are expected to be created in these two years. Manufacturing employment is also expected to expand, reversing the decline of past years.

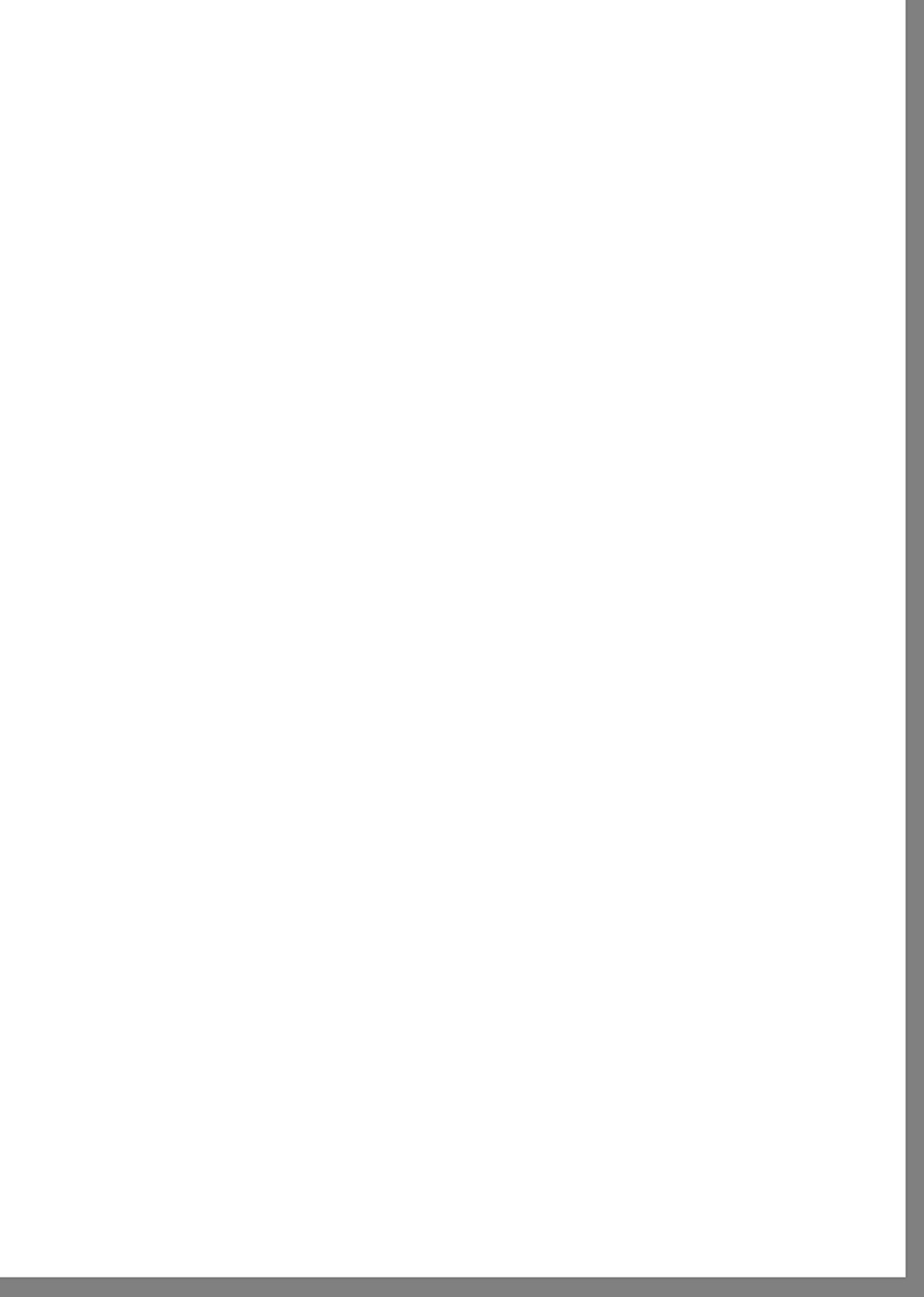
While unemployment should continue to fall in most Member States, it will do so at a slower pace than in the last two years, and it will still remain at a high level. Long-term unemployment will remain a problem requiring specific attention - it will not be resolved through economic expansion alone.

A major reason why increased employment is not expected to reduce unemployment significantly is that the labour force is expected to grow by more than 2 million in 1990 and 1991. This increase is the result of both higher activity rates - people, especially women, being attracted into the labour force by the availability of jobs - and the growth in the population of working age, largely as a result of immigration.



Part I Employment Prospects

- Chapter 1** **Employment in the Community and the Challenge of the 1990s**
 Employment in Central and Eastern Europe
- Chapter 2** **Short-Term Outlook**
- Chapter 3** **Employment Prospects and 1992**



Chapter 1 Employment in the Community and the Challenge of the 1990s

Employment has risen markedly in recent years. What kind of jobs have been created and where did the largest increases occur? What are the key trends likely to affect employment in the 1990s?

Introduction

For the past three years, employment has been increasing in most parts of the Community at a rate unprecedented since the 1950s. As a result unemployment, which had risen to 11% in 1986, has come down to below 9%. The fall, however, has been considerably less than might have been expected given the substantial creation of new jobs. The great majority of these jobs have been filled not by people moving out of unemployment but by new entrants to the labour market. Equally, a large proportion of the jobs have been part-time rather than full-time, and more have been taken by women than by men.

This chapter examines the recent growth in employment in the Community, and identifies the nature of the jobs created and the areas of activity in which they have occurred. More generally it indicates the main features of current trends in labour force growth and the structure of employment, and highlights prospective changes over the coming decade. It provides a background to the discussion of policy issues in other chapters.

The chapter focuses, first, on the change in employment and unemployment in the Community over the past decade, making a comparison with other industrialised parts of the world, and drawing attention to the marked differences in labour force participation which exist.

Secondly, it examines changes in the sectoral distribution of employment across the Community in the 1980s, indicating the importance of the shift towards service activities, away from manufacturing and agriculture.

Thirdly, it looks in detail at the increase in Community employment which occurred between 1985 and 1988 after several years of slow output growth and little, if any, net job creation. It indicates not only what kind of jobs were created over this period and who filled them, but also where in the Community the largest expansion in employment occurred, and where, in contrast, it fell.

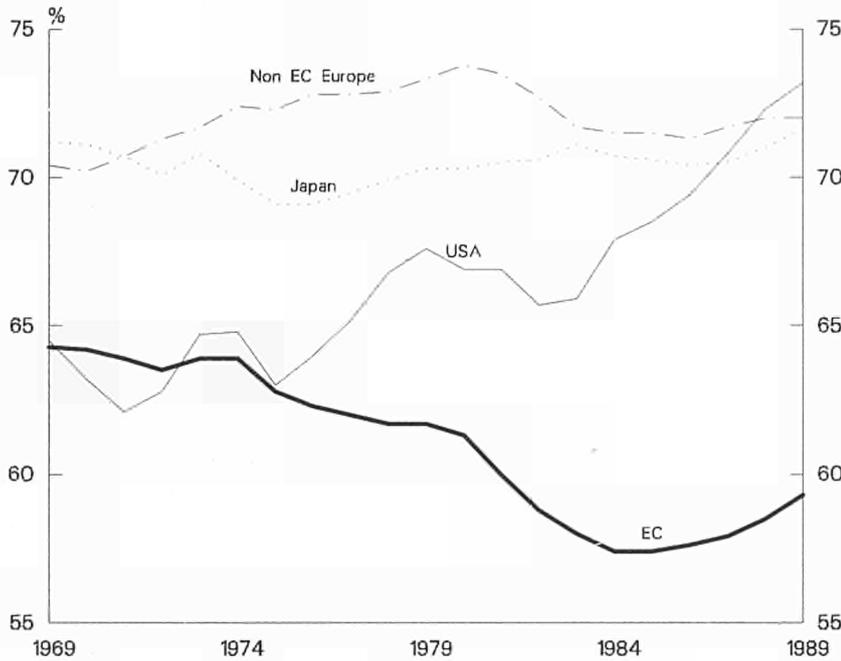
Fourthly, it examines the consequences of the high rate of employment creation for unemployment, indicating which of the people out of work had most success in finding jobs over this period.

Fifthly, the chapter sets out the demographic trends affecting the size and age composition of the Community's work force. It shows that there will be fewer young people than before entering the labour market over the coming decade and beyond, and that the average age of those in employment will progressively increase.

In this context, it examines recent trends in the participation of women in the labour force and migration flows, both of which are relevant to any assessment of the future availability of labour in the Community.

Finally, there is a review of the main features of Central and Eastern European economies, which are a major potential source of additional labour for Community businesses as well as of market growth, as these economies become more open and as relations with the Community become closer. The aim is not to analyse potential developments, but simply to provide basic information about their demographic characteristics, the size and composition of their labour force and its sectoral distribution, and about the size and nature of present

1 Share of Working-Age Population in Employment in the Community and Elsewhere 1969-1989

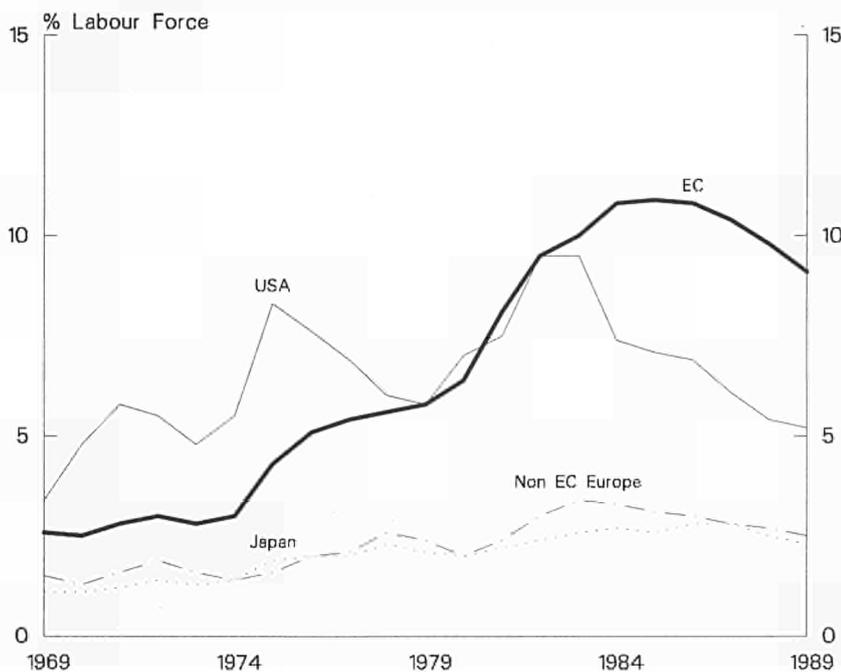


trade flows between the Community and the neighbouring economies to the east.

Employment and Unemployment Developments in the 1980s

In the period from 1973 - when economic growth first slowed down from the high rates of the 1950s and 1960s - to the mid-1980s, employment in the Community failed to keep pace with the growth in the population of working age (Graph 1). The Community, in other words, failed to create sufficient new jobs to provide employment to those coming onto the labour market without causing growing unemployment among existing workers (Graph 2). By 1985, the rate of unemployment across the Community had reached 11%.

2 Unemployment Rates in the Community and Elsewhere 1969-1989



This was in marked contrast to the performance of the US, Japanese and other Western European economies, which also experienced significant growth in young people coming onto the labour market, especially the US. In all of these countries, any fall in employment relative to working-age population was of short duration and unemployment (except in the US where it peaked in 1982 at below 10%) was kept down.

The inadequate employment creation record of the Community was described in the *1989 Employment in Europe Report*. In recent years, however, the Community's performance has improved. Employment increased by 1.7% in 1989, improving on the high growth rates achieved in both 1987 and 1988. The number of new jobs created over

these three years in the Community as a whole was greater than for any comparable period since the 1950s. As a result, the proportion of working-age population in employment increased significantly between 1986 and 1989. Indeed the Community's performance in creating jobs over this period was superior to that of Japan and European countries outside the Community, and unemployment also came down more than elsewhere.

Despite this improvement, the employment-population ratio, i.e. the proportion of the population aged 15-64 years in employment in the Community, at around 60%, remains well below the levels in the rest of Europe, the US and Japan, where it is over 70%. The difference not only reflects the relatively high rate of unemployment in the Community - which averaged 9% of the labour force in 1989 as compared with 5% in the US and only 2% in Japan and the rest of Europe. It also reflects much lower participation rates in Community Member States.

The recent expansion of employment in the Community is notable, moreover, insofar as it has occurred at a time when the growth of output - which is usually the main determinant of job creation - was not especially high, at least when compared with the 1960s. GDP growth has averaged only around 3.5% a year since 1986, a rate of increase which in the past, would have been associated with little, if any, net new job creation. The composition of the jobs created up to 1988 is examined below.

This change in the relationship between output and employment was noted in the *1989 Employment in Europe Report*, but the reasons for the change remain unclear. In part

it may owe something to the relatively high proportion of jobs which are part-time rather than full-time. The fact that most of the new jobs are in services where output per head tends to be less than in manufacturing is another part of the explanation. The relatively low growth of real wages during this period may also be a factor insofar as it has encouraged employers to take on more labour (see Chapter 4). In addition, there is the possibility that employers may have opted for more labour-intensive patterns of production due to changes in relative factor costs.

It is worth noting that a similar change in the output-employment relationship is evident in the US and Japan. In the US, in particular, where the growth of the working-age population and therefore of the available labour force has been high for some years, the rate of job cre-

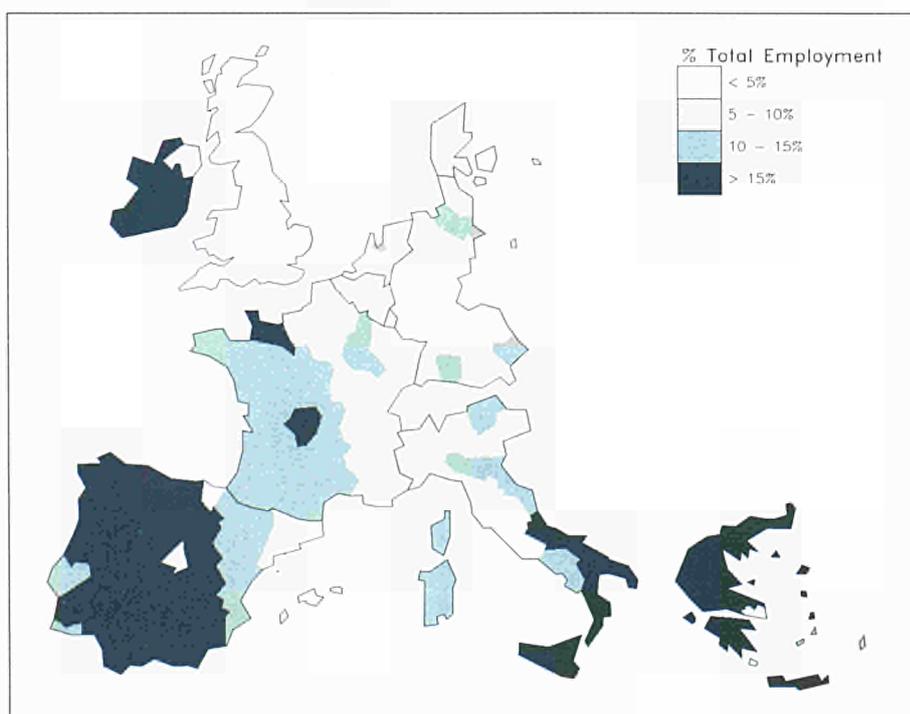
ation has also been high, despite comparatively modest growth of output.

Sectoral Changes in Employment in the 1980s

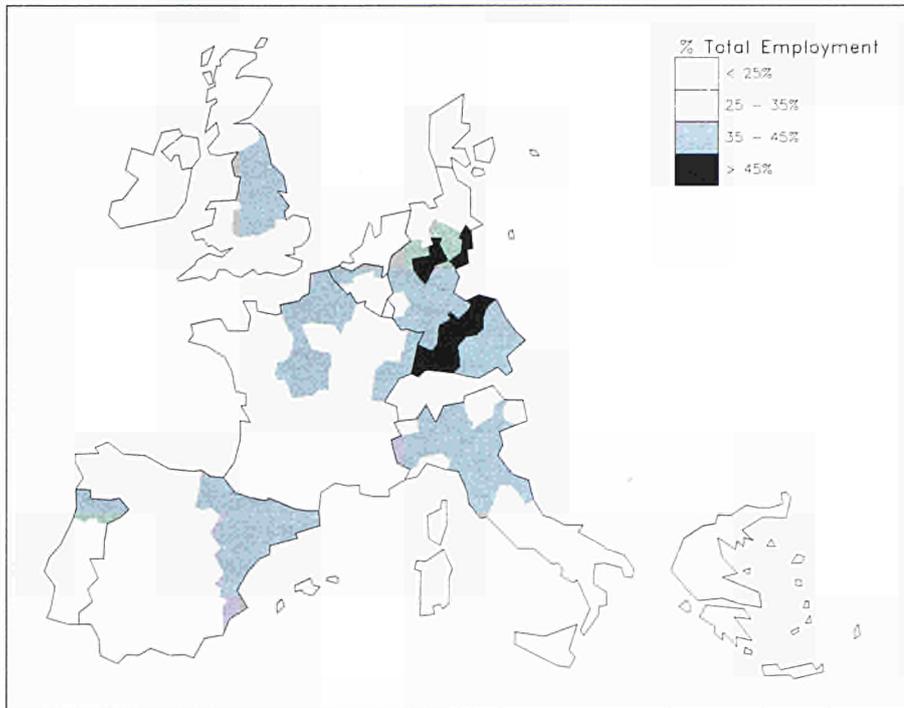
The service sector has become progressively more important in the Community as the economies of the Member States have developed and as levels of real income have increased. In particular, a growing proportion of the Community's work force has become employed in service activities so that they now account, on average, for around 60% of total employment.

There are three main reasons for the relative growth of jobs in services. In the first place, the demand for many services increases as

3 Distribution of Employment in Agriculture 1988



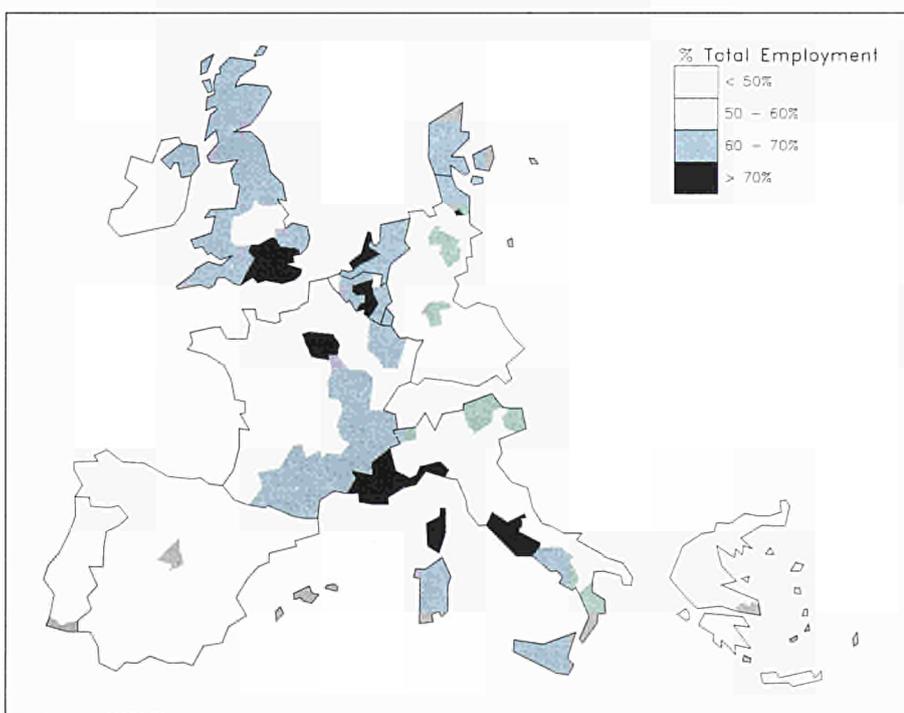
4 Distribution of Employment in Industry 1988



people get richer. Secondly, as economies develop, certain service activities which were previously performed in other sectors (such as transportation of goods or accounting) tend to get hived off to specialist companies which can do them more efficiently. Thirdly, the growth of output per person employed tends to be lower in services than in other sectors partly because the personal nature of the activity often limits the extent to which people can be replaced by machines, though computer technology is beginning to change this.

The acute problems of measuring output in services, because of the intangible nature of the product produced, make it difficult to be sure about the relative importance of these three factors. All of them have probably been at work to some extent.

5 Distribution of Employment in Services 1988



The proportion of the work force employed in services does vary across the Community, however. It tends to be highest, as might be expected, in the most developed, high income countries, such as Denmark or the Netherlands, where it is close to 70%, and lowest in the least developed, poorer countries like Portugal and Greece, where it is 44% and 48% respectively (Map 5).

There is, however, one notable exception. The FRG, which is among the most prosperous and most highly developed states in the Community, has a comparatively small proportion of its work force employed in services. Indeed it has proportionately fewer people employed in services than Ireland, and a similar percentage to Spain. By contrast, the proportion of the German work force employed in industry is higher than anywhere else in the Community (Map 4). The

strength of the German economy is clearly related to this characteristic.

Over the 1980s, the share of employment in services increased in all Member States, while the proportion of people employed in industry fell in all Member States for which figures are available, bringing it down to around 33% in the Community as whole (Graph 6). There was also a fall in agriculture in all countries, including the UK where the proportion is already the lowest in the Community at under 3%.

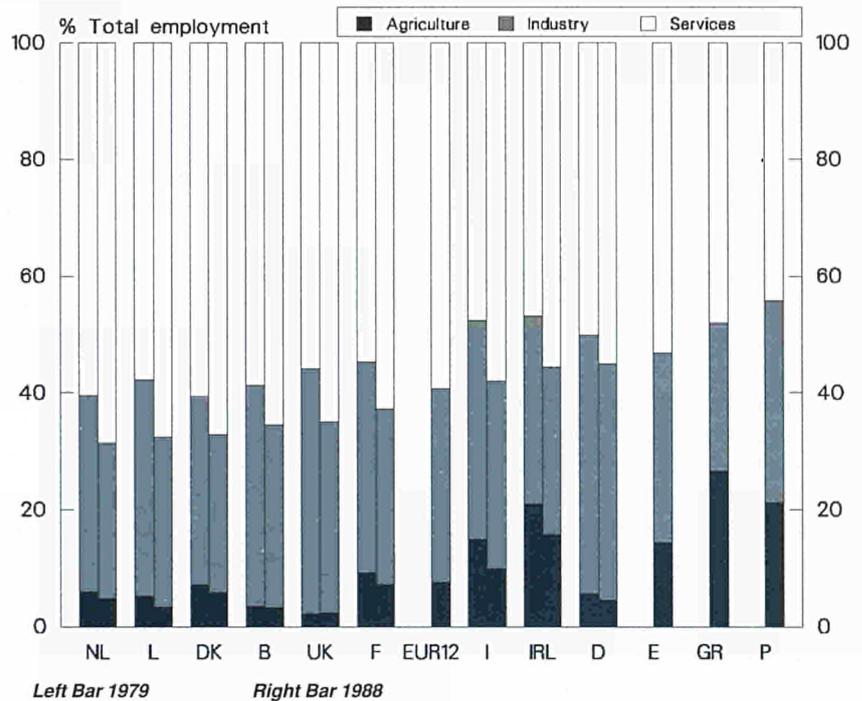
Changes in Employment in Industry in the 1980s

The relative importance of different kinds of industrial activity varies across the Community. In the less developed Member States, a comparatively high proportion of industrial workers are employed in basic manufactures, like textiles, clothing, footwear and food processing, which tend to be labour intensive. In Greece and Portugal, for example, around half of those working in industry are employed in such sectors (Graph 7).

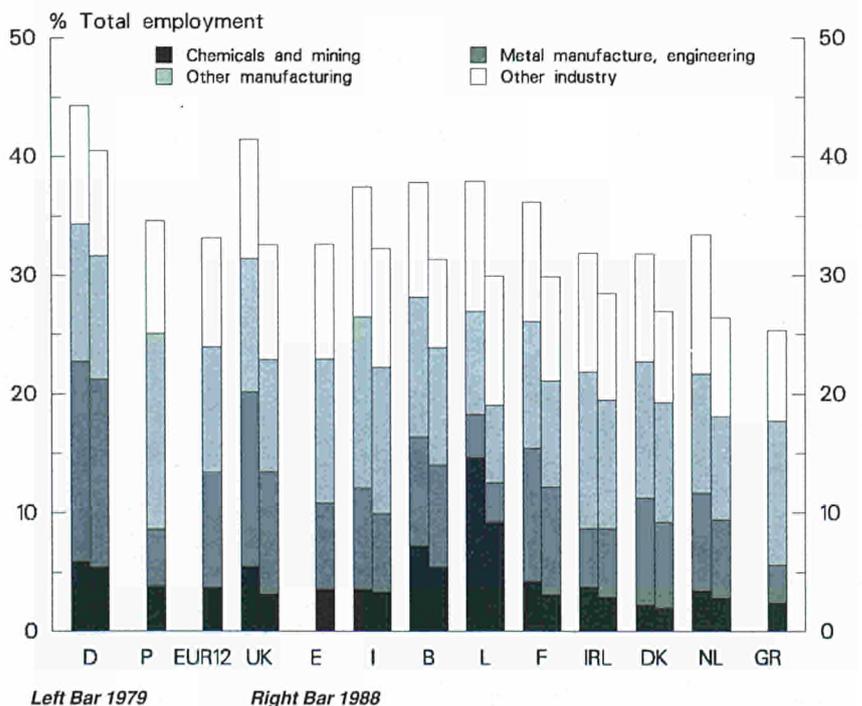
In the more developed countries, a higher proportion tends to be employed in engineering and related activities. The FRG is the principal example with over half of all the people working in industry being employed in such areas in 1988. This represents some 15% of its total work force, a figure far in excess of that in other Member States.

Over the 1980s, the proportion of the total work force employed in most sectors of industry declined in most Member States. The fall was particularly large in mining and chemicals. The fall in engineering and metal manufacture was par-

6 Sectoral Distribution of Employment in the Member States 1979 and 1988



7 Share of Branches of Industry in Total Employment in the Member States 1979 and 1988



ticularly pronounced in the UK, where the rate of decline in employment in industry was greater than anywhere else in the Community, Luxembourg apart.

Changes in Employment in Services in the 1980s

The proportion of the work force employed in retail and wholesale distribution, transport and communications, and hotels and catering - which are for the most part basic service activities - is much the same in each Community country. In 1988, the proportion ranged from 21-22% in Portugal and the FRG to 26-28% in Spain, Italy, the UK and Luxembourg (Graph 8). Over the past decade, this proportion showed little change in the Northern parts of the Community, the UK and Luxembourg apart.

Banking, finance and insurance, in contrast, vary significantly in importance in terms of employment across the Community, with the less developed states having significantly fewer people employed in these activities than the more advanced countries. Whereas in the UK, the Netherlands and Luxembourg, 10% or more of the total work force were employed in financial services, in Italy, Portugal and Greece the figure was less than 5%. In all countries, the proportion employed in the financial sector increased during the 1980s, in most cases considerably.

Employment in public administration, education, health and other services activities also tends to vary across the Community broadly in line with the stage of development a country has reached and its prosperity. As a proportion of total employment it ranges from over

30% in Denmark, the Netherlands, Belgium and France to around 20% in Greece, Spain and Portugal. Again the FRG is the exception to the general rule, with a figure of only 25% employed in this sector. During the 1980s, the proportion increased in all Member States.

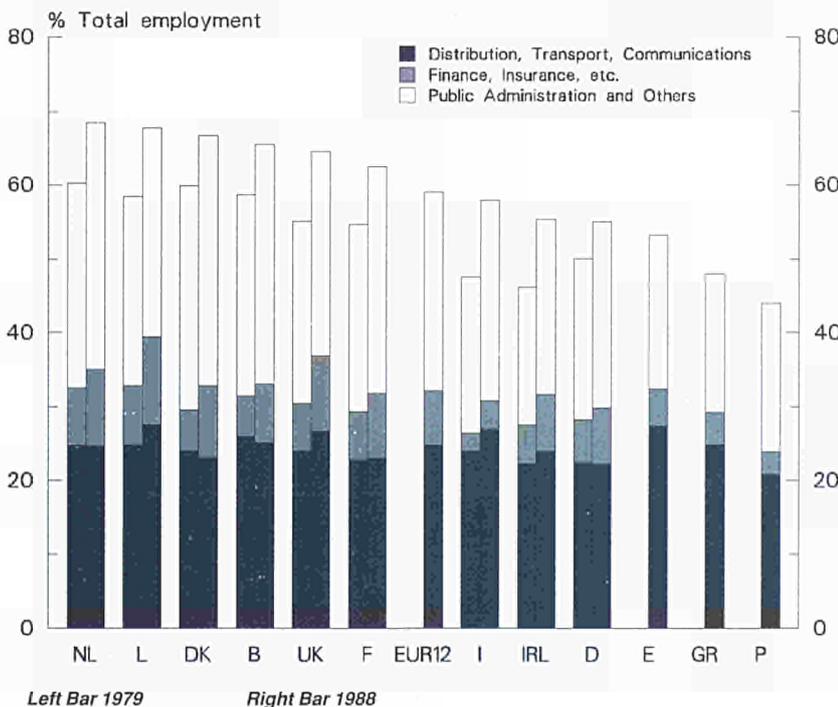
Employment Growth in the Community 1985 to 1988

Since the mid-1980s, the Community has enjoyed a dramatic upturn in employment, with jobs being created across the Community at a rate unprecedented since the 1950s. Although no detailed figures as yet exist for 1989, when the growth of employment continued at a high rate, it is possible (from the Community's Labour Force Survey) to examine the change in employment during the three years from 1985 to 1988 in order to obtain some overall impression of the kind of jobs created, and the people who filled them.

Over the Community as a whole, employment increased by around 4% between 1985 and 1988. This represents a net addition of 4.8 million jobs during these three years, 1.9 million filled by men, 2.8 million by women (Graph 9). Significantly, however, this increase in jobs caused only a very small reduction in unemployment. While the number of unemployed men fell by almost a million, the number of women out of work actually rose by over 400 thousand.

The extra jobs created were filled, not so much by the unemployed, but by young people coming onto the labour market for the first time - who accounted for over half of the increase in employment - and by

8 Share of Branches of Services in Total Employment in the Member States 1979 and 1988

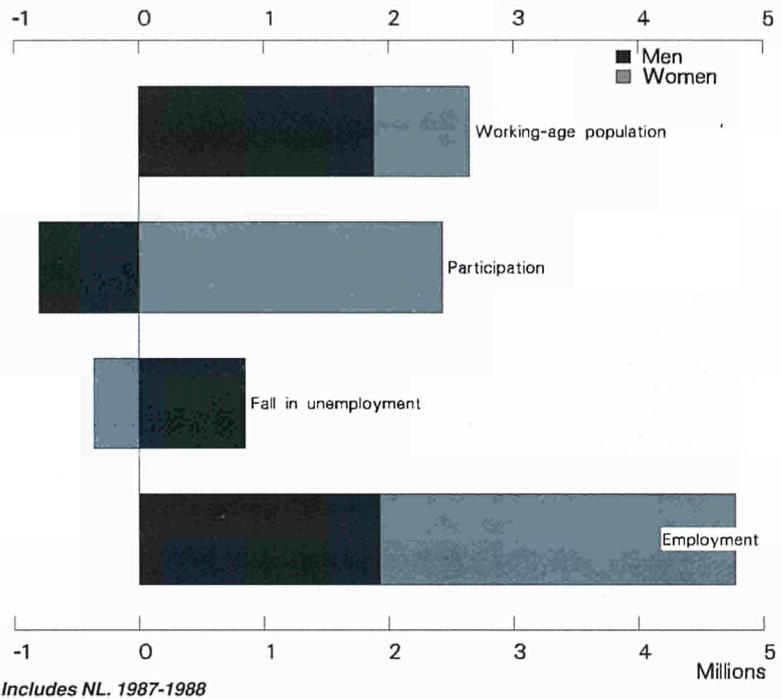


people who up until finding a job, had not been counted as unemployed at all. These were predominantly women who were not previously included in the labour force but who took up employment during this period once work became available. This increase in participation, over and above the increase in the working-age population, accounted for some 2 million of the rise in employment, or for over 30% of the net addition to the people at work (Graphs 9 and 10).

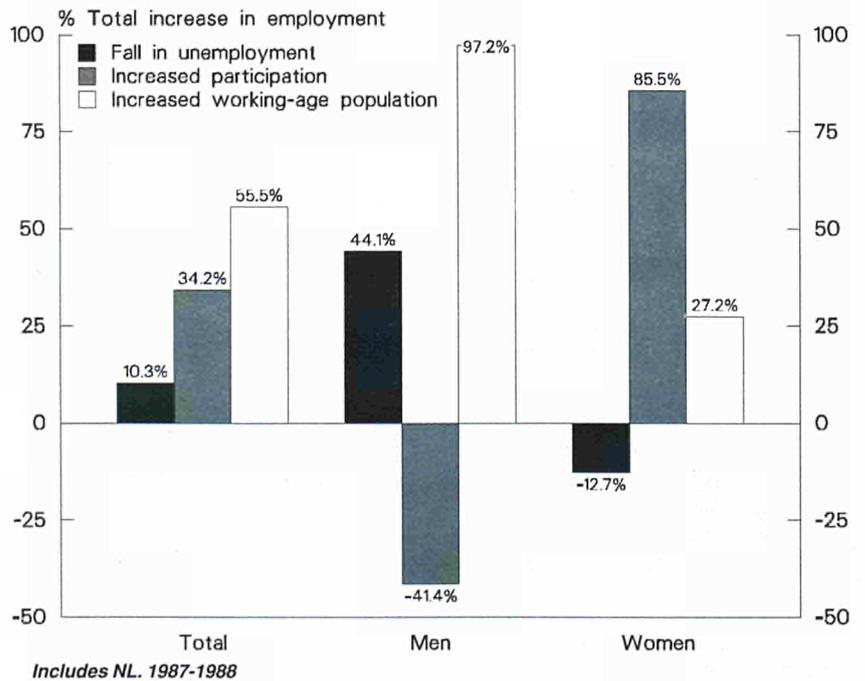
The experience over this period demonstrates forcibly how difficult it is to get unemployment down when the population of working-age is increasing and when rates of participation are still relatively low, concealing - it would seem - many women and some men who would take jobs if they were available. One implication is clear - a massive and continuing expansion in employment will almost certainly be necessary in order to reduce unemployment to more acceptable levels over the coming years. Even with the much smaller increase in the working-age population which is now in prospect, a net increase of some 25 million jobs or more could well be required in order to reduce unemployment to 5% in the Community, if recent experience is an accurate guide.

Of the net addition to jobs in the period 1985 to 1988, 40% went to men, 60% to women (Graph 9). Information on the full-time/part-time breakdown of new jobs created is incomplete because data for Spain and Portugal are not available for 1985. Taking this into account, over 35% of the additional employment was part-time, the majority of this (25% of the total increase) being part-time jobs for women (Graph 11). About a quarter

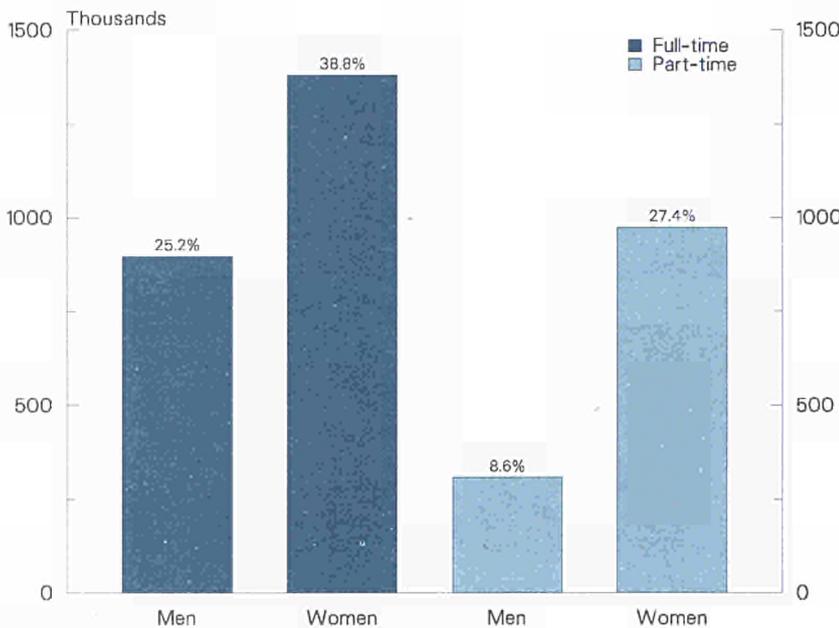
9 Changes in Employment, Unemployment, Participation and Working-Age Population by Sex in the Community 1985-1988



10 Contribution of Net Changes in Working-Age Population, Participation and Unemployment to Net Employment Growth in the Community 1985-1988

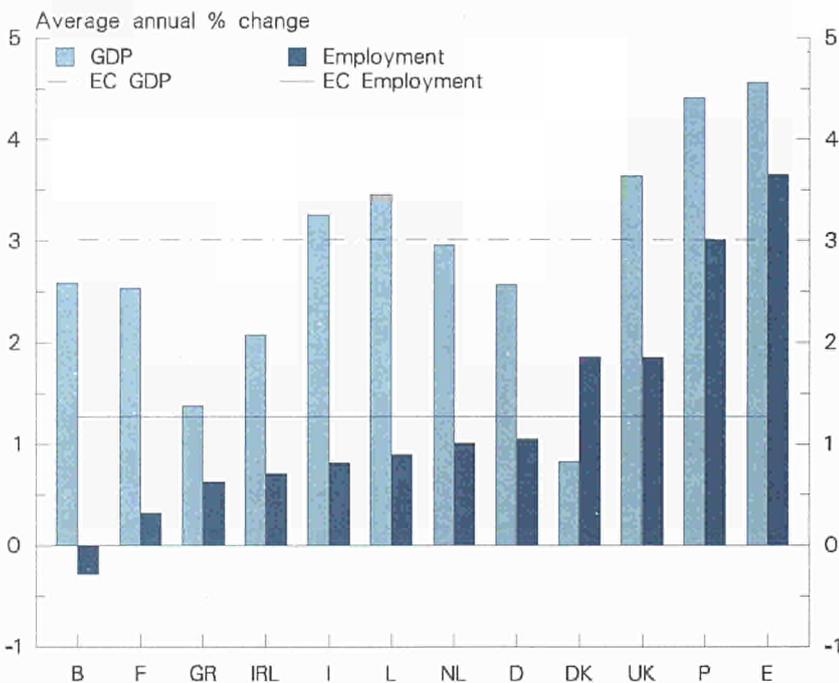


11 Contribution of Changes in Part-Time and Full-Time Employment to Net Employment Growth in the Community 1985-1988



Includes P. 1986-1988, E. and NL. 1987-1988

12 GDP and Employment Growth in the Member States 1985-1988



NL. 1987-1988

of the increase in male employment was part-time.

Employment Growth in Member States, 1985 to 1988

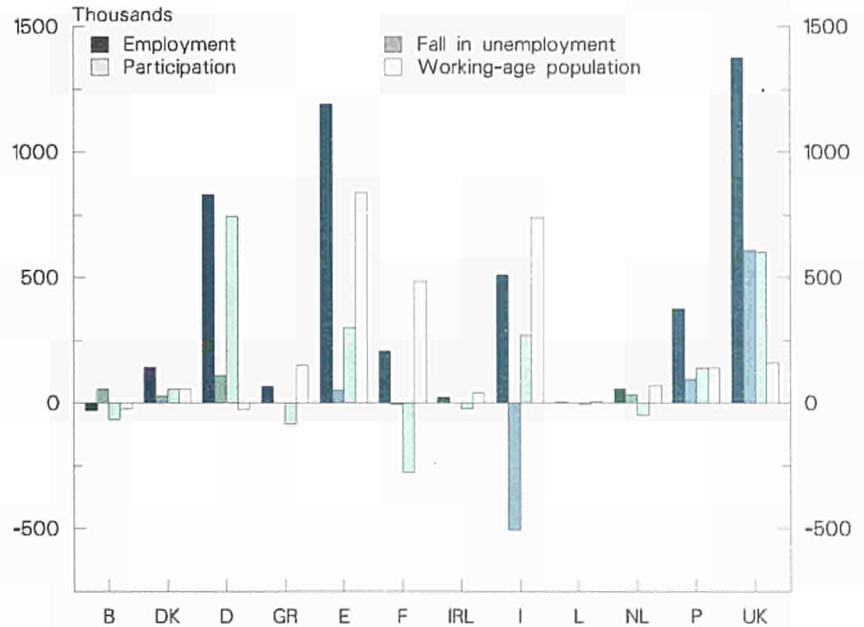
The change in employment between 1985 and 1988 varied considerably across the Community. It ranged from a rise of around 3-3.5% a year in Spain and Portugal, just under 2% in the UK and Denmark, to a rise of less than 0.5% a year in France and an actual fall in Belgium (Graph 12).

A notable feature of the trends during this period was that the change in employment experienced by different countries seems to have been only partly related to the rate of growth of output. Denmark showed an above average rise in employment with a growth rate of GDP way below the Community average at under 1% a year - far lower than Belgium where employment fell. Italy experienced above average growth, yet the increase in employment was well below average. On the other hand, it should be noted that the three countries showing the highest rate of output growth over the three years - the UK, Portugal and Spain - also had the largest increase in employment.

The lack of a close relationship between output and employment is only partly explained by the tendency for employment growth to lag output growth by 6 months or more. The varied experience of the last three years indicates that growth in itself is not the sole determinant of job creation and changes in unemployment. Other factors are clearly important.

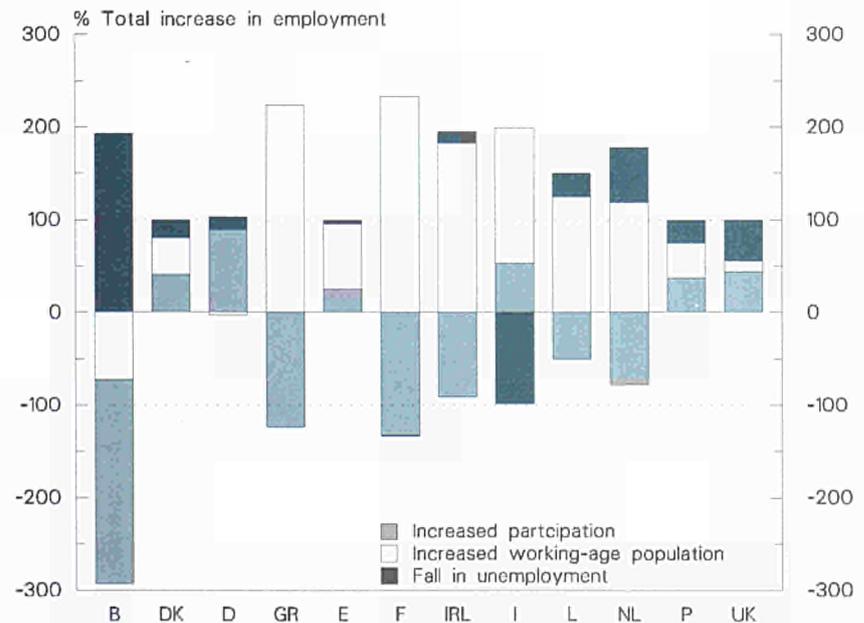
In all Member States, the fall in numbers of unemployed between 1985 and 1988 was substantially less than the additional number of jobs created. Only in Portugal and the UK were a significant proportion of the extra jobs created filled by people who had previously been counted as unemployed (Graph 13). Moreover in Italy, although employment rose during this period, unemployment also increased. In several countries, particularly Spain, France and Italy, a large proportion of the rise in employment can be attributed to new entrants to the labour market as the working-age population has increased. The addition to the labour force not due to an increase in the working-age population is by definition the result of increased participation (mainly of women). This represented a major source of the rise in employment in some countries, notably in the FRG, where it accounted for 90% of employment growth (Graphs 13 and 14). Belgium, however, was significantly different from other countries. Here, despite the fall in employment, unemployment also fell as working-age population and the number of participants both declined.

13 Changes in Employment, Unemployment, Participation and Working-Age Population in the Member States 1985-1988



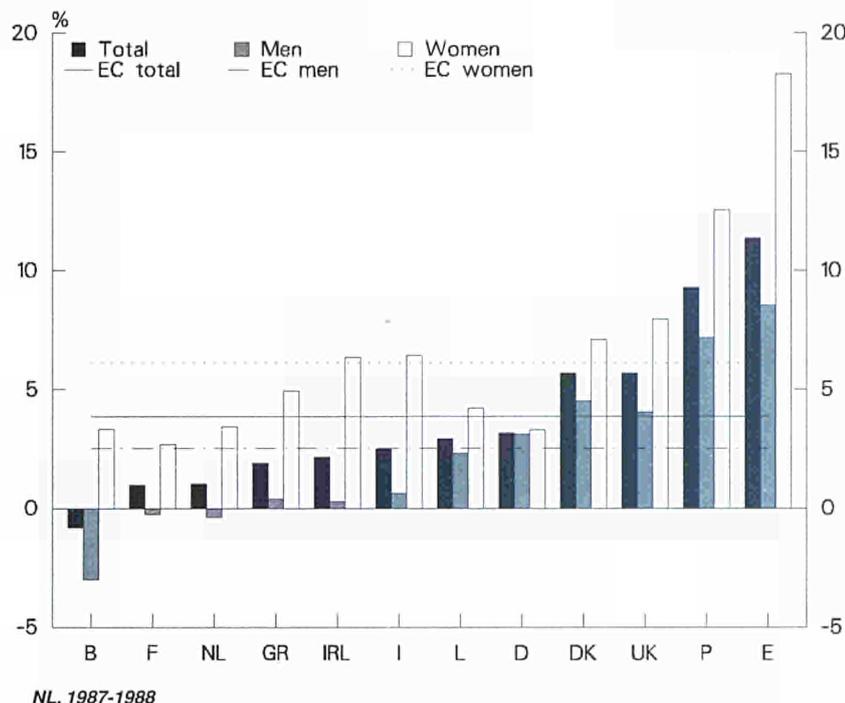
NL. 1987-1988

14 Contribution of Net Changes in Working-Age Population, Participation and Unemployment to Net Employment Growth in the Member States 1985-1988



NL. 1987-1988

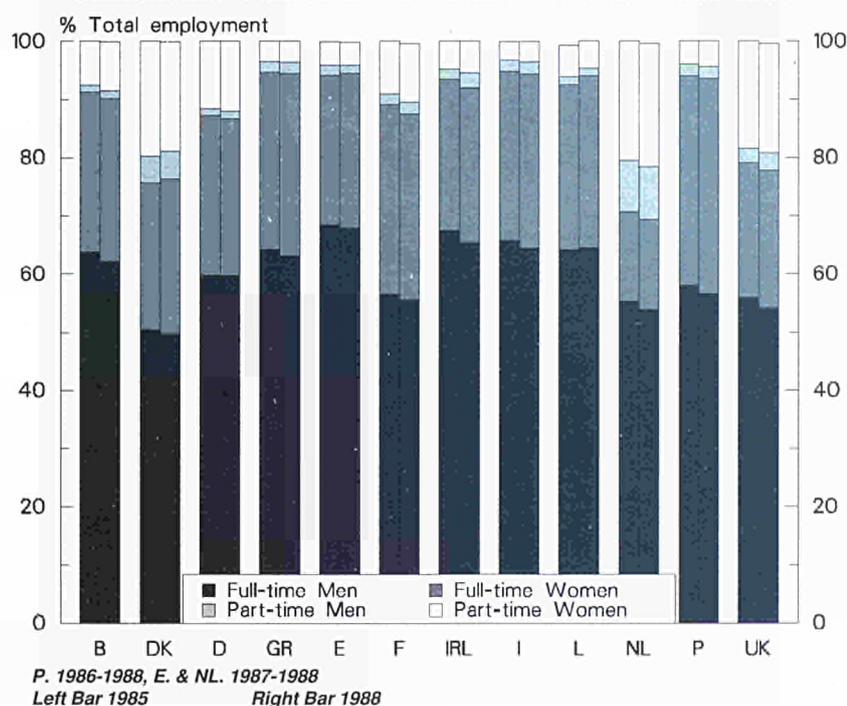
15 Changes in Total Employment of Men and Women in the Member States 1985-1988



In all Member States, female employment increased significantly more than male employment between 1985 and 1988. The only exception was the FRG where employment of men and women rose at a similar rate. In most countries, the percentage increase in female employment was at least twice the increase for men (Graph 15). The most striking difference was in Belgium where the employment of women grew by 3% while male employment declined by a similar amount.

In a majority of countries, part-time employment increased at a significantly higher rate than full-time employment between 1985 and 1988 (Graph 16). In some countries however, the share of part-time work fell. In Denmark part-time employment of women increased only slightly compared to other forms of employment, and in Spain, where data are only available from 1987, the number of part-time workers - particularly men - actually declined.

16 Distribution of Full-Time and Part-Time Employment of Men and Women in the Member States 1985-1988



The apparent trend towards part-time working is possibly a reflection of the search for more flexible working patterns in the Community, coupled with ever greater pressure to keep labour costs down and to reduce the proportion of these which are overhead or fixed costs.

Sectoral Changes in Employment

The additional jobs created between 1985 and 1988 were predominantly in service activities. Employment in services increased in every Community country over this period by an average of around 5%. The rise varied, however, from less than 1% in Belgium to around 10% in the UK and Luxembourg, and over 15% in Spain and Portugal (Graph 17).

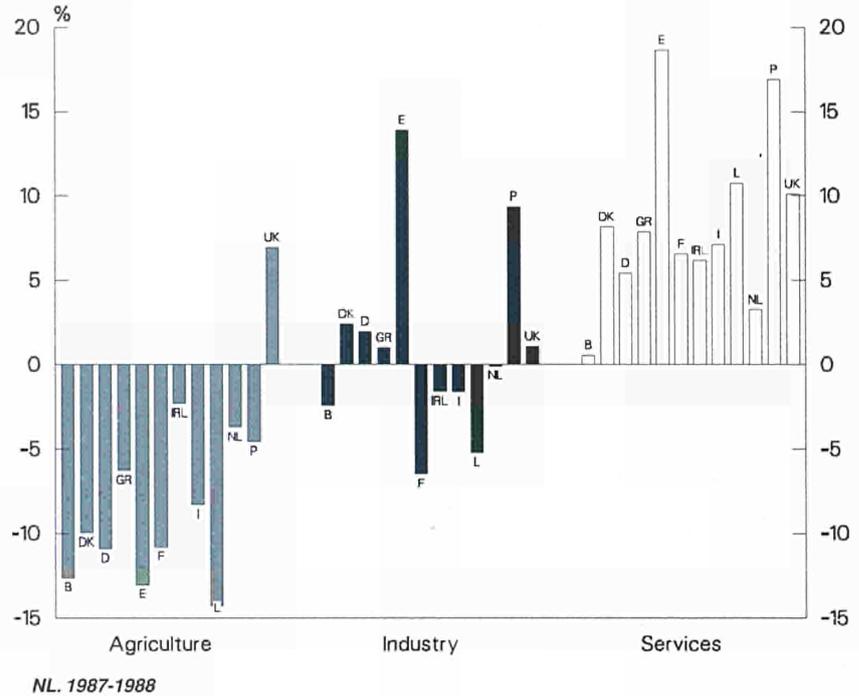
By contrast, few extra jobs were created in industry, employment in this sector changing by very little in the Community as a whole during these three years. However in the less developed countries, Spain and Portugal in particular, employment increased significantly.

In agriculture, the numbers employed appear to have continued to decline significantly in most Member States, although the exact changes are difficult to measure, because of problems of defining employment in this sector.

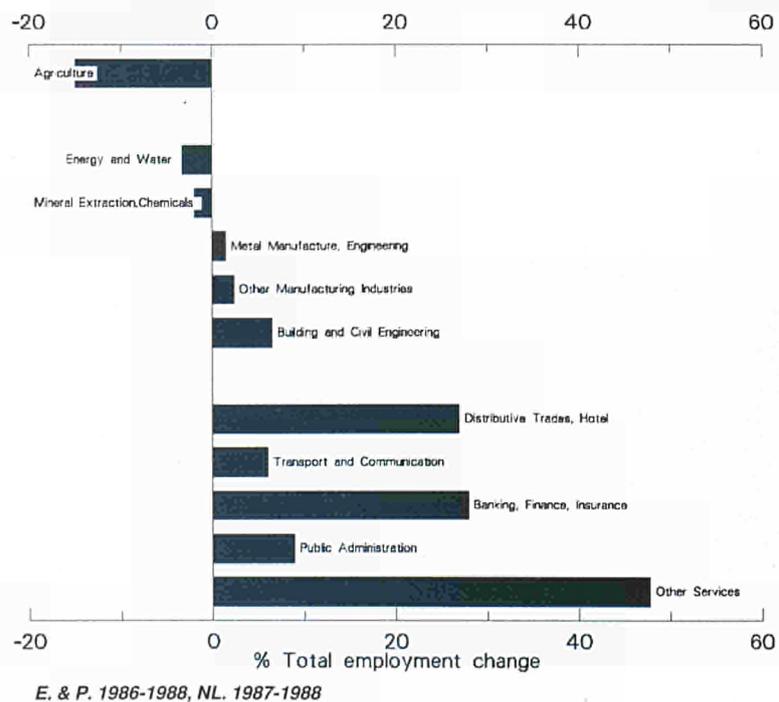
In most parts of the Community, therefore, jobs have to be created in either services or manufacturing to compensate for the continuing fall in agricultural employment as well as to absorb natural labour force growth and those still unemployed.

Within the service sector, employment increased most in health, education and other services, which accounted for over 2 million, or around 45%, of all the additional jobs created between 1985 and 1988 (Graph 18). Retail distribution, hotels and catering also showed a significant expansion in the numbers employed, as did banking, finance and insurance. Each sector accounted for over 25% of the net

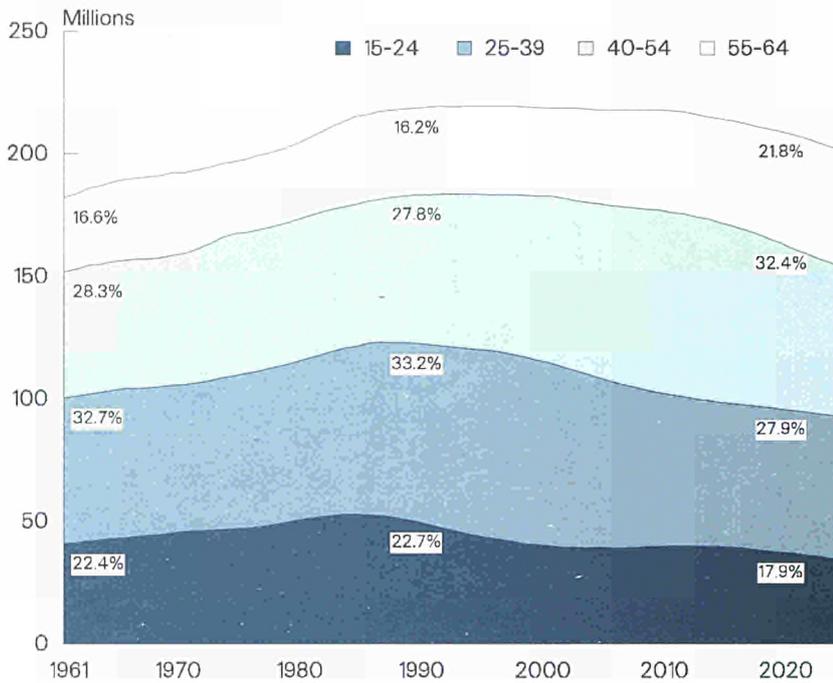
17 Change in Employment by Sector in the Member States (Labour Force Survey) 1985-1988



18 Contribution of Changes in Employment by Economic Activity to the Net Change in Total Employment in the Community 1985-1988



19 Trends in the Structure of the Working-Age Population in the Community 1961-2025



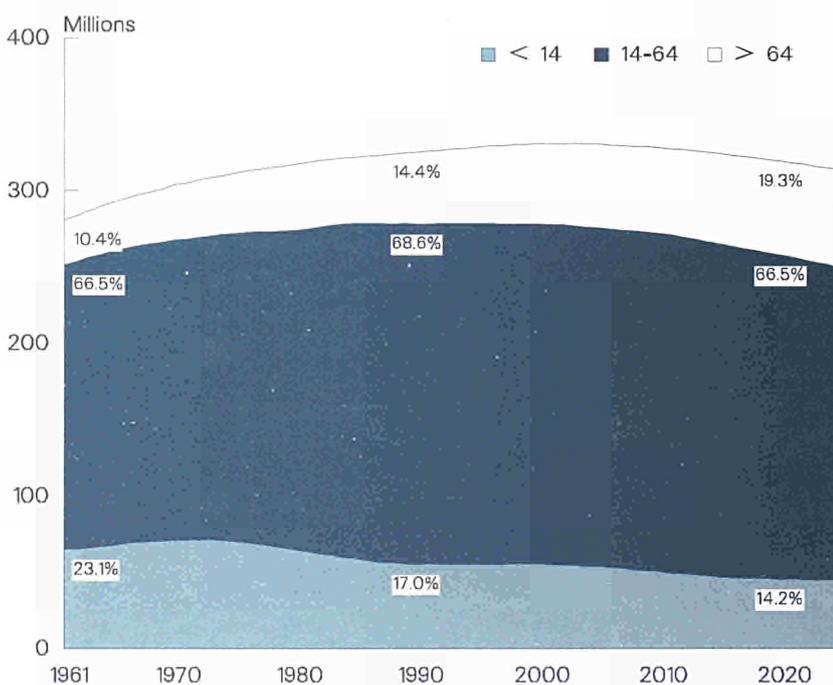
growth of employment in the Community as a whole.

In industry, the main growth area in terms of jobs was construction which accounted for over 5% of net employment growth. In other broad areas, the number of jobs either remained largely unchanged or fell.

Changes in Unemployment

As noted above, changes in unemployment between 1985 and 1988 varied significantly from country to country in the Community. The fall in the rate of unemployment was most marked in Belgium, Portugal and the UK, while most other Member States showed little change or, in the case of Italy, an increase. The fall from 10.7% to 10% which occurred over the Community as a whole was almost entirely due to a decline in male unemployment. While the rate of unemployment for men fell from 9.3% to 8.2% over this period, the rate for women declined only marginally, from 12.9% to 12.8%. Indeed, the number of women recorded as being unemployed actually increased during these three years (Graph 9), but because of a large rise in the female labour force, the rate went down, even if only slightly.

20 Structure of Population in the Community 1961-2025



Demographic Trends

Until recently, the Community had experienced a significant growth in the numbers of young people coming onto the labour market. This era - the after-effect of the post-war baby boom - is now at an end.

In the 1990s and beyond, the prospect is for the number of young people entering the labour market each year to decline. Since women

in the Community are tending to have fewer children as time goes on, this trend seems likely to continue well into the next century. Whereas young people aged between 15 and 24 now represent around 23% of the working-age population in the Community, by the year 2025 on present trends this proportion will have declined to only 18% (Graph 19).

At the same time as fewer people are coming of working age, the average age of the rest of the labour force is rising as the people who first started working over the past ten years grow older. At present, some 16% of people of working age are 55 years old or more. By the year 2025, this proportion will be 22%. At that time 55% of the Community's working-age population will be over 40 years old as compared with less than 45% now (Graph 19).

The ageing of the working-age population is part of the general tendency for the average age of the population as a whole to increase. One consequence is that a growing number of old people will need to be supported financially by proportionately fewer people of working age (Graph 20). An equally important implication concerns the difficulties it creates for improving the skill level of the work force. In the past, improvements in the quality of the labour have come, in large measure, from recruiting young people with more knowledge and understanding of science and technology than the previous generation. This option will be less open in the future.

This trend towards an older work force is also evident in the Community's main trade competitors. Both the US and Japan will experience a fall in the numbers of young people coming of working age over the 1990s and beyond, and they will

also have an increasing proportion of people aged over 40. However, the trend is less pronounced in their case than it is in Europe (Graph 21).

In the newly-industrialising countries of South-East Asia, which are a growing competitive threat to Community producers, the current age-structure of the population differs markedly from that of the Community. There, around 35% of people of working age are under 25 and less than 30% are older than 40. This clearly gives these countries a significant potential advantage in terms of the receptability of the work force to training and to the acquisition of new skills.

However, the economies of South-East Asia will, eventually, also experience an ageing of their work force. By 2025, they are likely to have a population age-structure

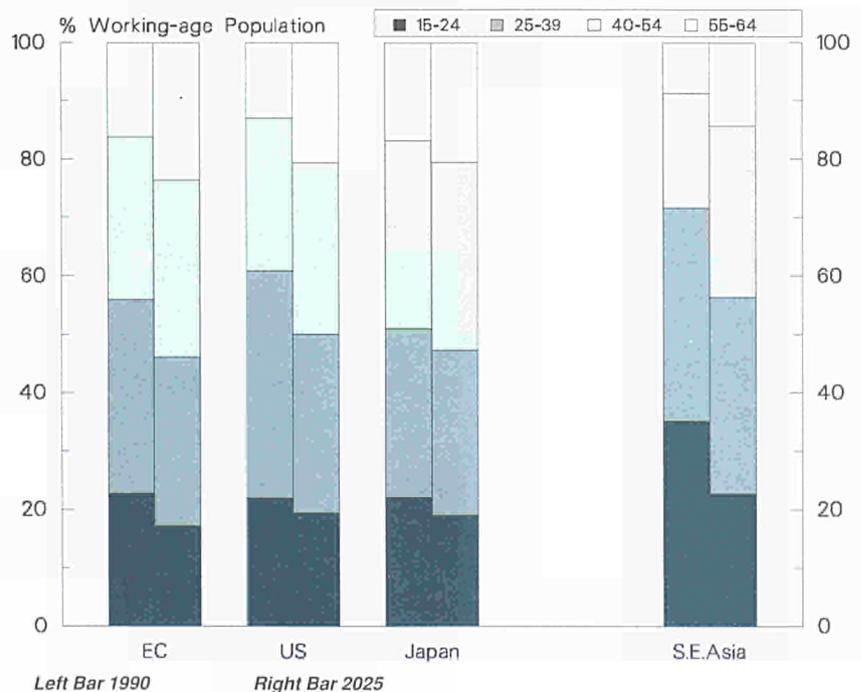
which is almost identical to that of the Community now (Graph 21).

Migration

Trends in working-age population, however, only give a first approximation of the Community's labour force in future years. What happens to the size and age-structure of the work force depends also on other factors - trends in migration and in participation rates.

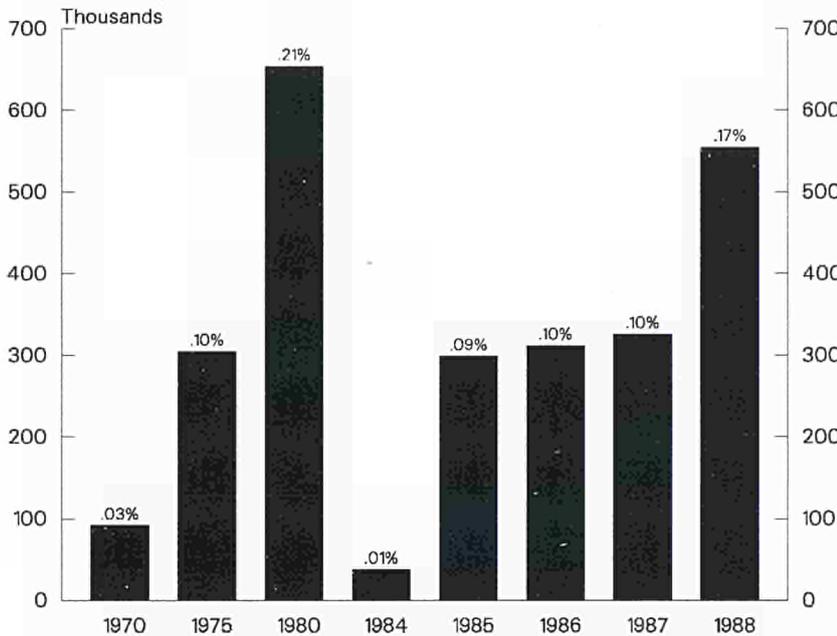
As regards migration, the Community has gained population over the long-term as more people have moved into Member States from the rest of the world than have moved out. The increase from this source was small, however, during the 1980s. In the four years 1984 to 1987, it averaged less than 0.1% of total Community population, or only just over 300 thousand a year

21 Structure of Working-Age Population in the Community and Elsewhere 1990-2025



22 Net Community Immigration

1970-1988



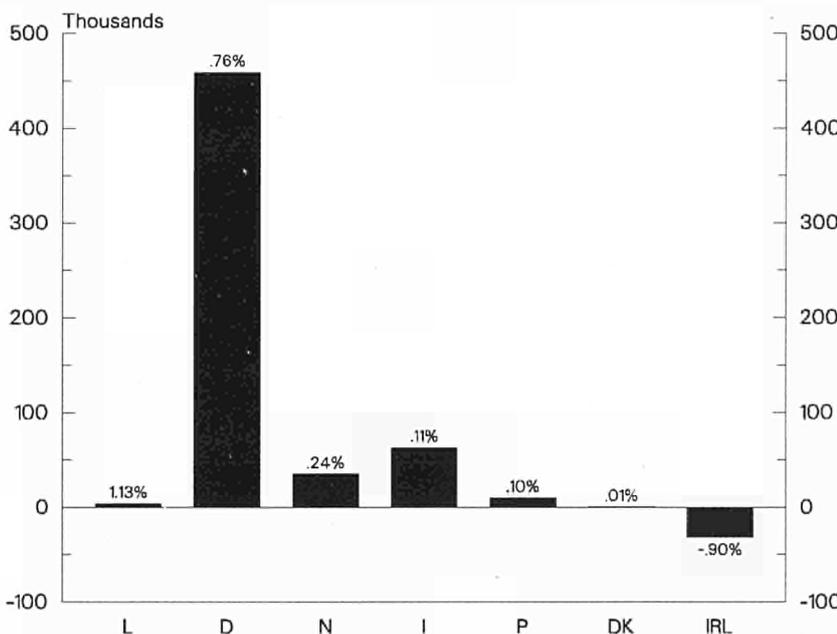
(Graph 22). Nevertheless it has become slightly more important in the past two years. In 1988, net immigration amounted to almost 0.2% of Community population, at around 565 thousand. In 1989, though no official figures are yet available, it was almost certainly larger still because of the influx from Central and Eastern Europe.

The bulk of net immigration into the Community is accounted for by the FRG. In 1988, German population was increased by over 450 thousand as a result of migration flows, a rise of almost 0.8% (Graph 23). Net immigration was minimal in other Member States, although in Luxembourg it added over 1% to population. Ireland was the only country for which emigration exceeded immigration, as young people continued to leave to look for work in other countries.

Activity Rates

23 Net Immigration in the Member States

1988



Over the past ten years, the participation of women of working age in the labour force has risen from 37% to 44% in the Community as a whole. This has added over 7 million to the Community work force during this period. On the other hand, the participation of men has fallen from almost 70% to just over .68%, reducing the Community work force by about 1 million in the same period. Since the participation rate of women in Member States is still some way below that in other comparable countries, it can be expected to increase further so long as employment opportunities continue to expand.

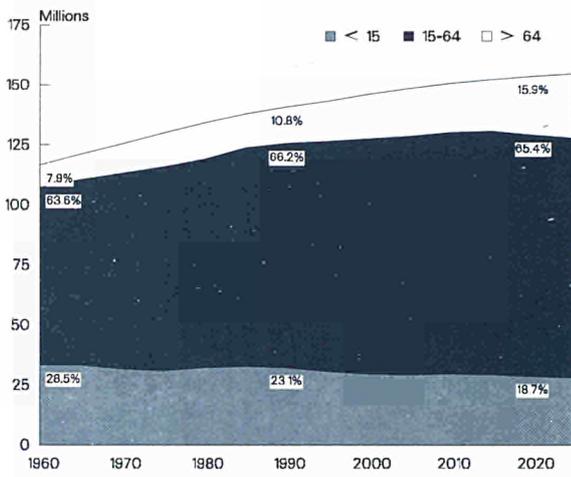
Key Employment Indicators in the Community

	1965	1975	1985	1986	1987	<i>Units : Millions</i>	
						1988	1989
Total							
Total population	293.2	312.2	322.0	322.8	323.6	324.6	326.1
Population of working-age (14-64)	188.0	198.1	216.0	216.9	217.6	219.0	
Total employment	122.6	124.8	124.3	125.3	128.1	130.5	132.6
Ratio of employment to working-age population	65.3%	63.0%	57.6%	57.8%	58.9%	59.6%	
Total unemployment	2.6	5.5	14.9	14.9	14.6	13.8	12.7
Unemployment rate	2.1%	4.3%	10.8%	10.7%	10.3%	9.7%	9.0%
Youth (14-24) unemployment rate			23.1%	22.3%	20.9%	19.6%	17.4%
Employment in agriculture	20.1	13.9	10.5	10.1	9.7	9.4	9.0
Employment in industry	49.5	48.3	40.7	40.6	41.2	41.5	42.1
Employment in services	53.1	62.2	73.1	74.6	77.2	79.5	81.4
Share of employment in agriculture	16.4%	11.2%	8.5%	8.1%	7.6%	7.3%	6.8%
Share of employment in industry	40.3%	38.8%	32.7%	32.4%	32.2%	31.8%	31.7%
Share of employment in services	43.3%	50.0%	58.8%	59.5%	60.2%	60.9%	61.5%
Men							
Total population		151.9	156.6	157.0	157.5	157.5	158.8
Total employment		82.2	78.1	78.2	79.6	80.5	81.2
Total unemployment		3.3	8.0	7.8	7.4	6.7	6.0
Unemployment rate			9.4%	9.2%	8.6%	7.8%	7.0%
Youth (14-24) unemployment rate			21.4%	20.6%	18.8%	17.2%	14.9%
Employment in agriculture			6.8	6.5	6.4	6.1	
Employment in industry			31.4	31.2	31.6	31.9	
Employment in services			39.9	40.5	41.7	42.5	
Share of employment in agriculture			8.8%	8.4%	8.1%	7.6%	
Share of employment in industry			40.1%	39.9%	39.7%	39.6%	
Share of employment in services			51.1%	51.7%	52.2%	52.8%	
Women							
Total population		160.3	165.4	165.8	166.1	166.5	167.3
Total employment		42.5	46.2	47.0	48.6	49.9	51.4
Total unemployment		2.3	6.9	7.1	7.2	7.1	6.7
Unemployment rate			12.9%	13.0%	12.9%	12.5%	11.9%
Youth (14-24) unemployment rate			25.0%	24.3%	23.3%	22.2%	20.1%
Employment in agriculture			3.7	3.5	3.5	3.3	
Employment in industry			9.4	9.4	9.5	9.7	
Employment in services			33.0	34.0	35.6	37.0	
Share of employment in agriculture			8.0%	7.5%	7.3%	6.6%	
Share of employment in industry			20.5%	20.1%	19.8%	19.3%	
Share of employment in services			71.6%	72.4%	72.8%	74.1%	

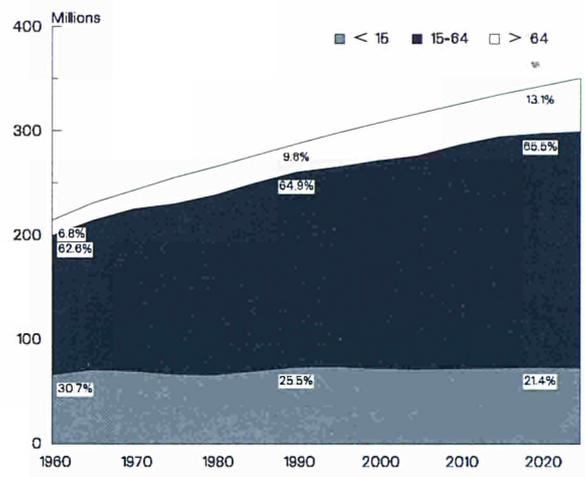
Structure of Population and Working-Age Population in Central and Eastern Europe and USSR 1960-2025

Population

24 Central and Eastern Europe

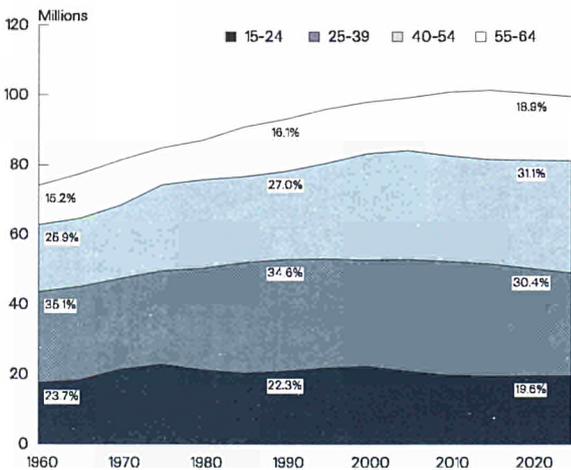


25 USSR

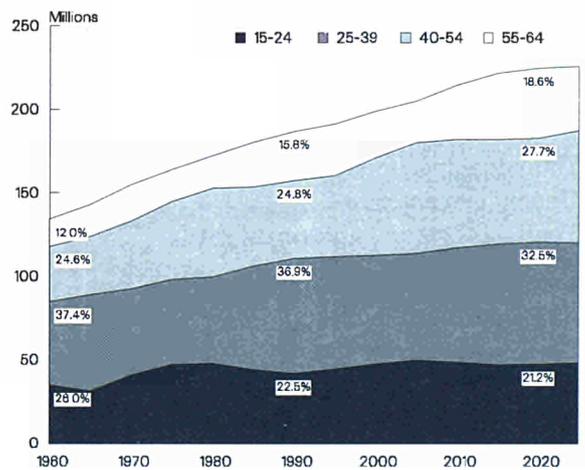


Working-Age Population

26 Central and Eastern Europe



27 USSR



Employment in Central and Eastern Europe

Population

The total population of Central and Eastern Europe - Albania, Bulgaria, the German Democratic Republic (GDR), Poland, Hungary, Czechoslovakia, Romania and Yugoslavia - at present stands at around 140 million. Of these some 93 million are of working-age. This compares with a total population in the Community of around 320 million, of whom just under 220 million are of working age. The Soviet Union's population totals around 285 million, some 185 million of whom are of working age.

Of the Central and Eastern European countries, Poland is the largest by some way with a total population of 38 million and with 25 million between the ages of 15 and 64. Yugoslavia and Romania are the next largest, with populations of around 23 million in both cases and working-age populations of 15-16 million. Of the other countries, the GDR and Czechoslovakia are of a similar size with populations of just over and just under 16 million respectively, with 10-11 million people aged between 15 and 64, while Hungary and Bulgaria have 9-10 million people and working-age populations of 6-7 million. Albania, which is one of the least developed and as yet least democratic countries, has a population of only 3 million, 2 million of whom are of working age.

The growth in population of the Central and Eastern Europe countries is projected to be less in the

future than in the past, much less than 1% a year rather than over 1% year. Within the total, the proportion of people aged over 64 is forecast to increase from 11% at present to 16% in 2025, while the proportion of children is projected to decline by a similar amount. (Graph 24). The demographic projections for the Soviet Union show similar trends, though slightly less marked (Graph 25).

Both sets of projections have similar features to that for the Community (Graph 20) in the sense that the populations are ageing. The trends in this direction, however, are somewhat less pronounced than for the Community where, by the end of this decade, the proportion of people who are over 64 will be greater than the proportion of children aged under 14. This is associated with an marked increase in the dependency ratio (the number of people over 64 relative to the population of working age). Although the countries in Central and Eastern Europe will also experience the same phenomenon it is likely to be slightly smaller in scale. The working-age population in both Central and Eastern Europe and the Soviet Union has grown significantly over the past 30 years, the rate of increase averaging around 1% a year in each case. Over the next 30 years, the rate of increase will be much less, very little at all in Central and Eastern Europe and just over 0.5% a year in the Soviet Union (Graphs 26 and 27).

At present, some 22% of the population of working age is under 25 in

Central and Eastern Europe and in the Soviet Union, almost the same proportion as in the Community. Just over 40% are over 40 years old in both cases, a slightly lower figure than in the Community.

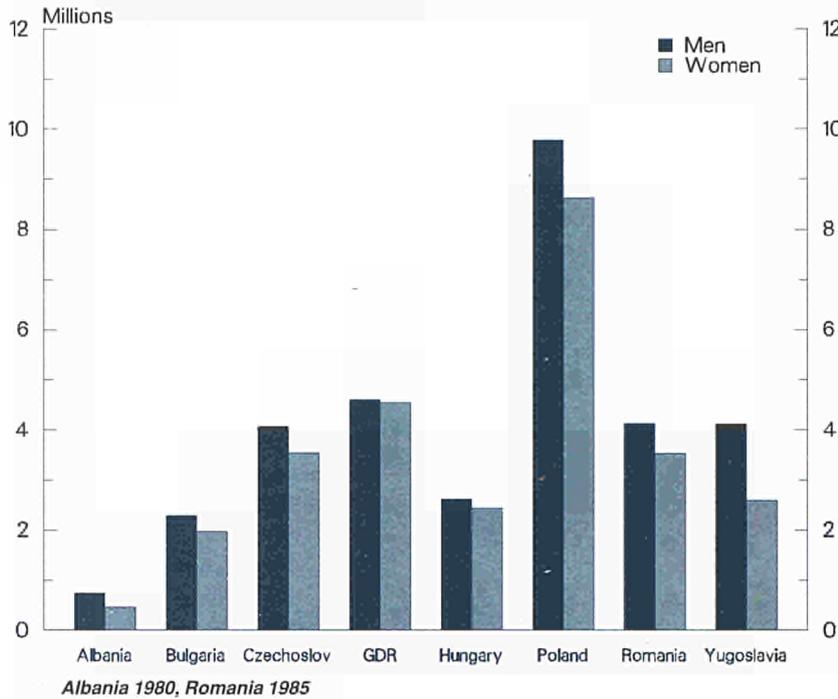
Trends towards an ageing work force in the future are similar in Central and Eastern Europe to those in the Community. The proportion of young people under 25 years old is set to fall below 20% by the year 2025, while the proportion of people over 40 years old is likely to rise to 50%. Trends in the Soviet Union, although in the same direction, are much less pronounced.

However, all the projections of population for Central and Eastern Europe described here are surrounded with uncertainty. Since they were prepared before the recent opening of these countries began, they take no account of prospective migration flows. It is clear from recent experience that significant numbers of people could move from Central and Eastern Europe in search of work in the Community and other countries as they become free to do so.

For the GDR in particular, present estimates are that after an outflow of 340 thousand in 1989, emigration to the FRG could be 285 thousand in 1990 and 180 thousand in 1991, which would mean a decline in its population instead of the largely stable figure included in the most recent demographic projections. A similar phenomenon, although almost certainly on a smaller scale,

28 Male and Female Labour Force in Central and Eastern European Countries

1990



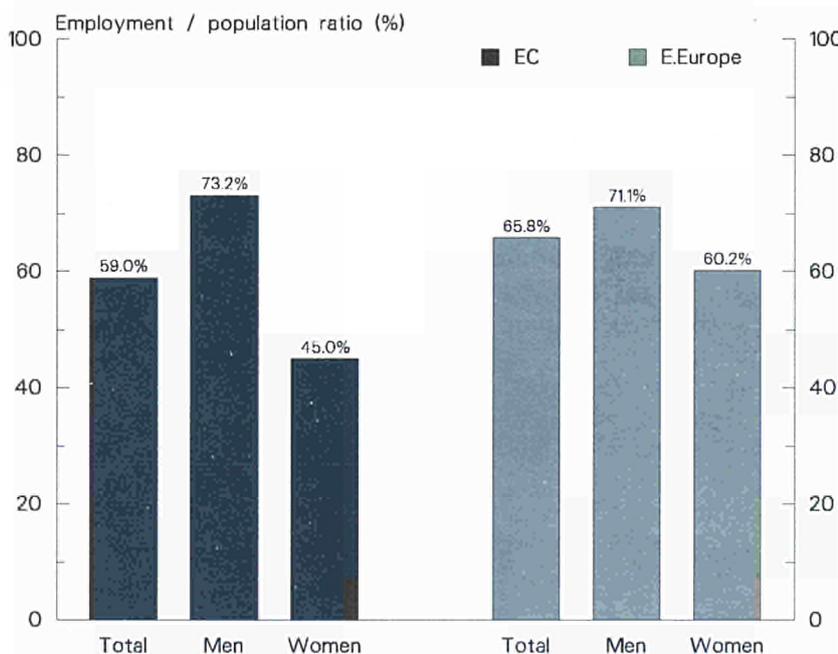
could equally occur in the other countries.

Employment

The data available on employment in Central and Eastern Europe involve some estimation and are not as reliable as the statistics for the Community. Moreover, allowance needs to be made for possible differences in the definition of employment between the two regions.

On the basis of data compiled by ILO, employment in the Central and Eastern European economies totalled some 60 million in 1988. Of this, just under 19 million were in Poland, around 9 million in the GDR and just under 8 million in Czechoslovakia and Romania. In all of the countries, women account for a much higher proportion of the work force, Yugoslavia apart, than in the Community (Graph 28).

29 Total and Female Employment Rates in the Community (1988) and Central and Eastern Europe (1990)



Given these employment figures, it appears that a higher proportion of the working-age population is employed in Central and Eastern Europe than in the Community. In total, 66% of the population aged between 15 and 64 was in employment in Central and Eastern Europe in 1988 as compared with 59% in the Community (Graph 29). This difference is due entirely to differences in the rate of employment of women. Whereas for men the average employment rate in the Central and Eastern Europe was slightly lower than in the Community, for women, it was substantially higher at 60% as against just 45%.

As in the Community, employment rates in the East show some differences as between countries. Whereas in the GDR, the rate ap-

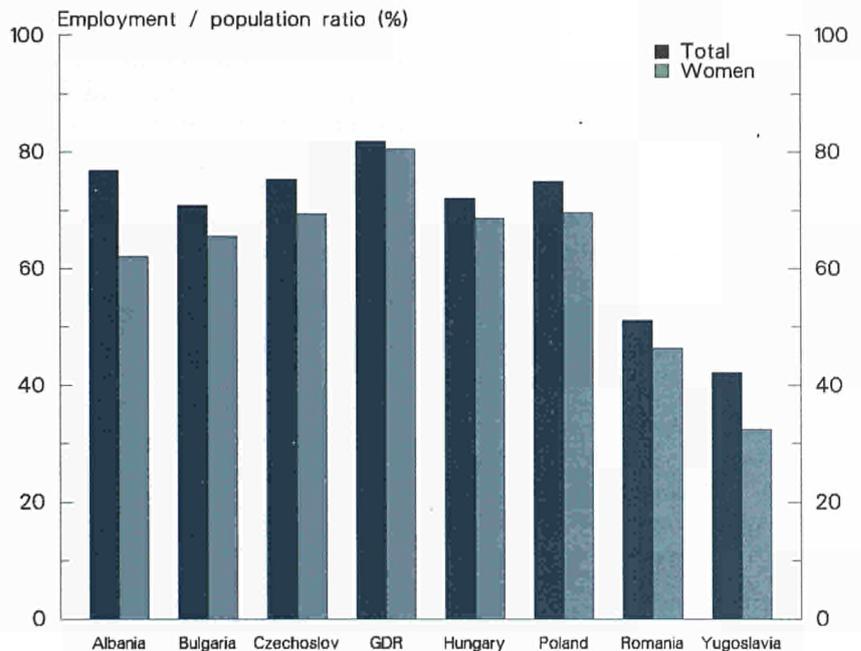
pears to have been around 80% in 1988 for both men and women, and around 70% in Czechoslovakia, Hungary and Poland, in Yugoslavia, which is among the poorest as well as among the most market-oriented of the economies, the overall rate appears to be not much higher than 40% (Graph 30). The rate for women is estimated at under 35% - similar to rates in the poorer, less developed parts of the Community.

Employment by Sector

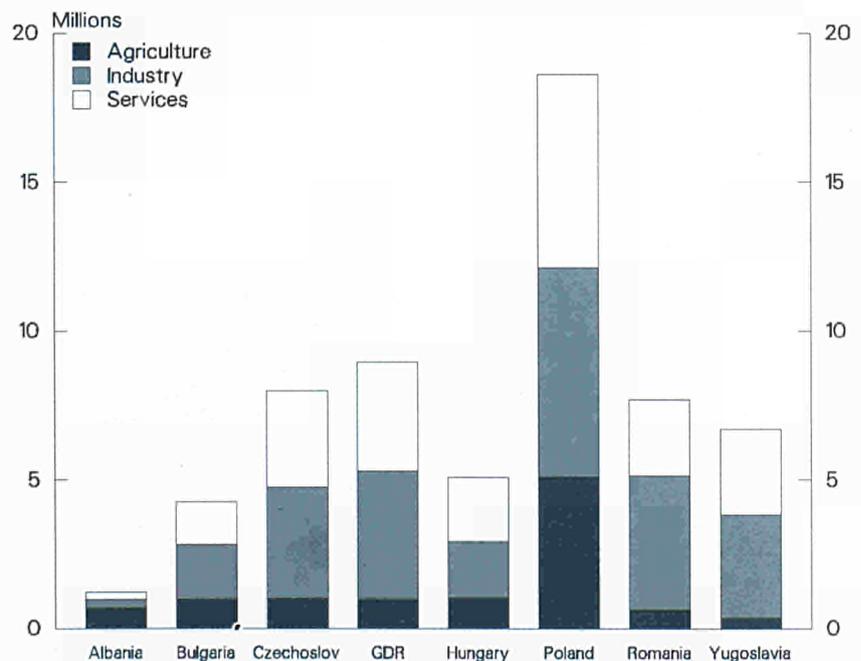
In contrast to the Community, the labour force in Central and Eastern Europe is much more extensively employed in agriculture and industry than services. In Central and Eastern Europe as a whole, employment in services accounts for under 40% of total employment (Graph 31), a figure slightly below the proportion employed in services in Portugal and Greece and well below the Community average of over 60%. This is partly a reflection of the different stage of economic development which the two regions have reached, though to an important extent it is due to the emphasis on industrial production which has prevailed in these economies under central planning. In the more market-oriented countries of the East - Hungary and Yugoslavia for example - employment in services is at a comparable level to that in the Southern parts of the Community.

Historical figures, insofar as they are available, indicate that over the past 20 years or so, few changes have occurred in the proportions of the work force employed in the three broad sectors. With the prospective move away from central planning and the centralised organisation of production, it is

30 Total and Female Employment Rates in Central and Eastern European Countries 1990



31 Sectoral Employment in Central and Eastern European Countries 1987/1988



Albania 1980, Romania 1985

possible that there could be far more pronounced shifts in employment between the three sectors in the years to come. Historical experience in Western Europe would suggest that the first tendency is likely to be for a movement out of agriculture into industry and services. However, in view of the apparent over-expansion of heavy industry coupled with the under-expansion of consumer goods industries which has occurred, the most marked change in employment might take place within the industrial sector as the pent-up demand for consumer goods is released.

Prospects

The political changes now underway in Central and Eastern Europe

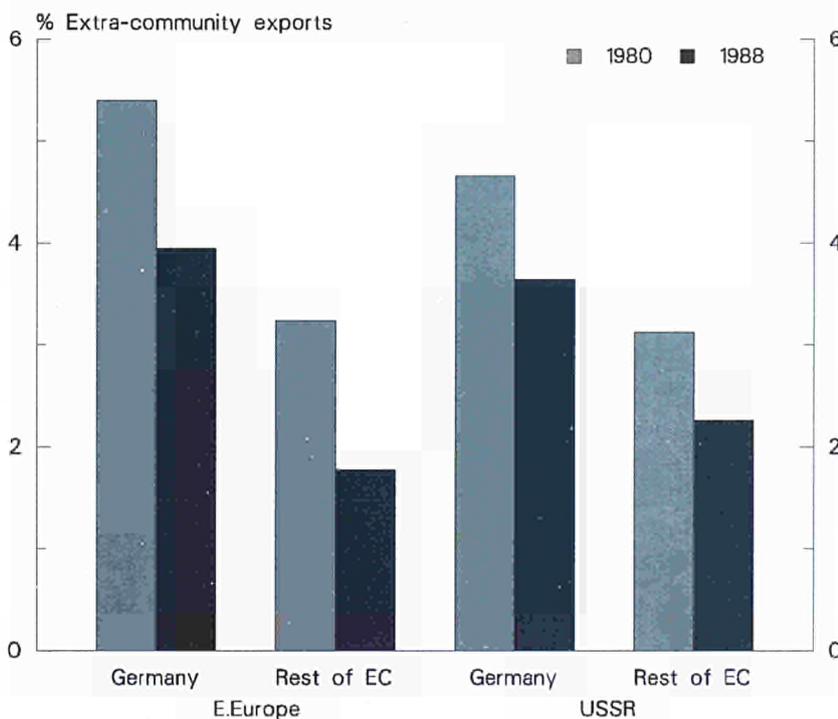
raise both short and long-run issues as far as both they and the Community are concerned. In the short-run, the process of systematic reform and the abolition of administered full employment in the countries of Central and Eastern Europe as they move from a centrally-planned system of economic organisation to a market economy will lead to a significant increase in unemployment. This gives cause for particular concern in a situation where social security provision is totally lacking.

In the long-run, after the immediate adjustment problems have been overcome, there is considerable scope for achieving a significant expansion of trade which could both assist the development process in Central and Eastern Europe and

provide business opportunities as well as employment for the Community.

Up to now trade between the two parts of Europe has been small (see *Employment in Europe 1989*, Chapter 3). In 1988, only around 3% of total Community exports of goods to countries outside the Community went to Central and Eastern Europe. For the FRG, the figure was 4%, for the rest of the Community, 2% (Graph 32). In both cases, the proportion has declined significantly since 1980.

32 Share of Extra-Community Exports of Goods going to Central and Eastern Europe and the USSR 1980 and 1988



Chapter 2 Short-Term Outlook

*Employment growth continues, albeit at a slower rate.
Unemployment falls more slowly.*

The outlook for the Community economy and employment remains favourable. Economic growth is projected to moderate somewhat from the very high rates of 3.8% and 3.4% recorded in 1988 and 1989 but output should nevertheless increase in 1990 and 1991 by around 3% a year - higher than the annual average for the 1980s. Unemployment should continue to fall in most Member States although at a slower pace than in the last two years. Investment and exports are projected to continue rising at higher rates than GDP. Inflation is expected to decline, although not by enough to offset fully the rise experienced since 1987. On the whole, therefore, the pattern of economic development is likely to display the same favourable features of recent years, but in a less pronounced way.

As always these forecasts are uncertain because economic developments are shaped by a variety of forces. The measures taken in certain countries in the Community to correct macro-economic disequilibria, the progressive general tightening of monetary conditions throughout the industrialised world and higher exchange rates of the European currencies are depressing demand. Moreover, while trends in demand and supply are underpinned by the completion of the Internal Market,

the transformation of the economies of Central and Eastern Europe and the process of achieving German economic, monetary and social union are adding to forecasting difficulties.

A comparison of the present forecast for 1990 with that made last year shows that growth is now more dependent on the expansion of consumption. Investment, both in equipment and in construction, is weakening somewhat. Nevertheless, investment is expanding at a higher rate than GDP for the fifth consecutive year, and investment in 1991 is expected to be about 21% of GDP - two points higher than the cyclical low of 19% reached in 1986.

The inflation forecast for this year has been revised upwards by a quarter of a point, to about 4.7% (deflator of private consumption), much the same as in 1989. The balance of trade of the Community is projected to show a surplus of 0.5% of GDP in 1990, slightly more than projected in the previous forecast. The trade surplus is expected to rise further in 1991.

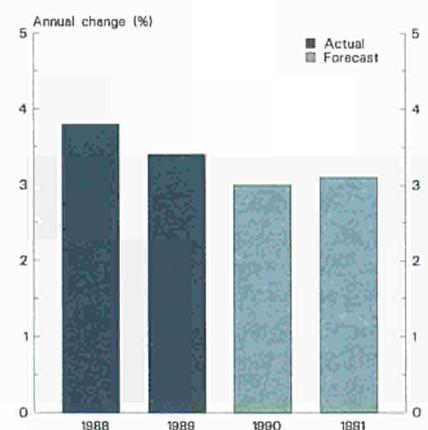
Employment is rising fast and is now projected to rise this year by 1.4% following a record increase of 1.7% in 1989. Unemployment continues to fall steadily with the current level at around 8.5%.

Domestic demand growth to slow down

Real domestic demand in the Community should grow by about 3% in 1990. This is less than in 1986-1989 (just over 4% a year on average), but it is still well above the rate for the period 1983-1985. Disturbingly for the global economy, a similar deceleration in the rate of growth of demand is being experienced by most of the industrialised world.

While gross fixed capital formation remains the fastest growing component of domestic demand, the contribution of consumption is becoming increasingly important, due to the stronger growth of both private and public consumption in 1990. In 1991, real domestic de-

33 GDP 1988-1991



mand growth is expected to grow by 2.9% as consumption and investment weaken slightly.

Community exports to the rest of the world are forecast to increase by about 6.8% in volume terms in both 1990 and 1991, compared with 7% in 1989, assuming exchange rates remain at present levels but growth in world markets slows down slightly. This is partly the result of the increase in the demand for Community exports which is expected to come from the countries in Central and Eastern Europe (mainly the GDR). In other markets, the Community is expected to experience a loss of market share given the high exchange rate of its currencies.

Community imports from the rest of the world are not expected to maintain the high rates of growth of recent years given the weakening of domestic demand. In both 1990 and 1991, import growth could slow to around 6% after an increase of 8% in 1989. Since 1985, domestic demand in the Community has grown faster than domestic output and, correspondingly, imports have grown faster than exports. The external balance, in real terms, has therefore made a negative contribution to GDP growth. It is expected that this will no longer be so in 1990 and that in 1991 net exports will be adding marginally to the rate of growth.

Investment growth decelerates

Gross fixed investment is expected to expand in 1990 by 4.6% in real terms. While this is slower than in the preceding three years, growth remains high compared to the first half of the 1980s. For the fifth consecutive year, growth of gross fixed investment is projected to be higher

than GDP. In 1991, investment is forecast to rise by 4% in real terms.

The slowdown in investment growth is mainly due to the effects of policies aimed at preventing overheating in many Member States, especially more restrictive monetary policies. The deceleration is especially large in Belgium, Greece, Spain and the UK. In the UK, gross fixed investment could actually fall in 1990.

The deceleration is particularly pronounced for equipment which had shown very high rates of increase in 1988 and 1989. After an increase in real terms of 9% in 1989, investment in equipment in the Community is expected to grow by 6% in 1990 and 1991. In the UK, investment in equipment is expected to increase by only 1.7% in 1990 after an increase of 12% in 1989. A significant deceleration is also expected in Belgium, Ireland and Spain.

Investment in construction is also likely to weaken further in 1990 and 1991. Higher interest rates will take their toll on residential construction. Capacity constraints and a weakening of pent-up demand will

also limit growth after some years of strong expansion.

Stronger consumption in 1990

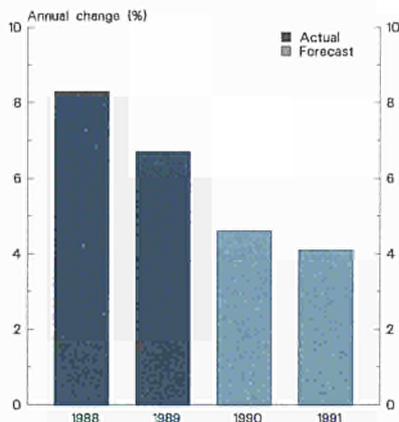
The rate of growth in private consumption is expected to be the same in 1990 as 1989 at just over 3%, stronger growth in the FRG offsetting slowdowns elsewhere. In 1991 the rate of growth could fall below 3% in line with projected weaker growth in disposable income.

The volume of public consumption is projected to increase by just under 2% in 1990, in line with the trend of the last few years. In 1991, it is assumed that a new effort at restraint will take place, reducing growth to 1.5%.

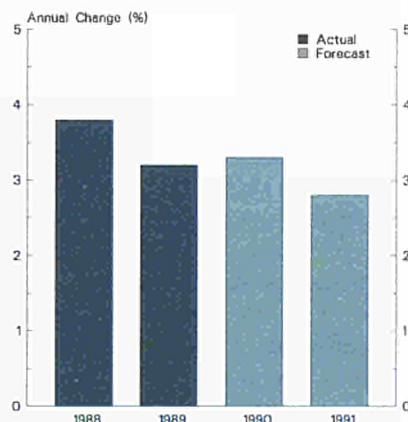
Inflation unchanged in 1990, but could decline next year

After a trough in 1987, inflation, as measured by the deflator of private consumption, started to accelerate again in 1988 and 1989. On the evidence of the last six months,

34 Investment 1988-1991



35 Consumption 1988-1991



consumer prices are expected to increase this year at a similar rate to last year. This somewhat disappointing inflation forecast is the outcome of higher than expected rises in unit labour costs which are not completely offset by weaker import prices. In 1991, inflation could ease if wage increases moderate as projected, despite a larger rise in import prices.

The prices of imported goods and services, which had been an important factor behind rising inflation last year, are forecast to increase by only 2% on average for the Community in 1990 compared to 6.6% in 1989. This is due to the weakening of the dollar and the expected stable trend of non-oil primary commodity prices expressed in dollars. Oil prices, which rose steeply at the end of last year, are not expected to increase very much. Assuming real stability of exchange rates for the rest of the forecast period, import prices are forecast to increase by 3.4% in 1991.

Average wages per head in the Community are expected to increase in 1990 by 6% - just 0.7% faster than the preceding year. In 1991, the increase could fall to 6%, the same as

in 1989. The deceleration of wage rises in 1991 is expected to be significant in the countries where the increases are now highest - Greece, Portugal, Italy and the UK. Given projected productivity growth of 1.6% this year and 2% in 1991, unit labour costs would increase by 5% in 1990 and by 4% in 1991. Real unit labour costs (using the GDP deflator) should remain stable in 1990. Next year, they could fall slightly, thus contributing to a further increase in the profitability of investment.

Budgetary consolidation marks time

General government borrowing over the Community as a whole should increase slightly in 1990 as a percentage of GDP and resume its downward path next year. The overall picture, however, hides important differences between Member States. In 1990, the increase in total general government borrowing as a percentage of Community GDP is mainly the result of the falling surpluses and rising deficits in the FRG, the UK and

Portugal, which is only partly offset by movements in the opposite direction in other countries. If allowance is made for the increase in the public deficit in the FRG related to exceptional factors (tax reform and reunification) government borrowing in the Community, measured as a percentage of GDP, would remain the same in 1990 as in 1989.

Some improvement in external balances but major internal imbalances remain

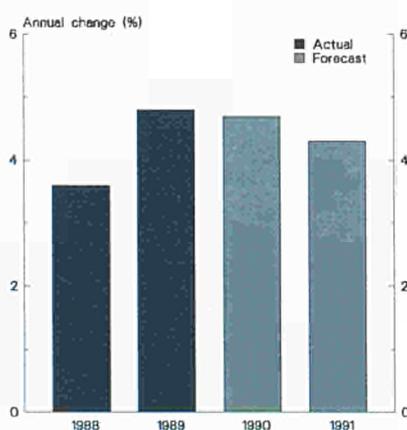
The external position of the Community is expected to improve slightly in 1990 and 1991 as a result of a more favourable trend in the real balance, and an improvement in the terms of trade. The surplus on the trade balance is forecast to increase from 0.2% of GDP in 1989 to 0.5% in 1990, and to 0.7% in 1991. The current account is expected to move in parallel - small surpluses of 0.2-0.3% of GDP are projected for 1990 and 1991.

However these aggregate figures conceal major imbalances within the Community. The German surplus on trade on its own amounts to 65 billion ECU or over 1% of Community GDP and is forecast to rise to 93 billion ECU in 1991 while the rest of the Community remains in significant deficit.

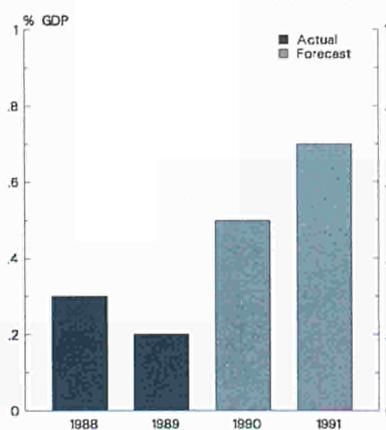
Developments in the rest of the world - slower growth of world output and trade

In 1990, real GDP growth in the rest of the world is forecast to be only just over 2%, almost one percentage

36 Inflation 1988-1991



37 Trade Balance 1988-1991



point lower than last year. World economic growth will be depressed by the slowdown in the United States and the countries of Central and Eastern Europe. Among the EFTA countries, a pronounced slowdown is also expected in Norway and Finland, while growth in Sweden is expected to remain low.

The countries of Central and Eastern Europe are suffering because of the transition from central planning to market economy which will inevitably take some time. The OPEC countries, too, are forecast to show some slowdown in economic activity, but should still achieve growth of 4%. The dynamic South East Asian economies are expected to grow by 6.6% - slightly less than last year. The group of other Asian developing countries is expected to maintain last year's growth rate of 4%.

Growth of world trade (measured by real imports of goods) in 1990 is likely to reflect the fall in output growth and is expected to be 2% lower than last year at just under 6.3%. Although US imports in 1990 are expected to rise at a similar rate as in 1989, imports of the industrialised countries as a whole may

be 2% lower than last year, mainly due to lower import growth in the Community, Canada and Australia. Another sharp fall in import growth is expected in the USSR. Import growth of the non-OPEC developing countries is also projected to slow to around 6.5% in 1990. Almost the only parts of the world to show an increase in import growth are likely to be the OPEC countries and the GDR.

Employment creation continues but unemployment remains high

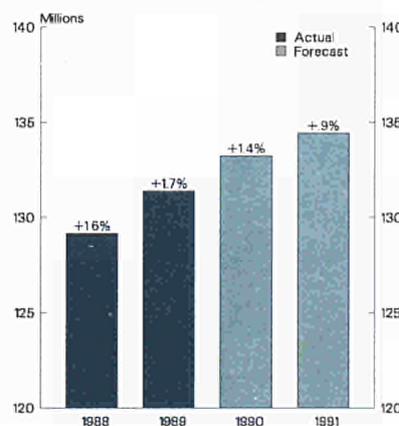
After the record increases of 1988 and 1989 - 1.6% and 1.7% respectively - employment is expected to continue to increase substantially - by 1.4% in 1990 and 0.9% in 1991. In absolute terms, about 3 million jobs are expected to be created in these two years. Employment creation is expected to be higher than the Community average in the FRG, the Netherlands, Luxembourg, France and Spain. As was the case in 1988 and 1989, manufacturing employment is expected to expand again by nearly 1% in 1990

and 1991 reversing a tendency which had lasted for many years.

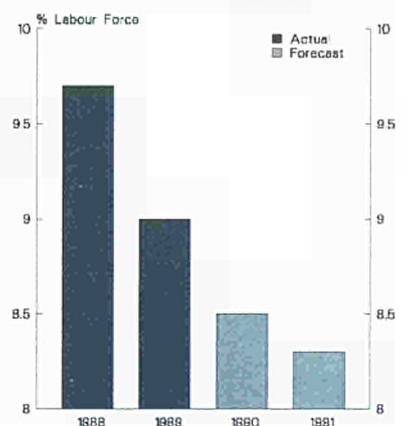
Despite this strong performance, however, the fall in unemployment is only expected to be small, with the possibility of increases in the UK, Greece and the FRG (the latter reflecting the large immigration flow). The principal reason why increased employment is not expected to reduce unemployment significantly is that the labour force is expected to increase by more than 2 million in 1990 and 1991.

This increase is the result of both a higher activity rate - activity rates tend to rise when employment prospects are good - and an acceleration in the growth of the working-age population - the result of the large immigration flows into the FRG. In recent years, the activity rate of the working age population in the Community has risen, responding to the greater availability of jobs. Comparison with the much higher activity rates in the USA and Japan suggests, however, that there is still an important reservoir of potential labour in the Community, over and above what the unemployment figures suggest.

38 Employment 1988-1991



39 Unemployment 1988-1991



Chapter 3 Employment Prospects and 1992

1992 is bringing both employment growth and structural changes in employment. New opportunities are opening up in all Member States, as businesses respond to the removal of remaining barriers to trade.

Introduction

With just over two years to go before the completion of the Internal Market programme at the end of 1992, the process of sweeping away restrictions on competition between producers in different Member States is well advanced. Some 60% of the decisions required to ensure completion have been officially adopted by Community countries. Moreover there are clear signs that significant numbers of companies throughout the Community, especially the larger enterprises, are taking specific action to prepare themselves for the more competitive business environment which the 1992 programme will create.

Although recent economic growth and substantial job creation are mainly the result of other factors, the decisions and actions of companies in response to the 1992 programme seem already to be having an effect. At the very least, they put estimates of the employment consequences of the Internal Market into perspective. Whereas the Cecchini Report and the associated forecasts of the Commission's services (see *Employment in Europe 1989*) foresaw the 1992 programme

producing between 2 and 5 million additional jobs, but only after some initial job losses, recent experience has been far more positive. Since 1986, growth of GDP in the Community has been close to 3.5% a year. Over this period, employment increased by 1.5% a year, which means that some 7 million more jobs were created in just three years, a rate of employment expansion greater than at any time since the 1950s. Economic growth this year and next should continue to contribute to further employment growth.

In the light of this, the debate on the employment impact of the Internal Market has turned away from concerns about the overall benefits to seeking to identify areas where employment is likely to be most affected, either positively or negatively - which will call for a major training effort - as well as to considering the sort of challenges and opportunities that the 1992 process offers the less developed regions of the Community.

By monitoring developments, it should be possible to prepare and begin to implement, through the Structural Fund and other Community programmes, countervail-

ing measures to assist the transition to new employment structures.

Company Strategies

Companies which ignore the new trading conditions in the Community market and fail to plan ahead risk being at a serious disadvantage. Surveys carried out by the Commission during the past year show that companies anticipate increased competition in their home markets both from imports and from other European companies setting up production and/or marketing facilities there. But they are also expecting to be able to export more to neighbouring countries. Indeed, developments in recent years have in any event been pushing in this direction. Between 1982 and 1988, trade between Member States rose from 55% of their total exports to 62%.

To meet the additional demand created by an enlarged market, companies surveyed are planning to invest more both at home and in other countries, to add to the growth in productive capacity which has occurred in recent years. Since 1986, investment in new equipment has risen at an average rate of over 9%

a year in real terms in the Community as a whole.

There are also signs that companies are responding to the new competitive environment by seeking to rationalise their production units and to expand their scale of operations. One tangible expression of this has been the marked rise in merger activity within the Community since the mid-1980s, particularly in the industrial sector, as illustrated below.

Some of the growth in mergers is the result of US, Japanese and other European companies acquiring Community firms in order to strengthen their position in the Internal Market - an objective which has also been pursued through expanding investment in new facilities. There has been a marked increase in direct investment in the

Community particularly from the US, Japan and EFTA countries. For example, total cumulative US investment grew from 71 billion ECU in 1985 to 107 billion ECU in 1988, while cumulative Japanese investment increased from 19 billion ECU to 28 billion ECU over the same period and there are now more than 500 individual Japanese enterprises established in Member States.

Employment Implications of Rationalisation

The rationalisation process which seems already to be underway, whether accomplished through mergers or through the normal workings of competitive market forces - favouring an expansion of

the most efficient firms at the expense of inefficient companies - has implications for employment in the Community. As companies rationalise their production, distribution and other facilities, some job losses are likely. This probability has always been recognised, but insofar as the efficiency of producers in the Community is improved, any short-term job losses should be more than compensated by increased growth and higher employment elsewhere in the economic system.

Job losses in particular firms or areas do not, therefore, mean that an overall fall in employment in the Community is likely. What happens to total employment depends largely on overall economic growth and other developments. The process of completing the Internal Market is taking place against a background of relatively strong output growth and even stronger job creation.

Any job losses indirectly caused by the 1992 programme of measures are thus being swallowed up by the large expansion of employment now taking place in the Community. This does not mean, however, that there will be no adverse effects on employment from the process of rationalisation and restructuring which has been initiated. The impact of abolishing restrictions on competition in the Internal Market will not be uniform across the Community. Since achieving gains in efficiency depends partly on some companies increasing their market share at the expense of others, some countries and regions will inevitably experience an expansion of production in certain sectors, others a contraction. The exact distribution of this effect depends on where the most efficient companies in any given sector are located and on which areas prospectively offer the

Monitoring Employment Trends in Europe



SYSDem is a European system of documentation on employment set up by the Directorate General for Employment, Industrial Relations and Social Affairs of the Commission in 1989.

The object of the system is to monitor studies, reports and analyses on employment trends and developments whether they cover individual Member States or the Community as a whole. A documentation centre and data bank has been established containing abstracts, summaries and references to the accumulated material.

SYSDem operates through a network of national experts working in co-operation with the Commission Services and National Government officials from Employment Ministries and Employment Agencies.

The first of a series of quarterly reports from SYSDem was published in May 1990. This contained country reviews, summarising reports on employment trends in each of the Member States, and reported on some 35 studies covering:

- the impact of 1992
- human resource planning
- changes in financial services
- the regional consequences of integration.

most advantageous production opportunities.

Employment Impact Studies

Since the regional implications of the 1992 programme are both difficult to foresee and potentially of great importance, the Commission has devoted much effort both to assessing possible developments in different parts of the Community and to monitoring events in each Member State as the process unfolds.

This chapter presents a synthesis of studies which have been carried out by the Commission on the sectoral impact of the Internal Market in industry in the Member States and the results of recent studies which have been monitored by the Community's documentation system on employment trends, SYSDEM (see Box).

The main focus is on developments in industry. This is not because the service sector will be unaffected by the 1992 measures. On the contrary, some of the most important barriers to competition to be removed will be in service activities, especially finance and insurance, where companies will be more able to open offices in other Member States and to compete on more equal terms with domestic companies.

The focus on industry is primarily because industrial products still dominate trade both between Member States and between the Community and the rest of the world. (Industrial goods account for around 70% of all trade in the Community, visible plus invisible, and this proportion shows no tendency to decline.)

This does not necessarily imply that large numbers of new jobs will be created in industries as they become more competitive. Rather, a primary function of the industrial sectors, because of their major contribution to trade, is to generate the income which can support employment growth in service sector activities. While many services also contribute to net export earnings, their contribution remains small in relation to manufacturing. Unless industrial producers in the Community can compete effectively in both the Internal Market and elsewhere in the world, the economic development of the Community will be retarded and it will become increasingly difficult and costly to sustain total employment or generate further job growth.

Sectoral Effects

In its initial analysis conducted in 1988/9, the Commission identified 40 sectors out of the total of 120 in industry which can be expected to be particularly affected by the removal of restrictions on competition within the Internal Market. They are sectors where, for example, non-tariff barriers in the form of government procurement policy or the imposition of special technical standards or administrative controls are especially important.

They include industries (e.g. telecommunications) where the market is fragmented into national segments and which stand to gain from rationalisation and from the creation of bigger units by being able to compete more effectively with firms outside the Community. They also include labour-intensive industries such as textiles, clothing and footwear and more capital-intensive industries such as machine tools, consumer electrical goods and cars

where there are significant price disparities across the Community. Here competition should lead to restructuring and the realisation of economies of scale with potentially significant implications for market shares. (See *Employment in Europe 1989* for a fuller list and a more detailed description of the selection criteria.)

Additional studies carried out by the Commission have focused on the 40 sectors originally identified and which were thought to account for about half of both employment and value-added in industry in the Community as a whole, and for similar proportions in each Member State.

A closer examination of the position in each Member State has meant that some modification of the definition of sectors liable to be affected by the 1992 measures was found necessary, compared with the initial study. This was particularly the case for Portugal, where the share of employment of affected sectors was reckoned to be 68% of total employment in industry, Greece, where it was reckoned to be 62% and Denmark, where a figure of 49% rather than 40% was thought more realistic (Graph 40).

By and large, affected sectors account for a similar proportion of value-added as employment. The major exception is Ireland, where the high rate of profit earned by the foreign-owned multi-nationals which dominate the high-tech sectors means that the value-added proportion is much higher than the employment proportion.

There is a clear division between the North and the South of the Community as regards the affected sectors. In the Northern countries, the industries likely to be most affected by the process of completing

the Internal Market tend to be those which are capital-intensive, such as the car industry, or those which have been protected by public procurement policy, whether high-tech industries like computers or telecommunications or heavy industries like the production of electricity generating plant or railway rolling stock. In the Southern countries, the industries most liable to be affected tend to be labour-intensive ones, such as textiles, clothing and footwear, which have been highly protected.

In the North of the Community, the fact that domestic producers will no longer be in a privileged position when supplying the public sector is likely to have far-reaching implications for the structure of heavy industries. These industries are characterised by huge amounts of fixed capital equipment and often tend to be operating at less than full

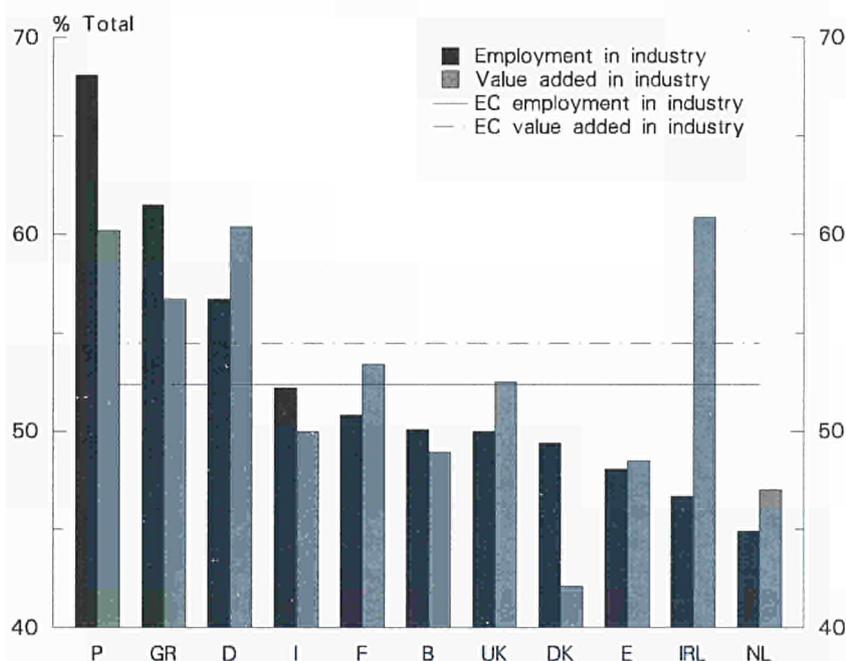
capacity. There are important opportunities for rationalising the production facilities now located in each Member State in order to realise the large economies of scale potentially available, as well as to reduce excess capacity.

In high-tech industries, such as pharmaceuticals and medical equipment - where national producers are also protected both by public procurement policy and various forms of technical and administrative restrictions as well as state aid - production in the world economy is dominated by multi-national companies, especially US and Japanese. Ending the fragmentation of the Internal Market should enable the most efficient Community producers to expand in terms of productive capacity and R&D effort and so speed up the rate of introduction of new products and processes, putting themselves in a

stronger competitive position relative to foreign-owned companies.

In mass-consumer products, such as cars and domestic electrical appliances, various administrative barriers and differences in technical standards across the Community have led to fragmented marketing and distribution networks, as well as in some degree to unnecessary fragmentation in production. There are signs already that the larger companies are beginning to widen the geographical spread of supplier networks, to reduce the central stocks which they hold, to set up new production facilities in markets where sales are likely to expand, and to enter cooperation agreements with companies already located in the market concerned. The trends in merger activity described below are symptomatic of the restructuring process now underway.

40 Importance of most Affected Sectors in Member States 1987



Trade Performance and Employment Prospects

An analysis of the prospects for the industries liable to be most affected by the process of completing the Internal Market has to begin from an examination of the existing position of the industries in each of the Member States. An initial focal point is their present trade performance in the prevailing market environment, which should give some indication of the present competitiveness of particular industries in different countries (see Box).

The results can only be indicative of how industries in various Member States stand to be affected by the removal of present restrictions on competition. This is because the

analysis is static and takes no account of developments over time. By contrast, competition, in practice, is a dynamic process involving the progressive adoption of new production techniques and the introduction of new products which alter the parameters determining market shares.

Nevertheless, trade shares do not tend to change rapidly over time. The prevailing pattern should indicate at least which industries in which countries are better placed at present to take advantage of the opportunities created by the completion of the Internal Market. Those with relatively strong trade performance already have a competitive edge and are likely to be more able to generate the finance required for restructuring and expansion.

The results of analysing current trade performance suggests that those in the weakest position tend to be the poorest and least developed countries on the periphery. In the FRG, 73% of employment in the sectors likely to be affected by the 1992 process, equivalent to 40% of total industrial employment, is in industries with strong trade performance in the Community. In Denmark, the proportion is 67%. By contrast in Spain and Greece, employment in the strongly competitive industries is only around a third of the total employed in the sectors concerned (Graph 41).

There are, however, two exceptions to this finding. Ireland seems to be better placed than might be expected from its general economic ranking, the UK worse placed. In Ireland, more than half of employment in these sectors is in industries which are competitively strong. In the UK, the proportion is

only around a third, much the same as in Spain and Greece (Graph 41).

These disparities reflect, in the Irish case, the importance of large and highly competitive US and other multinational companies in strategic high-tech and pharmaceutical industries. In the case of the UK, they reflect in part the comparatively large amounts of employment still in traditional, declining or slowly growing industries, in part its loss of market share in mass consumption products like cars and machine tools, a loss which has not been compensated by a growth of high-tech industries.

These results suggest that prevailing imbalances in economic performance and prosperity could persist, with the risk that they could widen as the Internal Market is completed. However, as emphasised above, these results reflect only the current position. A key aim of the 1992 programme is to change

fundamentally the environment and the constraints within which competition between producers from different Member States takes place. Part of this process involves making it easier for companies to locate in the less developed regions and also to increase the importance of any cost or labour supply advantages which these areas offer.

Developments in the Southern States of the Community

The challenge for the less developed Southern Member States is to respond to the new opportunities which are opening up. However, they face a strategic dilemma as regards the direction of future development. These countries tend to have a disproportionate share of employment in, and generate a relatively large proportion of their income from, highly labour-intensive, low-tech industries, like

Measuring Trade Performance

The indicator of trade performance used is a combination of three measures:

- 1) The extent to which imports of the sector concerned are covered by exports, ie

$$X/M \quad \text{where } X \text{ is exports of the sector and } M \text{ is imports.}$$

- 2) An index of export specialisation, ie the proportion of a country's exports accounted for by the sector in relation to exports of the sector in the Community as a whole as a proportion of total Community exports, or

$$(X^s/X^c)/X^{se}/X^e \quad \text{where } X \text{ is exports and the superscripts } s, c \text{ and } e \text{ refer, respectively, to the sector concerned, the country in which it is located and the Community as a whole.}$$

- 3) An index of industrial specialisation which is precisely equivalent to the index of export specialisation except that industrial production is compared rather than exports, ie

$$(P^s/P^c)/P^{se}/P^e \quad \text{where } P \text{ is industrial production and the superscripts are as in 2) above.}$$

textiles, clothing and footwear. In contrast to the more industrialised countries in the North, they also tend to export different kinds of products from those which they import, reflecting a relatively specialised industrial structure - though this is much less true of Spain than of Greece and Portugal. (A feature of economic development and rising real income is an increasing tendency for countries to export and import the same kind of product, Japan being almost the only major exception.)

The choice facing these countries is either to go on specialising in the same kind of products as now, or alternatively to promote restructuring in order to bring the pattern of the goods they produce more into line with that in the rest of the Community. The first path may offer an easier and more profitable route in the short-term. The lowering of in-

ternal barriers to trade should allow producers in the South to expand their exports of clothing, footwear and similar products to the rest of the Community. At the same time, investment in these industries is likely to be attracted away from the North towards the South by lower labour costs.

The drawback of this strategy, however, is that their economies may become locked into slowly growing markets which, in the longer term, will almost inevitably be taken by producers from even less developed countries outside the Community. The share of imports of textiles from non-EC countries in the Community market, for example, is already rising strongly, from 38% of total sales in 1985 to 47% in 1988.

The second path, towards a convergence of their industrial structure with that in the North of the Com-

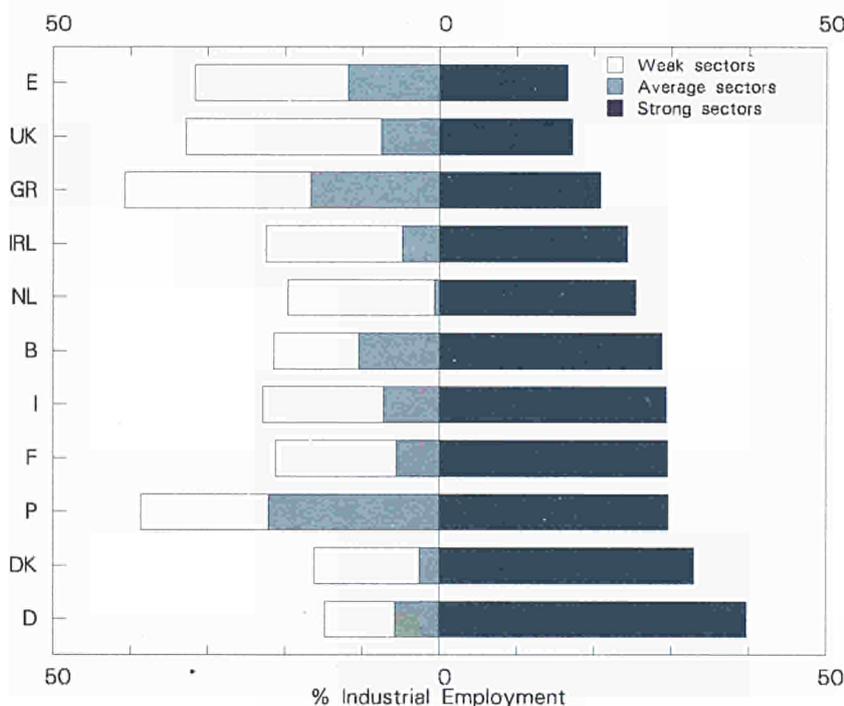
munity, though potentially more risky and costly in the short-term, seems to offer the better long-term prospect. This, however, depends on the implementation of policies to create a climate favourable to business development and to upgrade the quality of the labour force. It also depends on attracting companies from other Member States or from outside the Community to invest in new productive capacity and, in particular, to transfer new technology and know-how along with it. It also depends on the Community's Structural Fund support for infrastructure, industrial development and vocational training being effectively used for strengthening local economic and development capacity.

There are signs that the process of industrial transformation in the South is underway, especially in Spain which has become much less dependent on basic industries like clothing and footwear and which is becoming increasingly important in capital-intensive industries like cars and domestic electrical appliances. Between 1984 and 1988, foreign direct investment increased significantly in both Spain and Portugal, though it remained unchanged in Greece between 1984 and 1988 (Graph 42).

Much of the direct investment in Spain and Portugal has come from companies in the Community or in other European countries, and very little from US or Japanese firms. (In Spain, US and Japanese companies accounted for less than 10% of direct investment over the period 1986 to 1988, in Portugal, less than 15%.)

A difficulty faced by both countries is that many of the new strategically important high-tech industries may well be in the hands of non-domestic companies whose ac-

41 Share of Industrial Employment in Sensitive Sectors in the Member States 1987



tivities and policies are ultimately controlled from outside the country. This, in some degree, has posed a problem in Ireland in the past, where there seems to have been comparatively little transfer of technology and know-how to the rest of industry from the large multinational enterprises established in high-tech sectors. In most cases, the policy of these companies has been to stop short of locating the most critical parts of R&D activity in Ireland, preferring to keep it elsewhere close to company headquarters.

Developments in the Northern States of the Community

The challenge facing the industrialised economies in the North of the Community is to respond to the increased competition in high-tech and industrially advanced sectors while, at the same time, smoothing the shift of employment out of declining traditional heavy industries into growth sectors. The latter is particularly a problem of certain regions where heavy industries are disproportionately located and where Government policy has protected existing jobs and delayed modernisation in the past.

In these areas, the aim is to expand the range of production activities, introduce more advanced technology and renew decaying infrastructure, in order to provide employment both to those who stand to lose their jobs in traditional industries and to new entrants to the labour force. If the decline of traditional industries is accelerated by the 1992 process, then the rate of new job creation in new sectors has to be even higher than before in order to prevent any worsening of the long run depopulation of these

areas. Unless this process of economic decline is halted, these regions may continue to lose their best people who will seek employment elsewhere, thus perpetuating the process.

The Consequences for Skills and Training

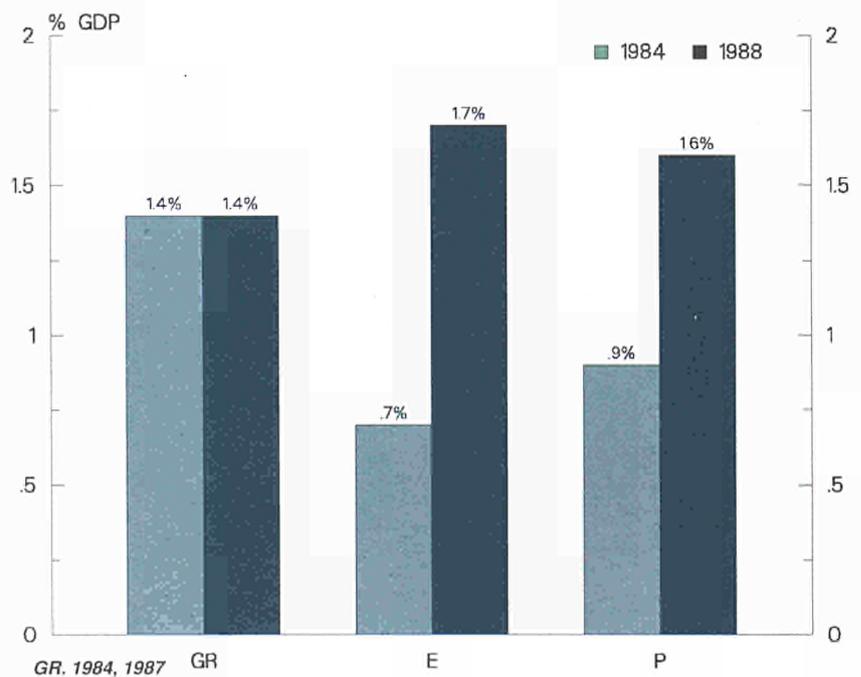
The structural changes induced by the completion of the Internal Market will inevitably have far-reaching consequences for skill requirements and for training and retraining needs in the Community. Governments in Member States have to take seriously the need for the more rapid adaptation of the work force to new production techniques, new products and new activities, at a time when fewer

young people will be coming onto the labour market.

Most of the employment impact studies carried out by the Commission highlight the increasing importance of training during the 1990s. Sectors with a comparatively unskilled work force are shrinking in size relative to other sectors. Moreover, even in sectors where skill levels are already high, there is a strong incentive to raise these still further in order to keep pace with changes in production processes and methods of working.

The fall in jobs for unskilled workers is accompanied by a growth in demand for managerial and administrative skills as well as for qualified engineers and technicians. The trends in demand for skilled workers in industry, however, seem to vary across the

42 Direct Foreign Investment as a Share of GDP in Greece, Spain and Portugal 1984 and 1988



Community. In the FRG, France and the Netherlands, as well as in Ireland and Portugal, there is evidence of increasing demand, whereas in the UK, demand seems to be stable.

So far as the overall employment prospects in broad sectors are concerned, the completion of the Internal Market is likely to mean additional jobs in high-tech industries experiencing rapid changes in production processes and the rapid development of new products. This process is likely to intensify skill shortages which are now being felt in the FRG and France, in particular, where the demand for electronics engineers and computer scientists is outstripping supply.

In sectors where rationalisation to exploit economies of scale and reduce costs means fewer production units but no significant expansion

in the size of the market, employment may well decline, at least in production activities, accelerating current trends. In these cases, companies may face the choice of retraining staff to do other jobs within the enterprise or, alternatively, laying off workers and recruiting new employees with different skills. As labour markets tighten, there are signs in some Member States that companies are now much more inclined to pursue the first option as well as seek recruits from outside their normal markets, including from among the unemployed.

Employment and Company Mergers

One tangible sign that the 1992 programme is affecting business behaviour is in the intensification of merger activity.

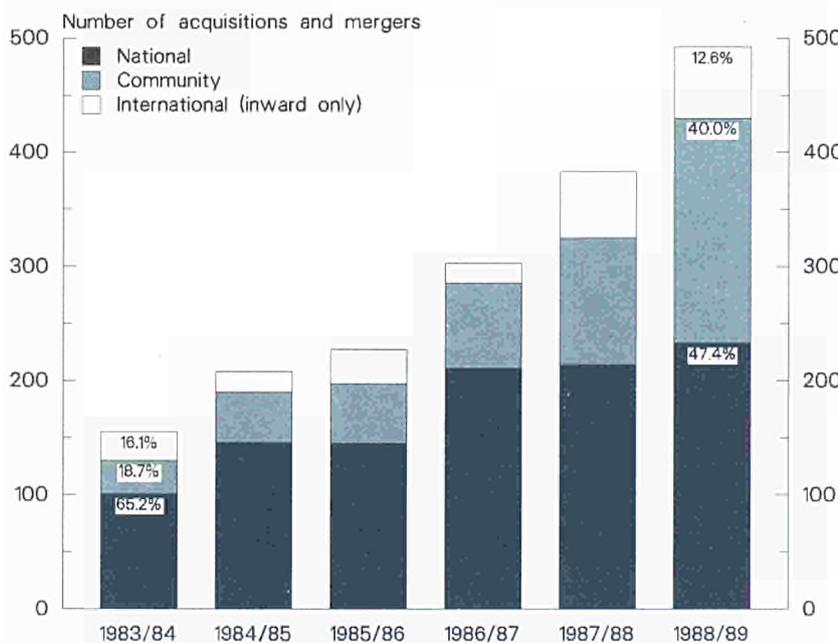
Between 1983-84 and 1988-89, the number of mergers among the largest 1000 industrial companies across the Community as a whole increased from 155 to 492 (Graph 43). This concerns mergers at all levels: national, Community and involving third countries. It should be stressed that the data concern inward acquisitions only and not acquisitions by Community countries in the rest of the world, which are known to be running at a high level.

Given that employment has been growing strongly at the same time as merger activity has been accelerating, there are no reasons to believe that the merger activity will have any adverse overall effects on employment, rather the reverse. However, the extent of the mergers are such that quite significant areas of the Community economy and quite considerable numbers of employees are being affected if only by changes in the pattern and structure of ownership of their employers. This may lead to changes in their work practices as the products and services supplied change, as investment increases and as management styles alter (see Chapter 7).

This may require a considerable effort in the fields of human resource management and vocational training in order to ensure that the mergers are fully successful.

It is natural that the completion of the Internal Market would be accompanied by some increased merger activity both among national companies, as they seek to strengthen themselves in the face of increased competition from other Community countries, and between firms located in different Member States as they attempt to produce for a wider market. It was also to be

43 Mergers and Acquisitions in the Industrial sector in the Community 1983/84 to 1988/89



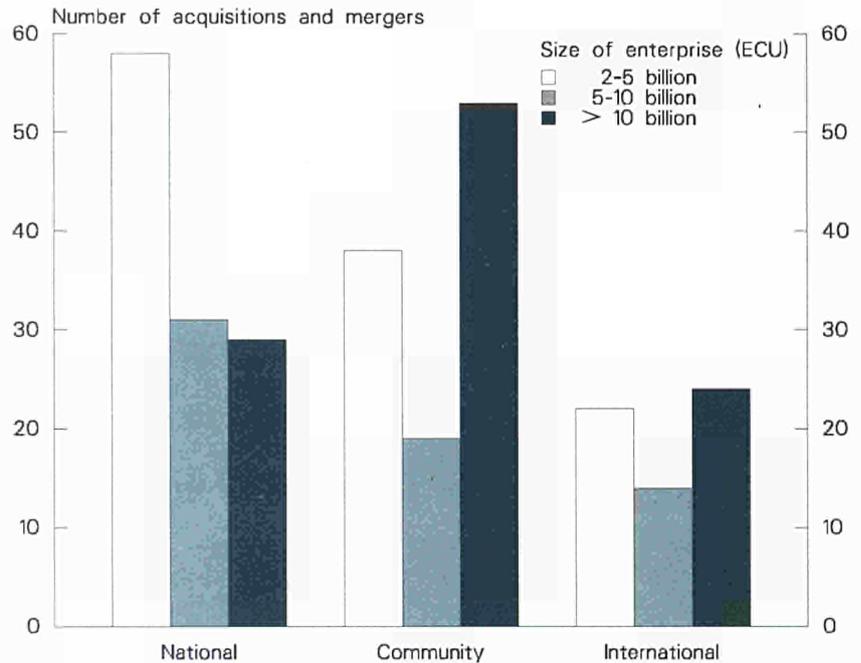
expected that companies from outside the Community would have more incentive to acquire firms inside in order to be better able to exploit the Internal Market developments. Just as other firms have done in other markets.

While the number of 'national' mergers among companies in the same Member State has doubled over this period, the growth in transnational mergers has been even more marked, especially among Community firms. Between 1983-84 and 1988-89, the number of 'Community' mergers between industrial companies from different Member States rose from 29 in 1983-84 to 197 in 1988-89, a figure which amounts to 40% of the total number (Graph 43). In 1988-89 alone, the number almost doubled as compared with the year before. Transnational mergers within the Community tend to be larger in terms of the assets involved than national mergers (Graph 44). The number of Community firms acquired by companies from outside has also increased in recent years, particularly in 1987-88 and 1988-89.

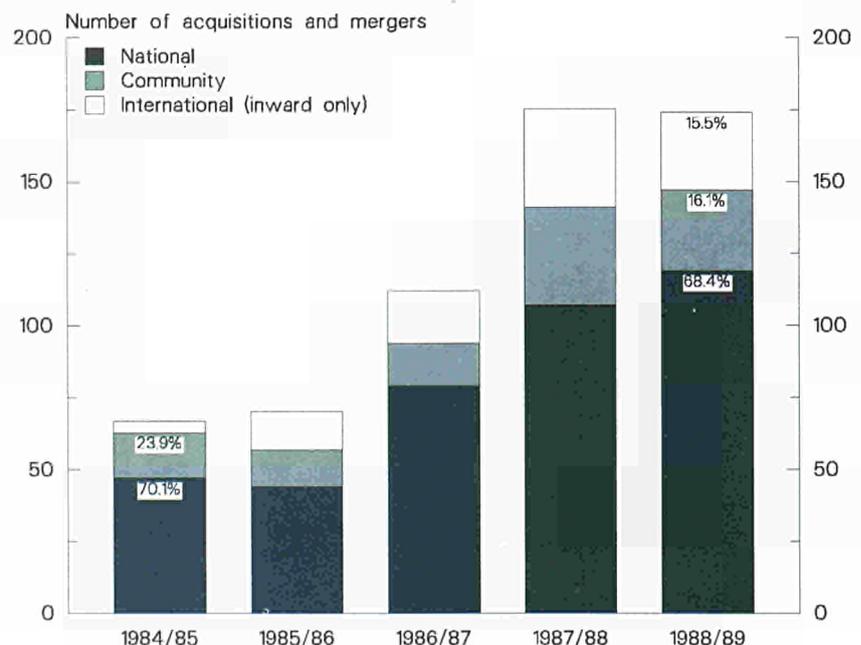
The growth of merger activity in the service sector has been at a comparable rate to that in industry. Between 1984-85 and 1988-89, the number of mergers across the Community rose from 67 to 174 (Graph 45). In contrast to developments in industry, however, there is as yet little sign of any marked acceleration in the trend as 1992 gets closer. Moreover, the bulk of mergers have been between national companies rather than between companies from different countries.

Half of all mergers in services were in distribution in 1984-85 and half in banking and insurance. In 1988-89, only a third were in distribution,

44 Mergers and Acquisitions by Size of Enterprise in National Community and International Markets 1988/89



45 Mergers and Acquisitions in the Services Sector in the Community 1984/85 to 1988/89



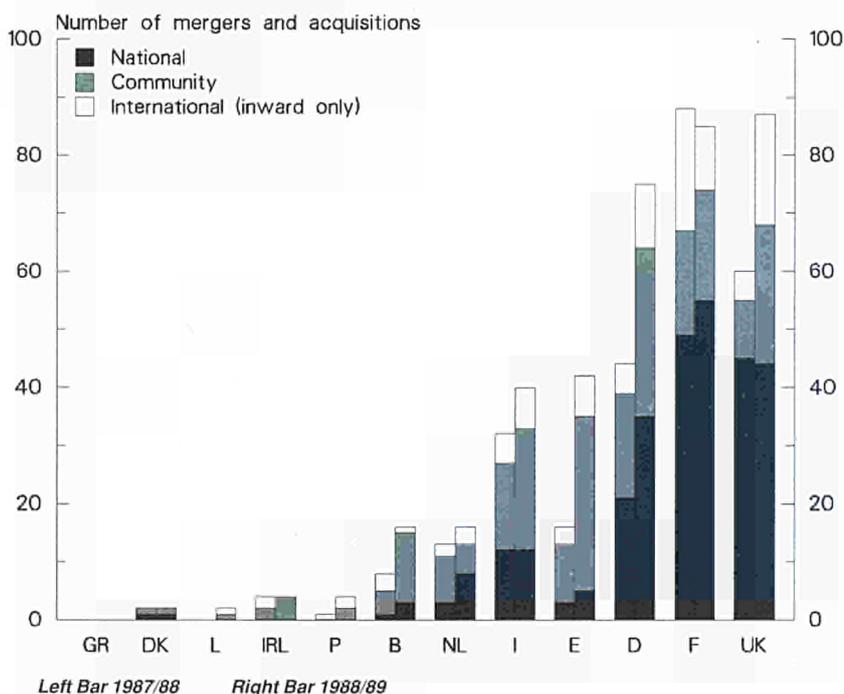
as opposed to two-thirds in banking and insurance. Moreover, whereas 90% of mergers in distribution in 1988-89 were between national companies, 40% of mergers in banking and 55% of those in insurance were between companies located in different countries.

Merger activity has not been uniform across the Community. As might be expected, large mergers, for example those involving com-

panies with a combined turnover of more than 1 billion ECU, have been proportionately more important in the five largest countries (Graph 46).

Merger activity in the service sector has been slightly more evenly distributed across the Community. In 1988-89, only half of mergers in this sector took place in the UK, France and the FRG while 35% occurred in Italy and Spain.

46 Mergers and Acquisitions in the Industrial Sector in the Member States 1987/1988 and 1988/1989



Part II Employment Issues

- Chapter 4 Wages and Labour Costs**
- Chapter 5 The Environment and Employment: A New Balance in Economic Development**
- Chapter 6 Employment for Women - Is Access to Jobs Easier or Not?**
- Chapter 7 Managing Change in Large Companies**
- Chapter 8 The Development of Vocational Training**



Chapter 4 Wages and Labour Costs

Real wages in the Community grew more slowly in the 1980s than in earlier years. Labour costs per unit of output vary much less between Member States than average wages. Productivity is the key to real wage and employment growth.

Introduction

The level of wages in the Community and their rate of increase are factors which, through their impact on the costs of production, affect employment, inflation and economic growth. At the same time, they are major determinants of real income. Clearly it is desirable that the wages of those in employment should go up over time and that all people in society can thereby enjoy rising living standards. But it is equally desirable that the right economic balance is maintained - that pay increases do not lead to increased inflation and do not jeopardise the process of growth itself through damaging competitiveness and the climate for investment.

The process of completing the Internal Market, in conjunction with moves towards monetary union, focuses increased attention on the behaviour of labour costs in different parts of the Community. As restrictions on the ability of firms to sell in other markets are swept away, the costs of production will become a more significant element in the competitive process. Other things being equal, producers who succeed in keeping costs down are likely to gain at the expense of those who fail.

At the same time, the prospective centralisation of monetary policy and the eventual adoption of a single European currency under the proposals for monetary union would remove the possibility of using exchange rate changes as a means of correcting for differential movements in costs.

These two developments together will give added incentive for companies to avoid cost increases in general and, since wages and salaries are usually a major element in costs, to avoid increases in labour costs in particular. This has provoked some concern, especially in the high wage parts of the Community, that this will increase the downward pressure on wages and that there will be a tendency for firms to move their production to areas where wages are lowest.

It is not sufficient, however, to focus on relative wages alone. In the first place, differences in the productivity of the work force are equally important determinants of labour costs in different parts of the Community. In the second place, the costs of production are only one element in the competitive process. As real incomes grow and demand for more sophisticated products expands, the quality of the goods or services produced is likely to

become increasingly important. Since the quality of output tends to be linked to the skills and efficiency of the labour force (which in turn are reflected in wages) differences in rates of pay alone are liable to give a misleading indication of the competitive position of any company, region or country.

Inflation, its causes and the direction of causation, has been a subject of considerable debate, which will not be re-opened here. For present purposes, it is sufficient to recognise that the Community has, over the past few years, and after some difficult years of tensions and conflict, re-established what seems to be a sustainable and employment creating balance between wages and profits, with rates of inflation at acceptably low levels. This chapter concentrates on presenting the facts about the long-run development of wages in the Community, including the relationship between pay and labour costs as a background to understanding long-run changes in the structure of Community employment.

The difference between pay and labour costs are determined by the behaviour of two elements: non-wage labour costs (which employers have to bear) such as social security or pension contributions, and the

productivity of the labour force. Variations in the former depend largely on the policies of governments across the Community, whereas the latter depends on a myriad of factors including skills, know-how, work effort, organisational efficiency and the capital equipment used, only some of which are under the control of employees.

Insofar as the available data allow, the trends and structure in relative wages and the differences in labour costs across the Community are considered, distinguishing where possible between different sectors. Relative wages between men and women in different Member States are also analysed - an issue of increasing importance, in view of the trend for more women to come into employment.

Changes in Wages in the Community over the Long-term

Over the long-term, average real wages in the Community have tended to increase broadly in line with labour productivity (Graph 47). As a result, average labour costs per unit of output have increased more or less at the same rate as inflation, which has enabled the share of profit in output to be maintained. Indeed since 1983, real wages have grown more slowly than productivity and in consequence unit labour costs have come down significantly in real terms.

This, however, is only a broad tendency. There have been significant

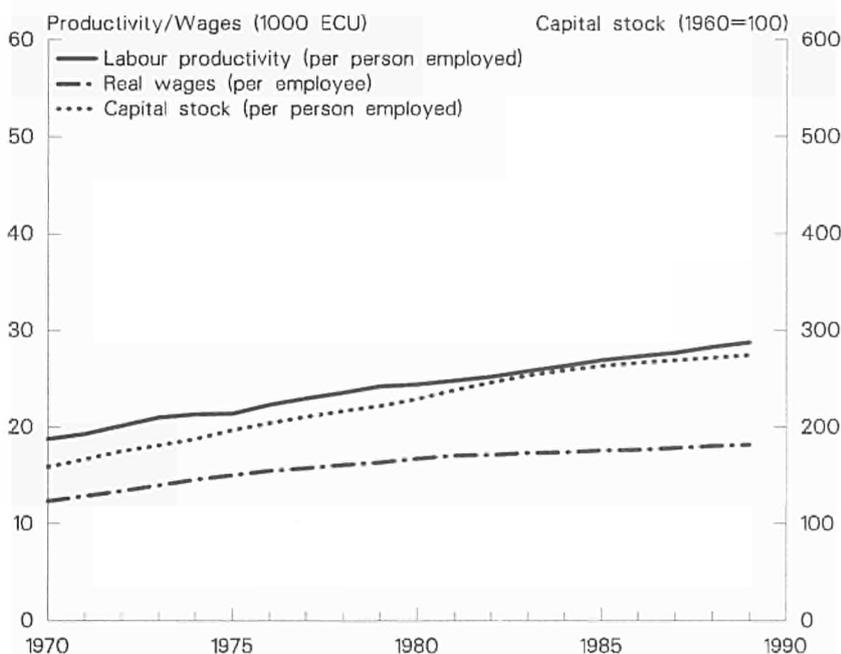
departures from the long-term pattern in certain years. In particular, in 1974-1975, when the stable and high rates of economic growth of the post-war years came to an abrupt end following the sharp increase in oil prices, labour productivity growth slowed down but real wages continued to rise as before. Labour costs per unit of output therefore went up in real terms. Though they fell between 1975 and 1979 as output and productivity recovered, they remained higher than before up until 1983.

Since 1983 real wage growth has been appreciably slower, at around only 1-2% a year as opposed to 4-5% cent a year before 1975. As a result, unit labour costs have fallen steadily and are now lower as a proportion of value-added than in the 1960s.

Japan has shown a similar long-term pattern of change in real wages and labour costs to that of the Community, though in Japan unit labour costs have varied more markedly, partly reflecting a tendency for real wages to grow more steadily year by year than productivity (Graph 48). By contrast, in the US, unit labour costs have been extremely stable in real terms as real wage growth has been kept in line with the growth in productivity (Graph 49). In years when output and labour productivity have fallen, real wages have also tended to decline or have risen very slowly. Over the 1970s and the first half of the 1980s, the growth of both average real wages and productivity in the US was below that in the Community, despite higher growth of output and total real income.

As regards employment, the numbers in work in the Community declined in the mid-1970s and early 1980s as output fell or grew only

47 Real Wages, Labour Productivity and Capital Stock per Person Employed in the Community 1970-1989



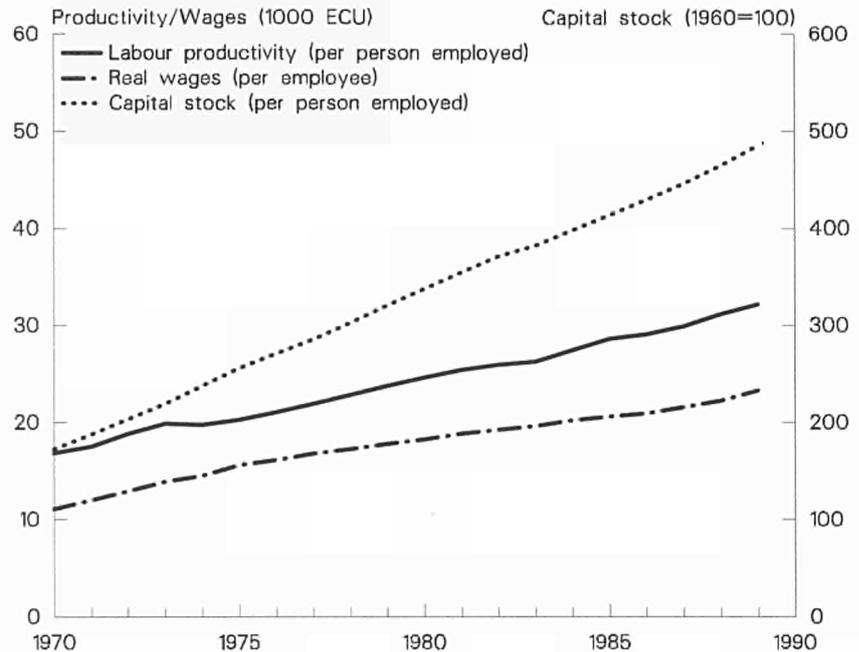
slowly. Since 1985, the recovery in GDP growth and the increase in investment, against a background of low inflation and modest rises in real wages, has led to substantial job creation. Over the past five years the rate of increase in employment has been significantly faster than at any time since the 1950s.

This unusually rapid rate of employment creation, however, has been associated with a relatively modest growth in output by historical standards, certainly much lower than in the 1960s. This reflects a slowdown in the underlying rate of labour productivity growth in the economy as a whole which seems to date back to the mid-1970s. A similar phenomenon is apparent in the US especially, but also in Japan.

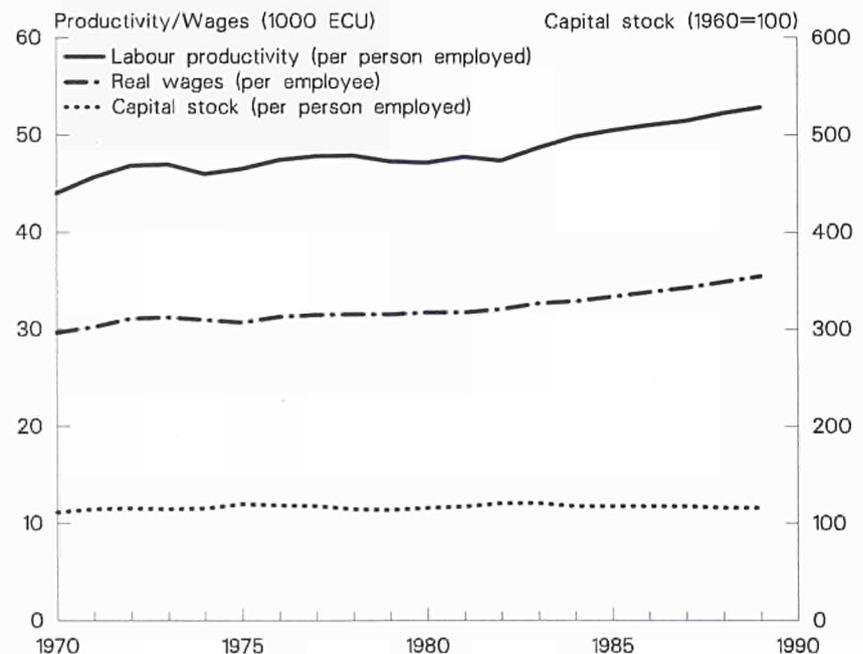
There are a number of possible reasons for this slow-down (as noted in Chapter 1), though as yet no conclusive explanation has been put forward. The shift of employment from agriculture and manufacturing towards services may be a contributory factor, as might be the apparent slow-down in the growth of capital per worker (Graphs 47 to 49) but, because of measurement problems, it is difficult to be sure about this.

The smaller rate of increase in real wages may also have played a part by encouraging employers to take on more labour. (See Chapter 4 of *Employment in Europe 1989*). Alternatively, it may be a reflection of an expansion of low wage, low productivity jobs, particularly in the service sector, as labour became more abundant and more prepared to take low paid employment because of a general shortage of jobs. Such a phenomenon occurred in periods of high unemployment in the inter-war years and can still be observed in less developed coun-

48 Real Wages, Labour Productivity and Capital Stock per Person Employed in Japan 1970-1989



49 Real Wages, Labour Productivity and Capital Stock per Person Employed in the USA 1970-1989



tries, where people are employed to do non-essential and barely profitable work simply because they are available for little pay.

The Pattern of Inflation across the Community

Inflation over the past 20 years has varied widely across the Community. In a number of countries, Greece and Spain in particular, but also in Ireland and Italy, the rate of price increase has exceeded 10% a year for prolonged periods. In the FRG, the Netherlands and Belgium, on the other hand, price rises, especially in the 1980s, have been below 5% a year. In all countries, except for Greece, inflation has been much lower in the 1980s than in the 1970s.

This pattern of inflation is paralleled in the behaviour of wages, with the growth of nominal wages very much in line with price inflation in the different parts of the Community. Over the 1970s, wages in manufacturing (for which there are reasonably comparable figures on earnings across the Community) increased on average at an annual rate of around 13-14% a year while prices rose at around 11% cent a year. The rate of wage increase in this period, however, ranged from over 23% a year in Spain to 8% a year in the FRG (Graph 50).

Over the 1980s, the rate of wage increase in the Community as a whole fell to around 8% a year, while annual inflation came down to 6-7%. Although the range of wage increases in individual Member States was somewhat wider than in the earlier period, from about 22% a year in Greece to only around 3% a year in the Netherlands, the ma-

majority of states experienced annual rates of increase of between just under 5% and just over 10% (Graph 51).

A marked feature of these two decades is that rates of wage increase and inflation have tended to be significantly higher in the less developed economies. Moreover, and without exception, the countries which experienced relatively high rates of wage increase in the 1970s continued to experience high rates of wage increases during the 1980s.

While the range of wage increases as between Member States has been relatively wide over the past 20 years, when valued in terms of ECU instead of national currencies, the range of increase has been much narrower. Those countries in which earnings have risen relatively rapidly have in all cases experienced some depreciation in their exchange rates to offset partially, if not fully, the excess of their wage inflation over that in other Member States. Similarly, countries with relatively low rates of pay rises have seen their exchange rate appreciate to bring the rates of increase more into line with those elsewhere (Graphs 50 and 51).

The potentially adverse effect of high nominal pay increases on production costs relative to those in competing countries has therefore been nullified to a large extent by exchange rate movements. The experience in the two decades, however, has been somewhat different. In the 1970s, there was very little relationship between wage rises when measured in terms of national currencies and when measured in terms of ECU. Because of relative movements in exchange rates, those countries with the highest rate of wage inflation did not

generally show the largest rise in earnings valued in ECU and therefore did not apparently suffer any wage cost disadvantage as a result of this (Graph 50). Spain, however, seems to have been the one exception, with the highest rate of earnings both in national currency and in ECU terms.

The 1980s, however, seem to have been very different. Those countries with the largest rises in wages in national currency terms have also tended to show the largest rise in ECU terms. Accordingly, high rates of wage inflation seem to have meant the countries concerned suffering some wage cost disadvantage (Graph 51). The exception appears to have been Greece where despite wage inflation of over 20% a year since 1979, currency depreciation has kept the increase in earnings in ECU terms down to only 6% a year, slightly less than in the FRG with its very low rate of wage inflation (Graph 51).

The difference in experience between the two periods may owe something to the heightened concern about inflation and the increasing reluctance of governments to use currency depreciation as a means of compensating for excessive wage rises. Depreciation, by raising the price of imported goods in national currency terms, has been seen to feed through into domestic inflation and therefore to perpetuate the wage/price spiral. If the concern is to bring down inflation, frequent devaluations have been seen not to be the answer.

Since the European Monetary System (EMS) was introduced in 1979, it is noticeable that countries belonging to the EMS exchange rate mechanism, under which currencies are fixed in value against each other, have by and large experi-

enced the lowest rates of wage inflation. On the other hand, these were also the countries with the lowest inflation rates in the 1970s. Moreover, Greece apart, the reduction in inflation achieved between the two decades has not been much different for countries inside the exchange rate mechanism as opposed to those outside (e.g. the UK or Spain). On the other hand, the monetary and fiscal policies followed by the two groups of countries were also not very different.

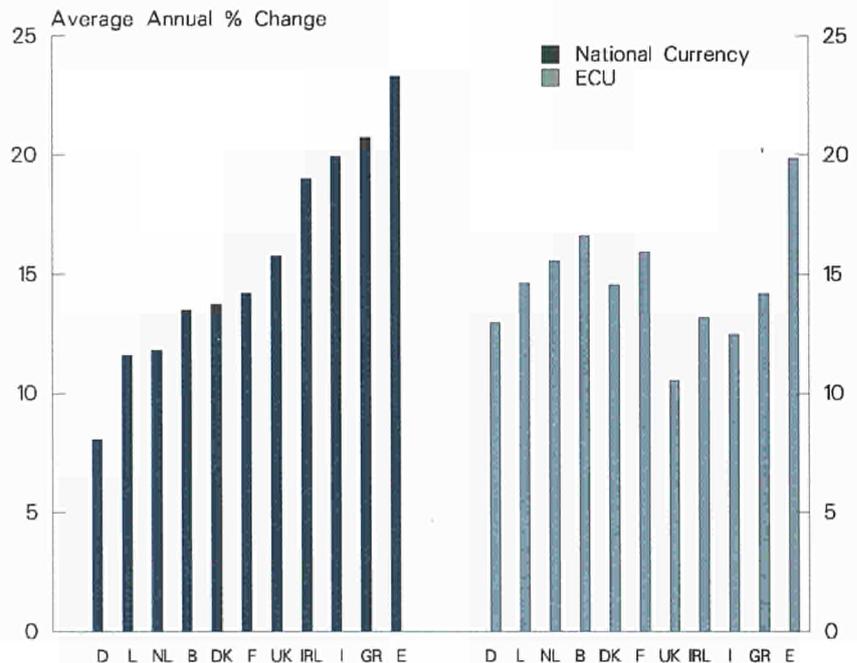
The high priority given to control of inflation, supported by EMS and the moves towards monetary union now in prospect, means that nominal wage rises are likely to continue to have a considerable effect on relative wage costs and therefore on cost competitiveness.

Relative Levels of Pay in Member States

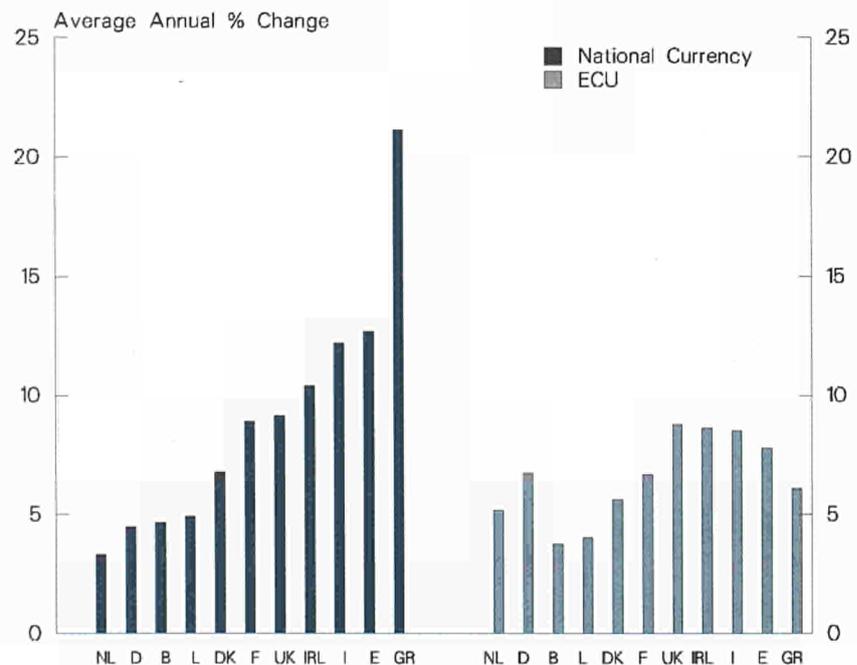
A comparison of relative levels of earnings across the Community shows that there are substantial differences between the more prosperous, developed countries and the poorer, less developed Member States. Average hourly earnings of manual workers in manufacturing, gross of tax (again the most comparable series available), ranged from around 11 ECU in Denmark and just under 9 ECU in the FRG to around 2 ECU in Portugal and Greece in October 1988 (Graph 52), a fivefold difference. For the majority of States, average earnings were between 6 and 8 ECU an hour.

These differences in wage levels do not necessarily reflect differences in real income levels or living standards of the workers concerned. Differences in levels of prices and in patterns of consumption from one country to another also have to be

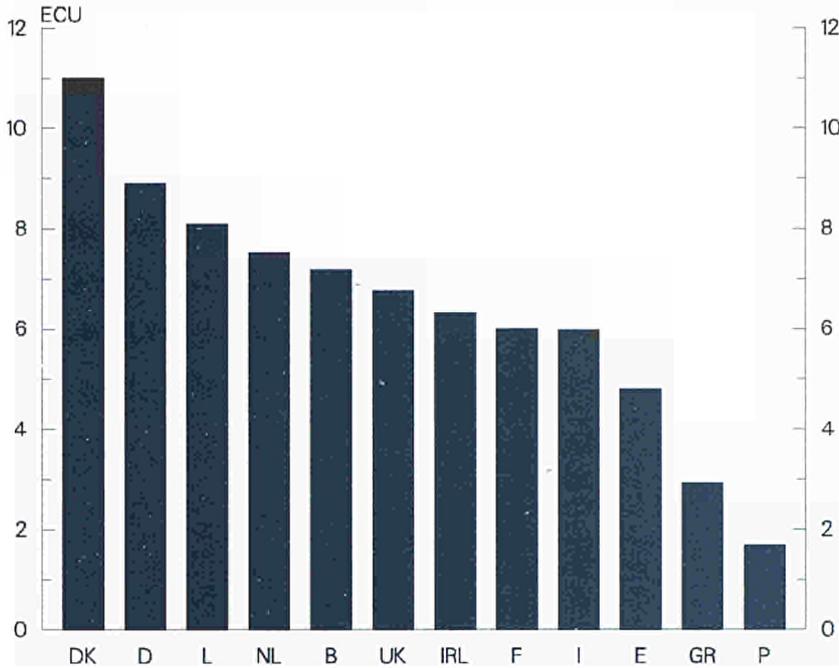
50 Changes in Hourly Earnings of Manual Workers in Manufacturing in the Member States 1970-1979



51 Changes in Hourly Earnings of Manual Workers in Manufacturing in the Member States 1979-1988



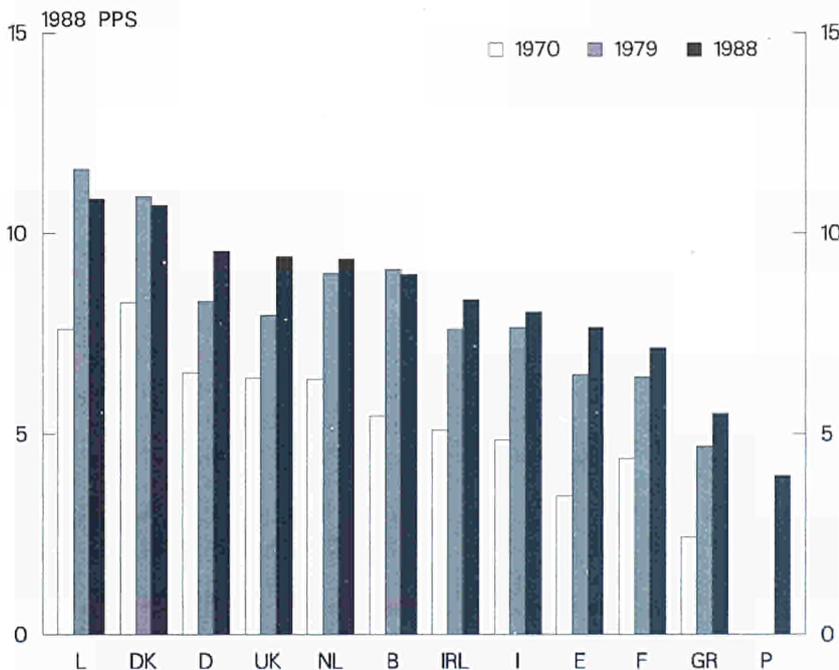
52 Hourly Earnings of Manual Workers in Manufacturing in the Member States 1988



taken into account. After adjusting for these (i.e. taking purchasing power standards as the unit of measurement), the difference in earnings between Member States is reduced markedly. Indeed the gap between Denmark and Portugal is more than halved (Graph 53).

In addition, it should be emphasised that this comparison is in terms of gross earnings and takes no account of quite large differences in rates of income tax as between countries, which have significant effects on take-home pay. This is particularly the case for France, where gross earnings are relatively low, much lower than its relative level of income per head would suggest, reflecting lower rates of income tax and higher social contributions by employers than in many other parts of the Community (see below).

53 Hourly Earnings in 1988 PPS of Manual Workers in Manufacturing in the Member States 1970, 1979, 1988



The evidence also suggests that the difference in real wage levels (i.e. in terms of what wages can buy in each country) between Member States has tended to narrow over the past 20 years. However this narrowing between the richer and poorer countries, which indeed is one of the primary objectives of Community policy, was more apparent in the 1970s than in the 1980s (Graph 53).

Over the 1980s, all Member States experienced a much slower rate of real wage increase than over the preceding decade, and three countries, Luxembourg, Denmark and Belgium, have even shown a decline in real earnings in the later period, a phenomenon unprecedented in the post-war years.

Relative Pay of Men and Women

The gap between the wages paid to men and those paid to women re-

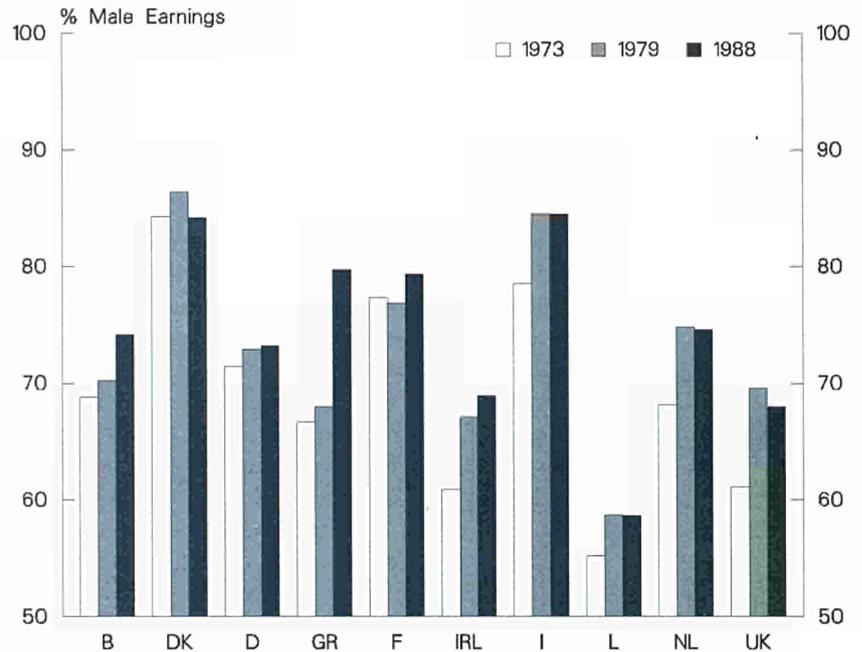
mains significant in most parts of the Community, despite equal pay legislation. Over the Community as a whole, men in manufacturing employed in manual jobs earn on average around 25% more per hour than women. Although this is only one broad type of occupation in one sector, the figures are probably broadly representative of the situation in the economy as a whole. The difference is a reflection partly of women being employed in lower grade jobs than men or in industries where pay levels in general are relatively low, partly of women being paid less than men for the same type of work. The data available do not allow the relative importance of these two potential sources of disparity to be assessed.

There are, moreover, marked differences between Member States as regards the gap between male and female earnings (Graph 54). Whereas in Denmark and Italy, women working in manual jobs in manufacturing were paid on average 85% of the hourly rate for men, and in France and Greece 80%, in the UK and Ireland they received less than 70% of the men's rate and in Luxembourg, less than 60% (though here because of the minute size of the manufacturing sector, women may be employed in entirely different types of job than men and the figures may not be representative of differentials in the rest of the economy).

Over the past 20 years, there appears to have been some narrowing in the differential between wages of men and women. In manufacturing, average hourly earnings of women have risen by more than those of men in all Member States since 1973. However, in all countries except for Belgium, Greece and France, the relativity between the two narrowed much more in the

54 Hourly Earnings of Women as a % of Male Earnings in Manufacturing in the Member States

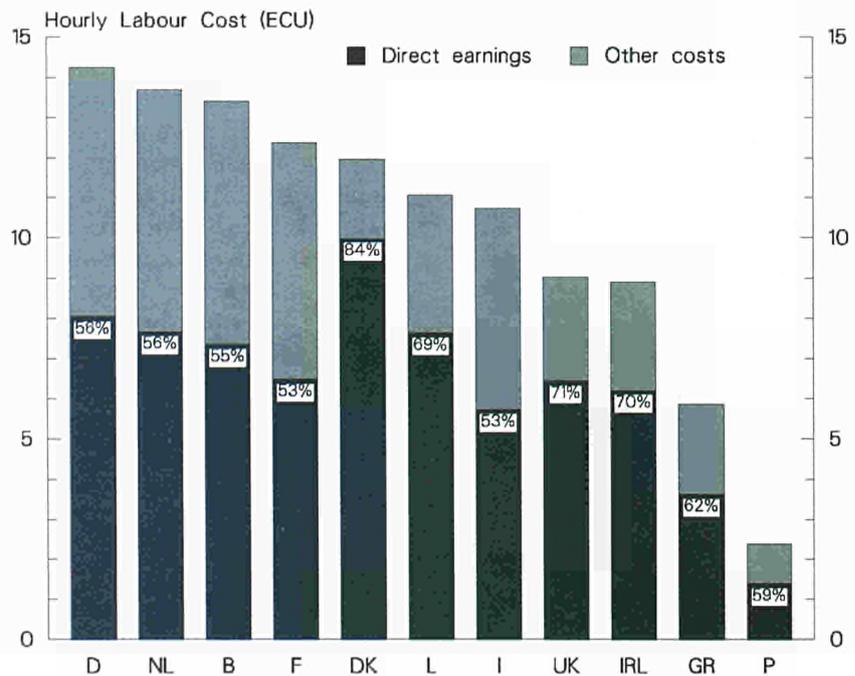
1973, 1979, 1988



DK & IRL 1975/1979/1988 - I & NL 1973/1979/1985

55 Structure of Hourly Labour Costs in the Member States

1984



1970s than in the 1980s (Graph 54). Indeed in two countries, Denmark and the UK, the wage differential between men and women in manufacturing actually widened between 1979 and 1988.

Non-wage Labour Costs

Wages represent only one element of the labour costs incurred by employers when taking on workers. Employers also have to pay various additional amounts in the form of social security contributions to the state, contributions to public and private pension schemes on behalf of their employees and holiday pay, as well as certain payments in kind. These are voluntary as well as statutory obligations, although in practice there may be little effective difference between the two since employers, if they are to attract and retain labour, are likely to have to conform to conventional practices.

There are marked differences in the scale of these non-wage costs across the Community. They range from almost half the total costs of employing someone in France and Italy to 30% in Ireland and the UK, and to as low as 16% in Denmark (Graph 55).

These differences reflect, to a large extent, variations in the method of financing the social security system and of organising pensions. In countries with high non-wage costs, the system of social welfare and income support is funded more through employers' contributions than elsewhere and the public sector tends to be heavily involved in managing pension schemes. In other countries, the social security system tends to be financed more from general taxation and in some cases there are more extensive private

pension schemes, the UK being a notable example.

The effect of adding non-wage costs to wage costs is to change significantly the relative levels of costs of employment between Member States. Whereas Denmark has the highest level of average gross earnings for manufacturing workers in the Community, in terms of the overall costs of employment it ranks only fifth - below France which, as noted above, has relatively low rates of pay in manufacturing.

Clearly, so far as employers are concerned, it is the total costs of employment rather than the gross earnings of their employees which are important when it comes to decisions on expanding/contracting their labour force. Total employment costs are also important when deciding on rates of pay.

Similarly, as far as employees are concerned, what matters is not gross earnings but the overall real income obtained from employment. Part of this income will be in the form, for example, of pension entitlements and access to various benefits. If employers do not provide this or do so on an inadequate scale, employees will have to make provision out of their earnings. Equally, employees are unlikely to be any better off if social welfare schemes are funded from employers' contributions rather than general taxation, since it only means that on the one hand they have to pay higher taxes out of their gross earnings and, on the other, that employers cannot afford to pay such high levels of gross wages.

The implication of this is that it is not very important for employment how social welfare schemes are funded, whether through general taxation or social contributions, and

how significant non-wage benefits happen to be. This is simply a general illustration of the principle that the ultimate incidence of a tax - i.e. who finally bears the cost - may have little to do with on whom or what the tax is imposed. In other words, the ultimate incidence of both employers' contributions and personal income tax is on employees and not employers.

In recent years, there has been some debate in the Community on the level of employers' contributions which, in some quarters, have been termed a tax on employment. It has sometimes been argued that one way of increasing employment would be to reduce this tax on the grounds that it would then reduce the costs of hiring people. However, while this is true in some trivial sense, if there is simply a shift from employers' contributions to some other form of tax or if it is associated with a lowering of real benefits, it is unlikely in itself to alter the overall costs of employment and therefore unlikely to change the total numbers employed. The only way it would do so is if it led to some misperception on the part of either employers or employees of the real cost being incurred, or of the real wage on offer, which is always conceivable especially in the short-term.

Changes in the Cost of Employment

Including non-wage costs with wages is necessary in order to see how the cost of employment has changed in the Community over the recent past. In real terms, the total cost of employing someone (i.e. including non-wage costs along with wages) increased at a much slower rate during the 1980s than in the 1970s. Between 1970 and 1979, real

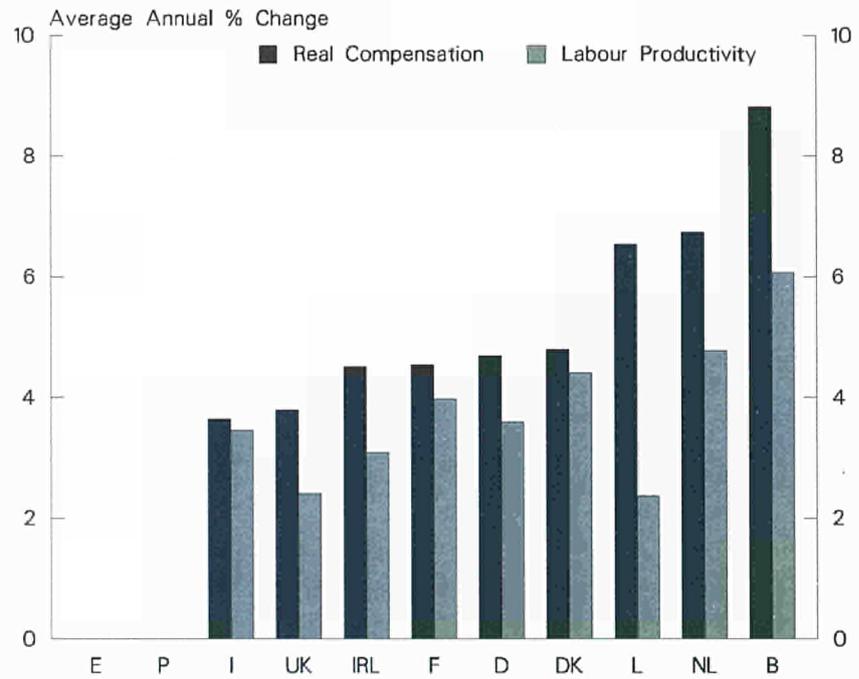
compensation per employee in industry (i.e. wages plus other costs, using the average price of GDP to adjust the nominal figures) increased at an average rate of 4-5% a year in the Community as a whole, due partly to wage rises, partly to increases in social contributions and other non-wage costs. There were, however, significant differences between Member States, with Belgium showing an annual rise of almost 9% a year and the Netherlands a rise of almost 7%, while in Italy and the UK the annual rate of increase averaged less than 4%. For six of the Member States (no data are available for Spain, Portugal or Greece), the growth rates were within 1-2% of each other (Graph 56).

For all countries during the 1970s, the rate of increase in compensation per employee was greater than the growth in labour productivity (measured by output per head), in some cases - Belgium, Luxembourg and the Netherlands - significantly so. This implies that the cost of employment over this period was rising faster than the apparent contribution of labour to value-added.

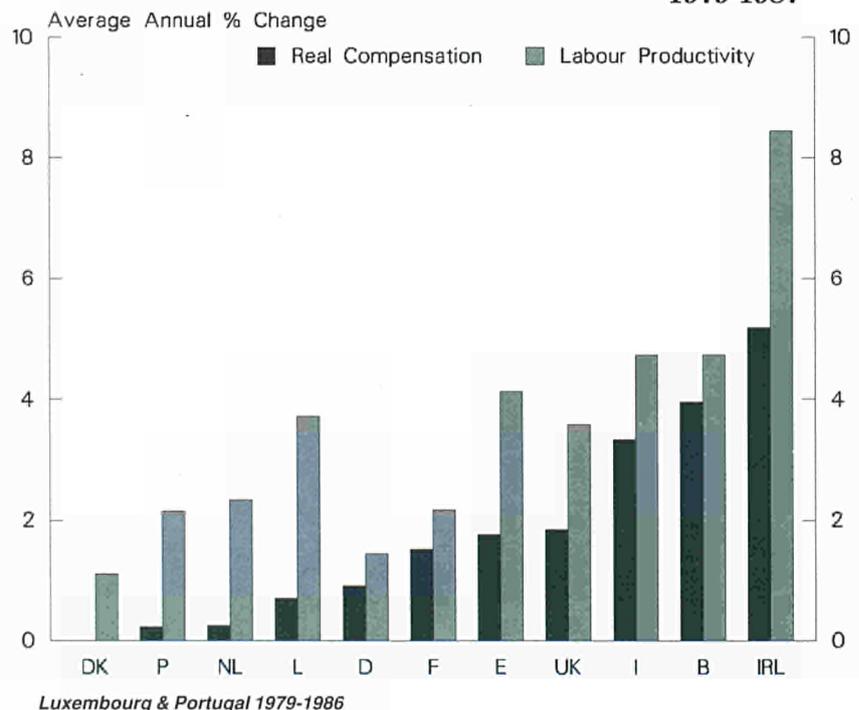
Experience in the 1980s was quite different. The rate of increase in average compensation per employee in real terms between 1979 and 1987 was less than 2% a year over the Community as a whole, with only three countries, Ireland, Belgium and Italy, showing increases of more than 2% and three countries, Denmark, Portugal and the Netherlands, experiencing hardly any rise at all (Graph 57).

In marked contrast to the 1970s, all countries experienced a slower rate of growth in real compensation per employee than in labour productivity, in a number of cases the difference being substantial (2% a

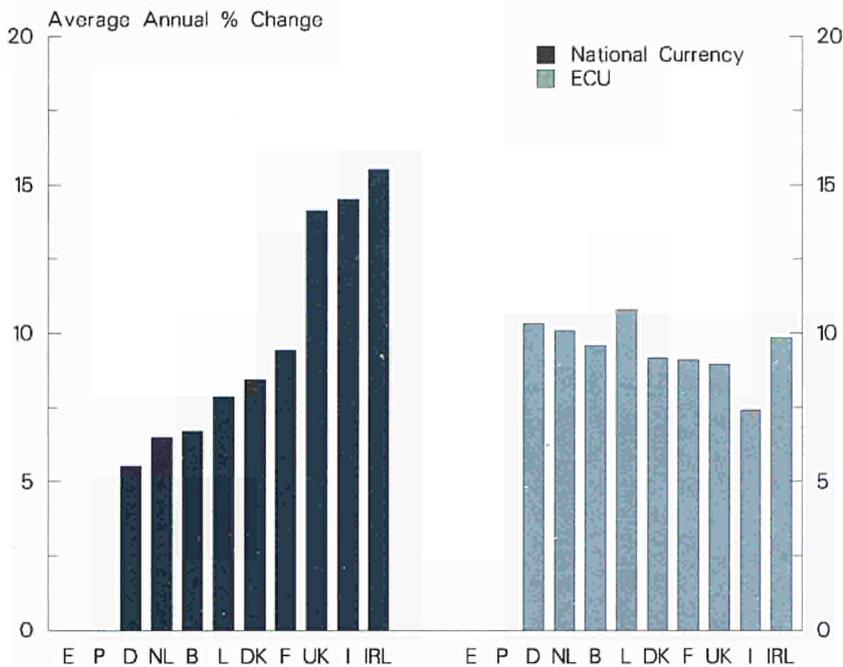
56 Changes in Real Compensation per Employee and Labour Productivity in the Member States 1970-1979



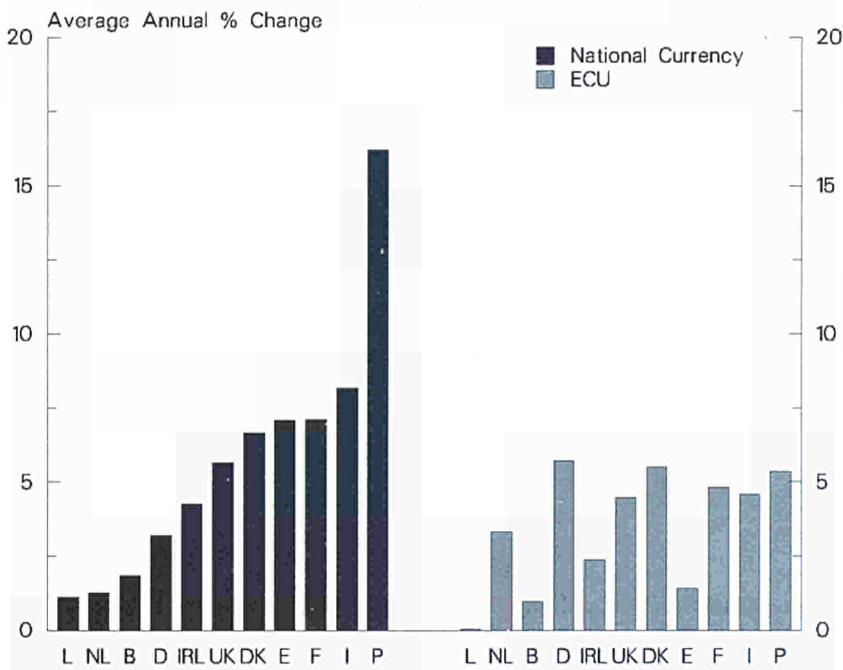
57 Changes in Real Compensation per Employee and Labour Productivity in the Member States 1979-1987



58 Changes in Nominal Unit Labour Costs in National Currencies and in ECU in the Member States 1970-79



59 Changes in Nominal Unit Labour Costs in National Currencies and in ECU in the Member States 1979-87



year or more). The 1980s therefore saw a marked reduction in the costs of employment relative to the contribution of labour to value-added. The effect in many cases was to offset the tendency over the preceding decade for wages to increase in excess of productivity and to restore the relativity between the two to close to what it had been in 1970.

The Growth of Unit Labour Costs in Industry

Combining compensation of employees and output per head gives labour costs per unit of output, i.e. the proportion of the value of a unit of output which is absorbed by the cost of the labour required to produce it. To make meaningful comparisons between countries, some adjustment has to be made for the differential importance of self-employment, since the income going to the self-employed is not included as part of employees' compensation. The usual adjustment is to assume that the average income received by the self-employed, and by non-waged family helpers, is the same as the average compensation per employee. This may not be the case in practice, however, though it is arguable that whatever the actual income earned by the self-employed it should correspond broadly with wages paid to employees for similar work. If it is less, which seems often to be the case, then the self-employed are seemingly receiving less than they could get if they were employed. In the case of industry examined below, where self-employment is not generally important, this adjustment matters less than in agriculture and services.

In the 1970s, unit labour costs in industry measured in national currencies rose in six of the Member States by between 6 and 9% a year in nominal terms (Graph 58). In Ireland, Italy and the UK, the rise was close to 15% a year (no data are available for Spain, Portugal and Greece). Measured in terms of ECU, however, the rates of increase were remarkably similar, at 9-10% a year, though the rise was slightly lower in Italy, despite its high rate of inflation.

In the 1980s, the growth of unit labour costs in national currency terms slowed down in most countries to around 2 to 7% a year (Graph 59). However, although the difference in the rate of increase between Member States measured in national currencies narrowed over this period, the difference in terms of ECU widened. In the FRG and Denmark, the rise was around 6% a year between 1979 and 1987. In Belgium and Spain, it was less than 2% a year.

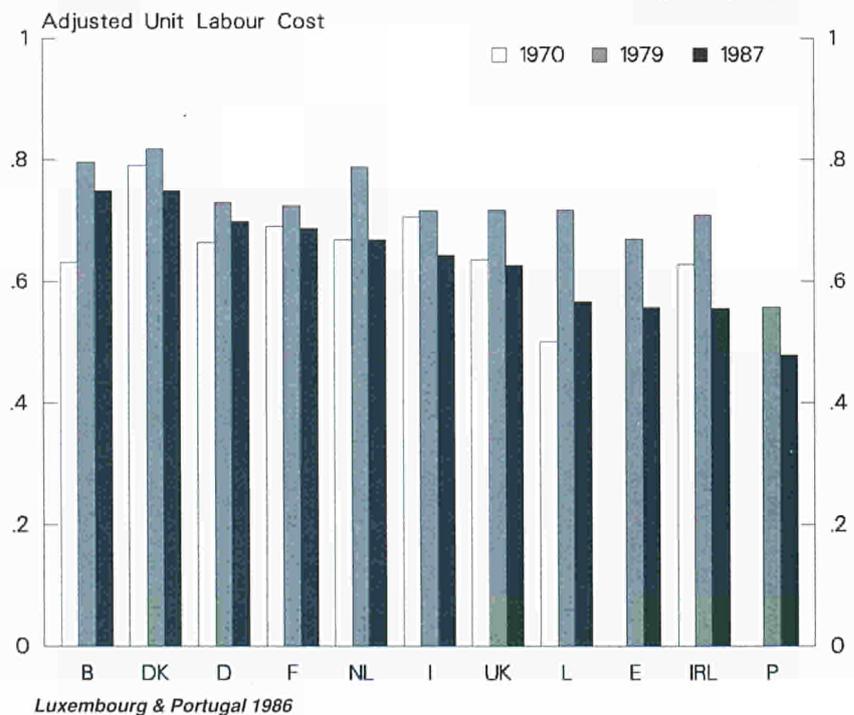
There is little sign of any relationship between increases in national currency terms and increases when measured in ECU, so that those countries with relatively large rises in unit labour costs did not generally suffer a deterioration in labour cost competitiveness as a result.

Moreover, there were some significant differences between the rate of growth of unit labour costs and the rate of growth of average earnings. Ireland and Spain, for example, were among the countries with the highest rate of increase in hourly earnings in terms of ECU over the 1980s (Graph 51). Both countries, however, showed relatively small increases in unit labour costs (Graph 59). The reason was that in both countries, the growth in labour

Adjusted Labour Costs: Definition

The national accounts figures for compensation of employees do not include the income of the self-employed or any informal payments made to unpaid family helpers. Consequently, they will tend to understate actual labour costs to varying extents. Although the importance of these two groups is much less for industry than for agriculture or services, it is nevertheless of some significance and since it varies as between Member States, it tends to distort any comparison which is made. To adjust for the problem, the method used is to multiply the published figures for compensation of employees by the ratio of total employment in the sector to the numbers of wage and salary earners. This is equivalent to assuming that the self-employed and other workers in the sector receive the same average income from employment as wage and salary earners. Although this may not be true in practice, it nevertheless gives a reasonable estimate of the opportunity costs involved in these groups working in the sector concerned and therefore a reasonable estimate of labour costs.

60 Adjusted Unit Labour Costs in Industry in the Member States 1970, 1979, 1987



productivity was comparatively high, which more than offset the high rate of increase in average wages, illustrating the importance of focussing on unit labour costs. Where an economy is experiencing large gains in industrial productivity, wages can also rise relatively rapidly without any worsening of cost competitiveness.

Relative Unit Costs in Industry

Differences in levels of unit labour costs across the Community correspond by and large to differences in wage levels, which may reflect the apparent tendency for unit labour costs to be higher in more developed than in less developed economies. The level of unit labour costs in industry in 1987 (the last year for

which data are available) varied from just over 70% of value-added in Belgium and Denmark to under 60% in Spain and Ireland and under 50% in Portugal (Graph 60).

In all countries, labour costs increased relative to value-added during the 1970s, with a corresponding shift in the distribution of industrial income from profits to labour. Between 1979 and 1987, and again in all countries, labour costs declined relative to value-added and, consequently, there was a shift from wages back to profits. In all but three member states, Belgium, the FRG and Luxembourg, the effect of this decline was to reduce real unit labour costs below the level of 1970, implying that the share of profits in value-added was in most cases higher in 1987 than it had been 17 years earlier.

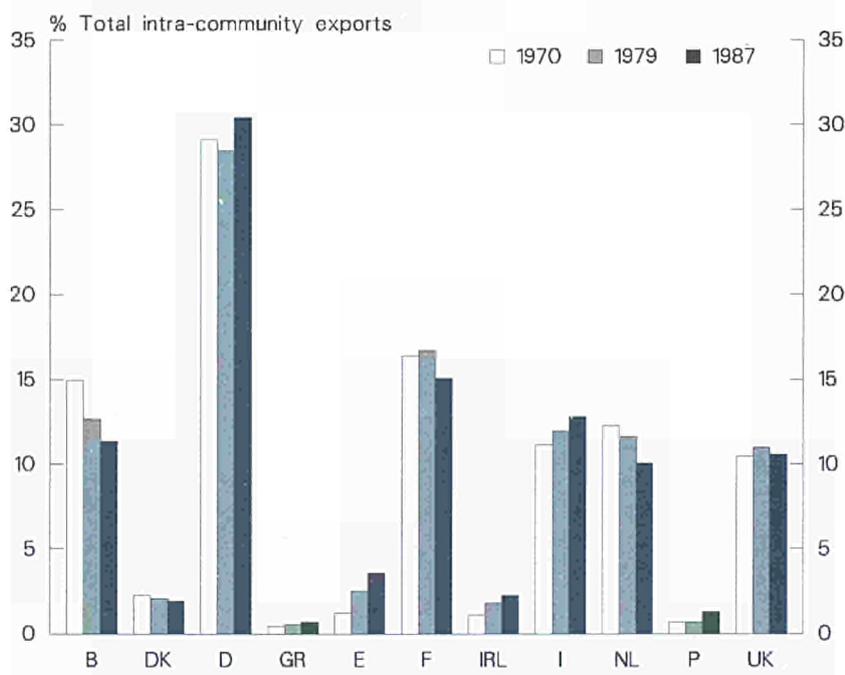
Unit Labour Costs and Trade Performance

Just as wages are only one element of labour costs, costs of production are only one element in the competitive process. Non-cost factors, like the design of a product, its reliability and performance, can be equally if not more important and are likely to become increasingly relevant as real income grows and people can afford to become more selective and discriminating in what they buy. Competitiveness is an intangible concept which it is hard to measure *ex ante*, but which can be measured *ex post* in terms of trade performance. A reasonable indicator of relative trade performance for Community countries is the movement in their shares of the Internal Market in manufactured goods, i.e. of intra-Community exports.

In the 1970s, the countries which expanded their share of intra-Community trade in manufactures most were Spain, Ireland and Italy (Graph 61). While Italy experienced the lowest rise in unit labour costs over this period, Ireland had one of the highest increases (no data are available for Spain). In the 1980s, Italy, Ireland and Spain again increased their share of intra-Community exports of manufactures as did the FRG. Though the rise in unit labour costs was relatively low in Spain and Ireland, it was relatively high in both the FRG and Italy. Moreover Belgium, which showed the smallest increase in unit labour costs over this period, experienced a decline in its trade share.

In general, therefore, the relationship between unit labour costs and the movement in export shares is

61 Shares of Total Intra-Community Exports of Manufactures by Member State 1970, 1979, 1987



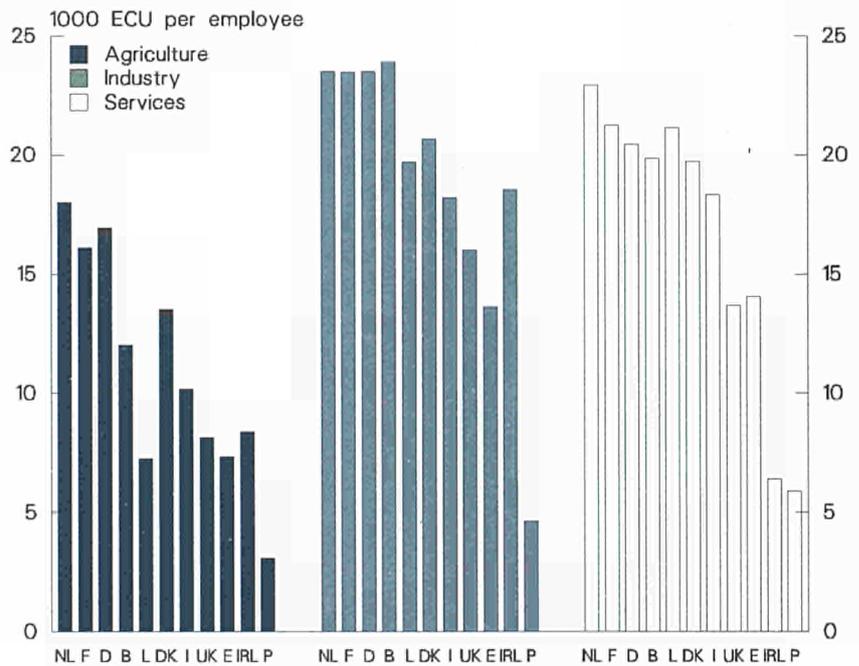
not a simple one, and factors other than costs would seem to be at least as important in determining trade performance and, hence, the overall competitiveness of a country's industry.

Labour Costs by Sector

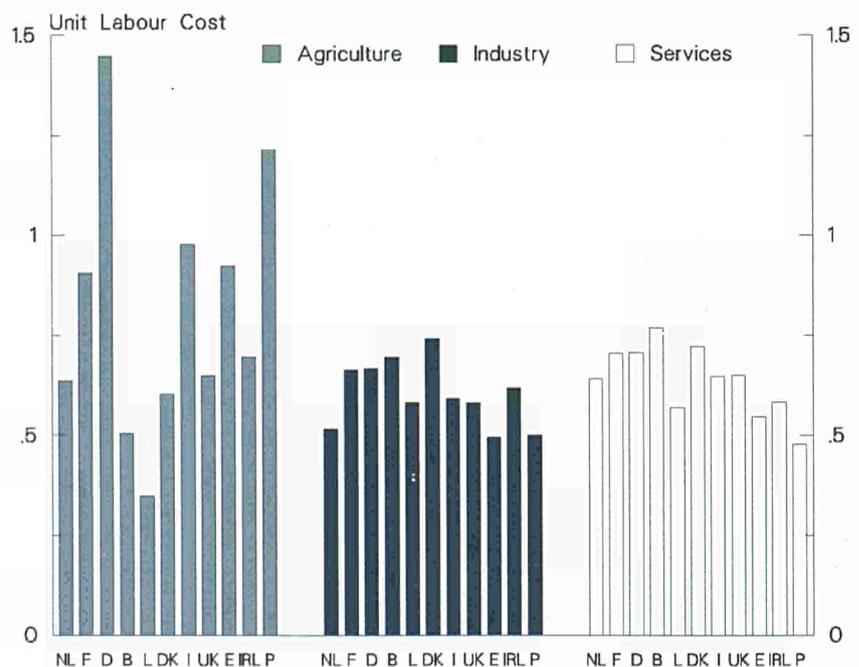
Average wages vary both between, and within, sectors of activity in the Community. They tend to be relatively high in a number of industrial and service activities, in high-tech areas and in financial services, for example, and relatively low in agriculture as well as in basic manufacturing and service trades, such as textiles and clothing or retailing. The variation in wage levels, or more precisely, compensation per employee, between Member States in the different sectors follows broadly the pattern of variation for industry as a whole (Graph 62). Thus Member States with high employment costs in one sector tend to have similarly high costs in other sectors.

However, there are some differences in the pattern of unit labour costs. In services the relativities between Member States are similar to those in industry, but this is not true of agriculture (Graph 63). Here there is little relationship between the level of wages or the level of economic development and unit labour costs. Countries with the highest labour costs relative to value-added (once costs are adjusted for self-employment and non-waged family helpers) tend to be those, like the FRG, Portugal and Italy, where these workers are most important. Indeed in two cases, the FRG and Portugal, unit labour costs on an adjusted basis exceed 1, which means that labour costs are more than 100% of value-added. This, of

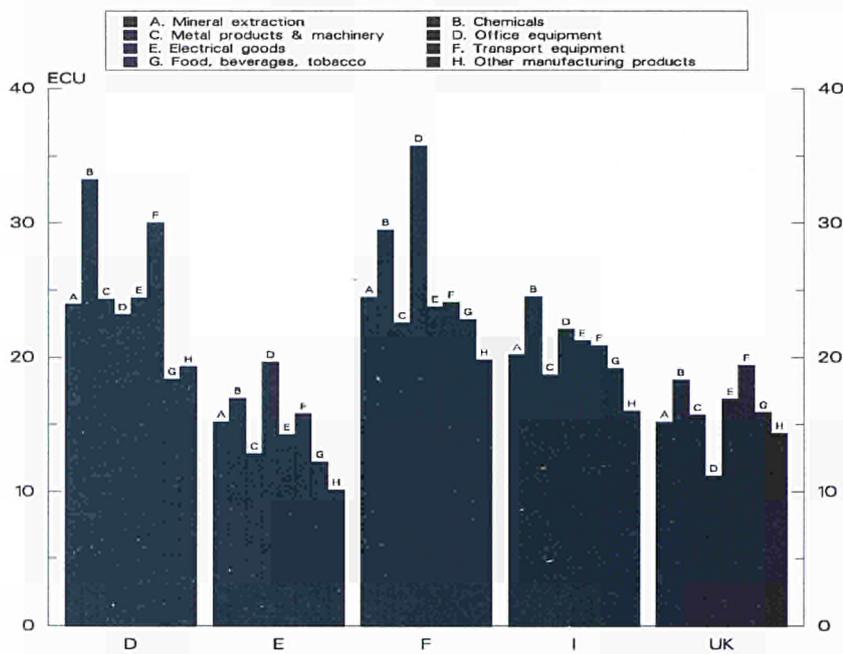
62 Compensation per Employee in ECU by Sector in the Member States 1986



63 Unit Labour Costs by Sector in the Member States 1986



64 Compensation per Employee in Manufacturing Sectors in the Five Largest Member States 1986

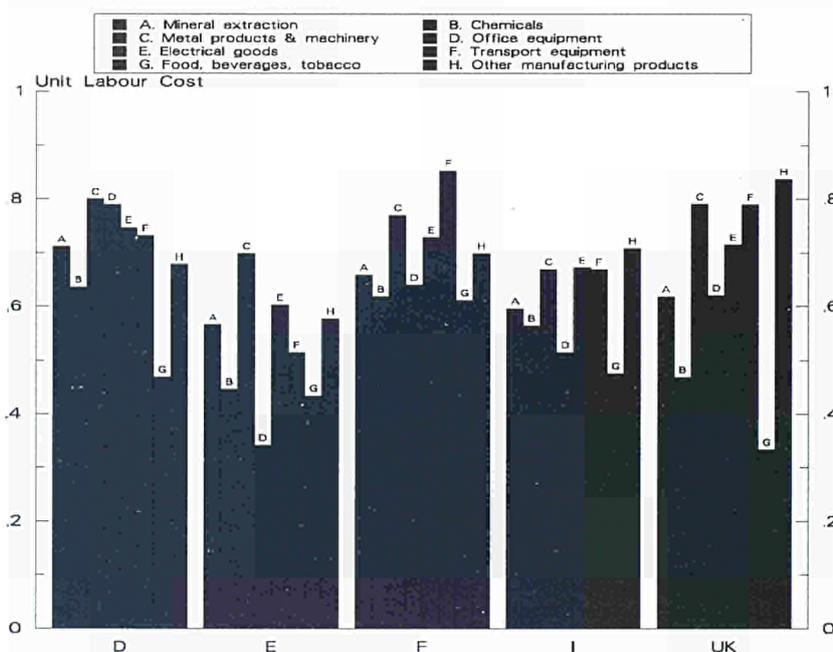


course, is impossible and reflects the fact that the self-employed and non-waged employees work for considerably less than the average wage in agriculture.

Labour Costs in Manufacturing Industries

A comparison of wages in different industries within manufacturing reveals some similarity in the pattern of relativities between Member States. Broadly, chemicals and transport equipment tend to show the highest levels of compensation per employee, while food and drink and other manufacturing products tend to show the lowest levels (Graph 64). There are, however, some notable differences between countries, particularly office equipment, which has the highest wages in France and Spain, but among the lowest in the UK and the FRG.

65 Unit Labour Costs in Manufacturing Sectors in the Five Largest Member States 1986



Whereas there are marked differences in wage levels in the same industry as between the five largest Member States, unit labour costs are much more similar (Graph 65). This is again a reflection of the close relationship between wage levels and labour productivity. The UK in particular, which has comparatively low levels of compensation per employee in most industries, has unit labour costs which are comparable to, and in a number of cases higher than, those in the FRG, France and Italy. In Spain, on the other hand, where levels of compensation per employee are also low, differences in productivity are not sufficient to offset this cost advantage completely so that unit labour costs are slightly below those in the other countries.

A feature to emerge from comparing wages and unit labour costs in the different industries is that in a number of cases those industries which have relatively high wage levels also tend to have high levels of labour productivity so that unit labour costs are no higher than in other sectors and are often lower. Chemicals in most countries and office machinery in Spain, France and Italy are clear examples (Graph 65). Equally, low wage industries, e.g. other manufactures which includes clothing and footwear, do not typically tend to have low unit labour costs.

Nevertheless, it is interesting to note that there are major differences not only in wage levels but also in unit labour costs between industries in all the countries. The corollary of this is that the profits as a share of value-added also vary markedly between industries, the implied figures ranging from under 20% to over 60%. The reason for this is unclear.

The Implications for the 1992 Programme

The 1992 programme of measures will increase the possibility of competition between producers in different Member States and is therefore likely to increase the importance of relative costs of production in different parts of the Community. The fact that wage levels in the less developed, peripheral countries, like Spain, Portugal or Greece, are relatively low might then become a more important factor both in increasing the market share of their producers and in influencing the decisions of companies, whether resident or based elsewhere, about the location of new investment.

The evidence set out in this chapter, suggests, however, that low wages do not necessarily mean low labour costs. On the contrary, given that low wages tend to go hand in hand with low productivity, unit labour costs are often higher in low wage areas and in low wage industries. Companies may therefore have little to gain in many cases, from relocating their production away from high wage parts of the Community where the work force is highly skilled and productive, and where product quality can be better assured. On the other hand, there are some activities where labour skills are less important or where the labour force can be easily trained to carry out the work, where consequently low wage levels are a more attractive inducement. However, to the extent that these activities are relatively basic in nature and labour intensive, with comparatively little growth potential over the long-term, specialisation in such areas of production may not necessarily be in the best interests of the country concerned.

A concern in the North of the Community is that the low wage levels, the comparatively under-developed social welfare systems, and the inferior conditions of employment in the South could become a threat to living standards and working conditions in the North. The fear is that companies will either relocate production, or threaten to do so, unless wages are trimmed or that wages in the North will be bid down as people move away from low wage areas in the South in search of better paid jobs. Although this fear might be exaggerated given the evidence presented in this chapter, it nevertheless underlines the arguments in favour of ensuring that certain basic minimum standards

are maintained or created across the Community in order both to assuage this concern and to ensure the development of greater social cohesion.

Conclusions

While there are significant differences in average wage levels across the Community, both between Member States and between sectors, these differences largely reflect variations in labour productivity. Thus, labour costs per unit of output produced do not vary very much from one part of the Community to another. This implies that the incentive for producers to relocate from high-wage areas may not be great.

Moreover, there is little evidence of any close relationship between relative labour costs and competitiveness, as manifested in the trade performance of each Member State in the Community market. Those countries experiencing the lowest rates of increase in unit labour cost have not necessarily expanded their share of intra-Community trade the most. This reflects that the fact that competitiveness is determined by many factors apart from wages. Accordingly, a policy focused primarily on low rates of pay will not necessarily secure a shift in market shares towards the weaker countries in the Community. Strengthening the economies of the poorer countries and regions depends not only on improving their infrastructure (with the support of the Structural Funds), but also on improvements in education and training, the encouragement of investment and the growth of new and more efficient enterprises. To the extent that productivity can be raised by such means, the way is opened for a sus-

tainable growth of wages and real incomes and the attainment of greater convergence in economic prosperity across the Community.

Chapter 5 The Environment and Employment: A New Balance in Economic Development

The Community faces a major challenge - how to protect the environment without inhibiting growth and employment creation and how to develop the new jobs and training facilities that stricter environmental controls demand.

Introduction

Economic growth along the lines pursued this century looks to be less and less sustainable. It has resulted, unwittingly, in serious damage to the global ecosystem. This pattern of growth has had its positive side - not least the creation of income and employment - but its continuation risks diminishing the general well-being of present and future generations, and it is creating wider problems for which, as yet, no easy solutions exist.

The protective capacity of the earth's atmosphere is being eroded by gaseous emissions, mineral resources are being over-exploited, waters are being gradually poisoned with waste, and the living world is being threatened to such an extent that increasing numbers of animals, plants and unique habitats are in danger of extinction. The actions needed to limit further damage to the environment and to reverse the process of deterioration have far-reaching economic and employment consequences.

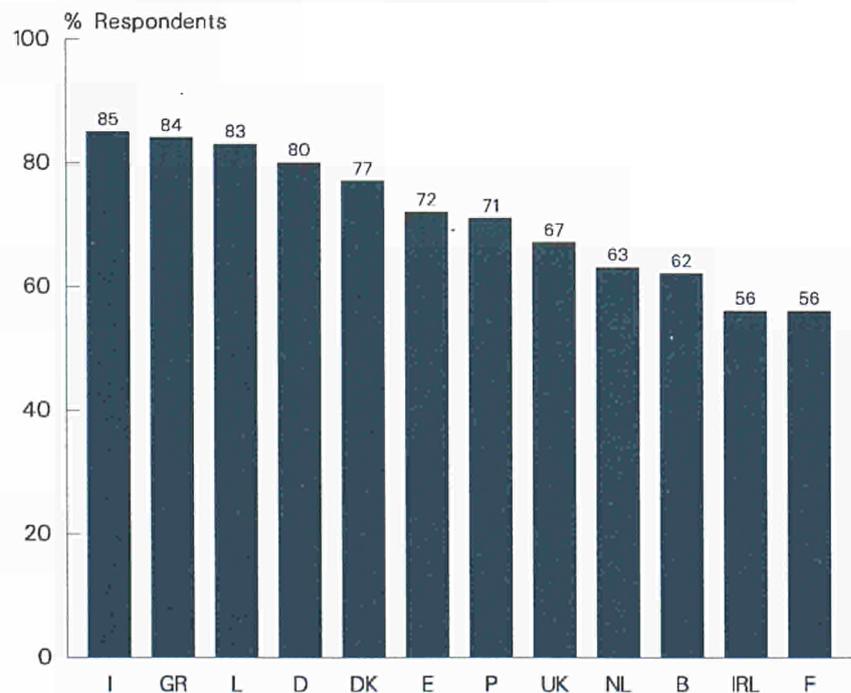
Other environmental problems, while not life-threatening, impair the quality of life of many people

living in the Community. These problems stem, in particular, from urban decay - the result of many European cities having infra-structure and communal facilities which were built in the last century, or earlier. They also stem from growing congestion and increasingly inefficient transport systems, which

are not only a major source of air pollution but cause excessive noise and stress. They result, in addition, from the closure of factories and the general exodus of industry from areas which have been left blighted.

Nor are the problems confined to urban areas. Much agricultural

66 Percentage of Public Opinion in each Member State which sees Environmental Protection in the Community as an Immediate Problem 1989



land is being managed in search of increasing productivity involving the excessive use of chemical fertilisers which, as they filter through the soil, become an increasing source of pollution and eutrophication (organic and mineral enrichment) of river and sea. Leisure and employment interests need to be reconciled with ecological concerns as unspoilt land in remote areas, often with particular conservation value, is developed for local industry, forestry and tourism.

Policies to tackle environmental problems are beginning to be accorded high priority by governments - whose scientific advisors are now virtually unanimous about the seriousness of the present situation - and by the electorate - who place such problems high on the list of issues which most concern them (Graph 66). The link between CFCs and the hole in the ozone layer is now as difficult to dispute as the link between smoking and cancer.

Although the problems are global, the Community has a special responsibility as one of the world's most industrialised regions, one of the largest consumers of primary energy and fossil fuels and the biggest importer of raw materials in the world.

Economic and Employment Impact

Tackling the environmental problems will affect the pattern, composition and location of economic activity and the nature and scale of employment in different areas of the Community.

There will be major costs - cleaning up the environment requires substantial expenditure and

commitment of resources. The issues are not just what actions are to be taken, however, but how the cost of adjustment is to be met.

The general principle of 'polluter pays' accords with natural justice and gives appropriate signals to polluters to minimise the harmful effects of their activities. However, there are many instances where its application is difficult or has undesirable social or distributional consequences. Much environmental damage was caused by polluters long since dead or inactive, while a number of the most serious present or prospective problems are located in the less developed, poorer parts of the world or, indeed, in the low income regions of the Community.

There can be no question of leaving such areas to cope with the problems themselves, still less of seeking to call a halt to economic growth in countries and regions in desperate need of income and employment. Rather than slowing down the development of these economies, the aim has to be to change its pattern and direction so that it does not follow the path pioneered by the developed countries in the past, but instead follows one that can be sustained without causing unacceptable ecological damage and excessive depletion of natural resources.

Activities which are major sources of pollution, particularly in heavy industry, will have to decline or adapt their production processes. Such changes will have knock-on effects on their suppliers, including fuel and raw material suppliers, as well as on the local economies concerned. On the other hand, other activities stand to expand significantly. The environment industry - which comprises areas such as the water industry, waste disposal and

producers of filtering and monitoring equipment - and the building and construction industry - which will be needed to replace polluting plant and decaying infrastructure - are both likely to see substantial expansion, as will all those in the rest of the economy who are affected by these changes. This switch of emphasis in activities poses issues of relocation and retraining.

Equally, research and development effort directed towards environmental protection and the introduction of ecologically-safe processes of production will require, not just the commitment of additional financial resources, but an expansion in manpower in this area and the development of specific skills.

However these are merely the most obvious consequences for employment in the Community. The radical changes in the direction of economic development which are called for are likely to permeate through most sectors of the economy, affecting activities and jobs in ways which will only become clear as the process unfolds.

While substantial changes in the structure of employment and in the nature of jobs which people are required to do will be required, the task is by no means unmanageable. The adjustment will be no greater, and arguably much less, than that which was wrought by the industrial revolution. There still remains the need for increased awareness and information to facilitate the changes.

During this century and last, the decline in employment in agriculture also brought massive social changes with the shift from rural living to an urban and industrial way of life. In the last 20 years,

millions of jobs have been lost in many regions as mining and heavy industry have declined and plants have been closed.

The creation of new economic activities and the redeployment of people living in such regions has often taken time, and has sometimes involved high social costs, but the transition to new economic structures has been, or is in the process of being, achieved in most cases.

A major feature of the present challenge, however, is that in contrast to many changes in the past it has to be consciously managed by explicit decisions by Government and other agencies rather than by market forces alone. The reason is simply that the market left to itself is not capable of handling, either at all or within an acceptable period of time, the special problems which protection of the environment involves - such as the recognition and internalisation of social costs. Moreover, the challenge is not confined to the Community but is global in scale, requiring concerted international action.

Sustainable Economic Development

Sustainable development (Box) means "meeting the needs of the present without compromising the ability of the future generations to meet their needs" (World Commission on Environment and Development, 1987 and Bergen Ministerial Declaration on Sustainable Development in the ECE Region, 16 May 1990). This means ensuring that adequate attention is paid, not only to any damage caused to the environment by prevailing

patterns of production and consumption, but also to the natural resources which are being used in satisfying present demands but which cannot be replaced.

Present systems of accounting normally used to measure the level of economic achievement and rate of economic growth - which are generally taken as indicators of social progress or social well-being - do not necessarily indicate whether, and to what extent, the way existing needs are being met is sustainable. The main reason is that such systems of national accounts were set up primarily to record the output of, and expenditure on, goods and services in market economies and thus largely use market prices as a unit of measurement. These prices, however, do not necessarily reflect the true costs of production if they fail to include the costs of replacing natural resources that are being depleted or, in the case of production processes, if they fail to include the harmful effects of any pollution caused or the costs of cleaning it up. In such cases, the market gives wrong signals to producers and consumers alike, resulting in a sub-optimal allocation of natural resources.

This does not mean that market forces do not have a major role to play in tackling environmental problems. On the contrary, properly managed, they are an important means of bringing about the changes in patterns of production and consumption which have to occur. However, intervention is essential in order to ensure that market forces are giving signals and incentives which accord with environmental objectives. The imposition of taxes on polluting producers and on the use of scarce resources, such as energy; the levying of charges on emissions; the subsidisation of environmentally-friendly or resource-saving products or activities; the elimination of subsidies on environmentally damaging activities and other economic measures such as tradeable licences or permits - all can play a part in redirecting economic development and ensuring that it is sustainable.

Government action is required to establish a framework of controls, penalties and incentives if the required changes are to occur. However, this kind of framework has to be international in scope for it to be sufficiently effective. Environmental problems tend to be

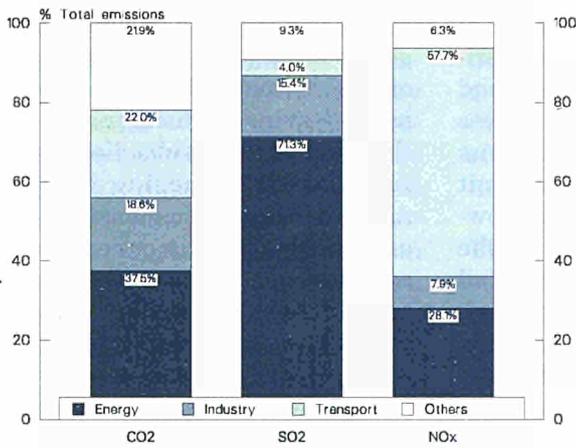
Measuring sustainable development

'Sustainable development' is a relatively new concept. It relies on a more complex definition of economic progress than conventional measures of national income or output. A satisfactory method of 'environmental accounting' has yet to be provided. Problems to be solved include:

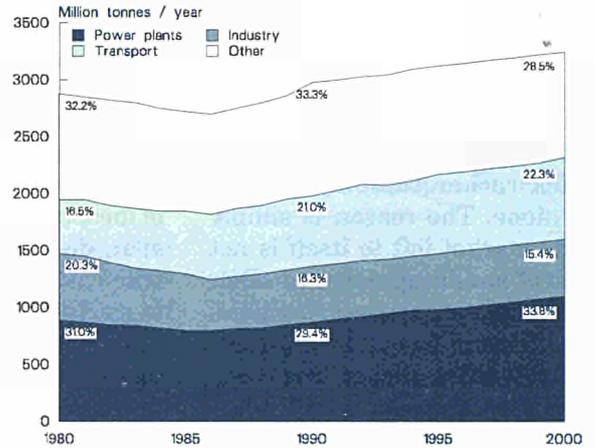
- how to differentiate expenditure by household and by government on environmental protection from other spending, to give a more realistic indication of real income and production;
- how to put a value on the world's remaining natural resources, in order to measure the cost of consuming them;
- how to measure the environmental costs of pollution so that they can be properly taken into account in any measure of production.

Sources of Air Pollution in the Community

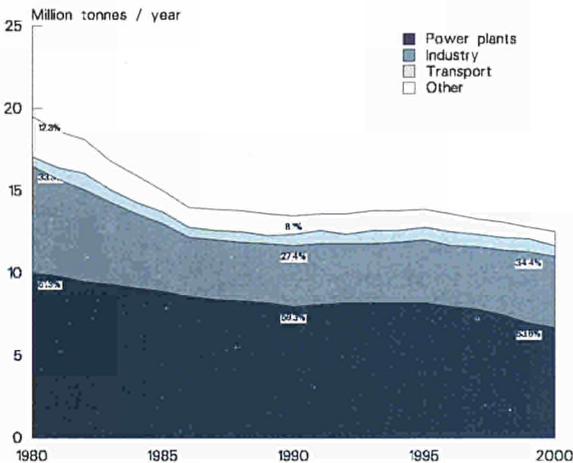
67 Sources of Air Pollution in the Community by Sector 1988



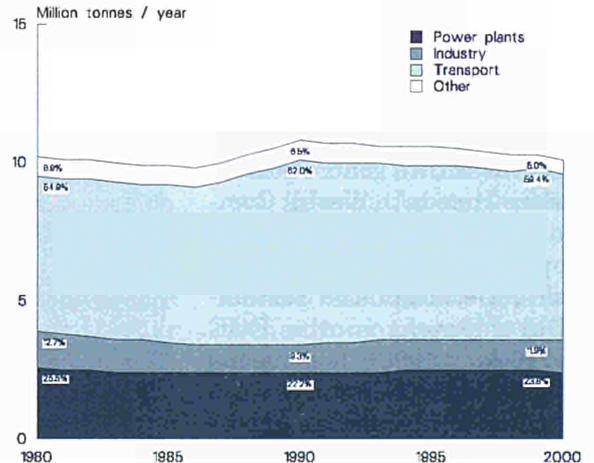
68 Sources of CO₂ Emissions in the Community 1980-2000



69 Sources of SO₂ Emissions in the Community 1980-2000



70 Sources of NO_x Emissions in the Community 1980-2000



global in scale with widespread effects which are not confined within the borders of the country responsible for the polluting or ecologically damaging activity. Equally, the pressure exerted by competition for trade makes it difficult for individual countries or regions to impose unilaterally a framework of controls and fiscal penalties without at the same time erecting controls on imports, with potentially damaging effects on the exporting countries.

The series of international conferences now taking place is a step in this direction, although so far they have been more concerned with gathering evidence than with the difficult task of creating an effective system of environmental management at the world level.

Part of this task should include the construction of an efficient system of accounting which makes proper allowance for environmental effects and the depletion of exhaustible resources, since it would allow the position across the world to be monitored and give better guidance to policy than at present exists.

The Scale and Nature of the Problems

The source of the main, life-threatening, environmental problems in the Community stems from the air pollution produced mainly by industry, motor vehicles and electricity generation. Together these are responsible to varying degrees for emissions of carbon dioxide, sulphur dioxide, nitrogen oxide and a number of other pollutants (Box). In aggregate, they account for 80-95% of such emissions (Graph 67).

In the North of the Community, the major problems relate to pollution of the air (and subsequently soil, water and forest) resulting from the burning of fossil fuels for energy, industrial production and transport, and to the pollution of soil and water through the production and use of chemicals, and waste disposal. In certain regions, the Ruhr in

the FRG, the Lille area of France, parts of Belgium, Northern England and South Wales, heavy industry in decline or no longer in production has left a legacy of toxic waste and soil pollution.

In the South of the Community, the same kinds of problems exist but, because of the lower levels of indus-

Major air pollutants and their environmental impact

The effects of gaseous emissions are varied. The ozone layer, which protects the earth from the sun's ultra-violet radiation, is being eroded by the use of CFCs found in aerosols, refrigerators and air conditioning units. The effect of the increase in radiation passing into the atmosphere is compounded by the accumulation of 'greenhouse gases', particularly carbon dioxide (which is generated as fossil fuels are burnt) which trap the heat energy in the atmosphere. The resulting global warming is predicted to cause sea levels to rise and cover low-lying land and turn large areas into desert, significantly reducing the habitable regions of the earth some time in the next century.

Further damage is caused as emissions of sulphur and nitrogen compounds combine to produce acid rain. Acid depositions, which look set to increase at least in the short term, have caused severe damage to vast areas of forest and land, have rendered many inland lakes and waterways near sterile and may contribute to the incidence and impact of various respiratory ailments.

Sulphur dioxide (SO₂):

- From combustion of sulphur-containing fuels, mainly coal and oil, and some industrial processes.
- Causes acidification of soils, damage to agriculture, forestry and lakes, and may have adverse effects on human health.

Nitrogen oxide (NO_x):

- Combines with hydrocarbons emitted by cars to produce oxidants like ozone which may cause photochemical smog, eye irritation, plant damage etc.

Carbon dioxide (CO₂):

- From burning carbon-based fuels.
- Is a major cause of global warming which could have serious and widespread long-term effects through climate change.

Chlorofluorocarbons (CFCs):

- Used in aerosol sprays, in refrigeration and air conditioning plants, and as solvents.
- Cause of the destruction of the ozone layer in the stratosphere, allowing more ultraviolet radiation to reach the earth.

trialisation and income, they are less acute although the need to take corrective action is no less pressing. Relative to the North, the South has major problems of soil erosion - the legacy of abandonment of farms and overgrazing, of falling water tables due in part to the planting of eucalyptus trees in place of indigenous but more slow growing species. There are also the potential conflicts between the interests of conservation and tourism.

Both North and South face problems in major cities caused by traffic congestion, over-crowding and the decay of urban infra-structure. Despite the lower average density of population in the South, cities like Athens, Rome and Naples are both generating and suffering from air pollution from traffic to a greater extent than comparable cities in the North. In these cities, the problem has long passed the point where it

is a danger to human health and even life. Moreover, whereas population is tending to remain stable in most major Northern cities, it is still increasing in many cities in the South. On the other hand, traffic in urban centres is increasing rapidly in most places irrespective of population change. Moreover, despite the slow growth of the largest cities, increasing proportions of people are living in towns and cities rather than the country (Graph 71).

Urban environmental problems result, not only from traffic, but from decaying sewers and buildings, from the devastation and waste land left behind when industry closed or moved out to less congested locations, from deteriorating housing, and from inadequate recreational facilities and communal amenities. These problems are common to Northern and Southern cities alike.

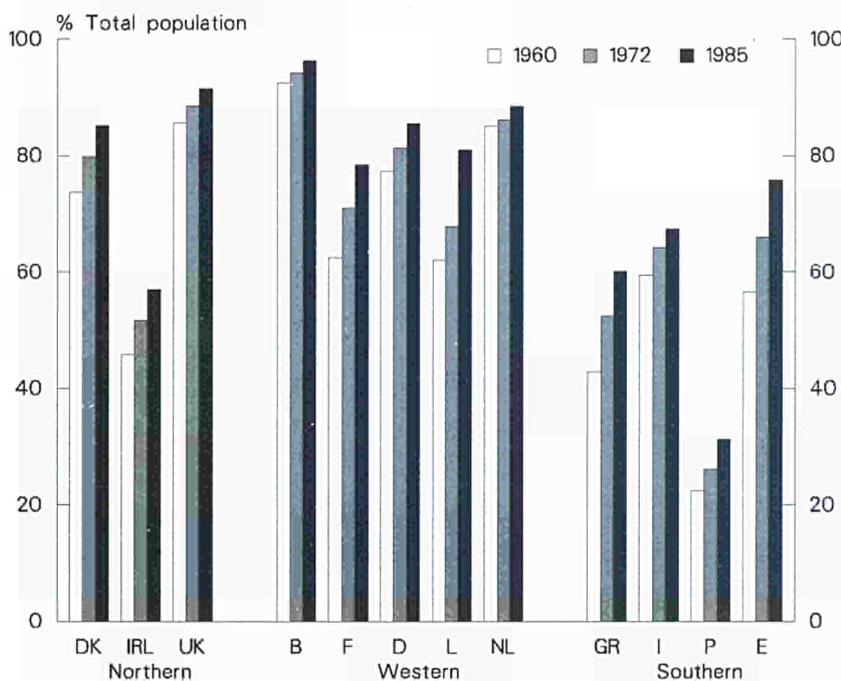
As growth occurs and industrial production increases, the consumption of energy, the use of motor vehicles and the import of exhaustible resources to fuel production and satisfy consumer demands all tend to go up. Unless economic growth is better managed it will lead to increased pollution and worsening environmental problems. However, in the past 15 years or so, the link between economic growth, the rate of pollution and the consumption of scarce resources of energy and other primary products has been broken.

Community action in the form of the imposition of emission standards, in combination with increased energy prices, have led to ways of increasing the efficiency of use and have achieved a degree of success in lowering emissions relative to GDP.

Whereas up to 1973, the Community's demand for energy rose broadly in line with GDP, since then energy saving has occurred at an average rate of around 1.5% a year. Thus, although total consumption has risen, it has declined significantly in relation to GDP.

Emissions of SO₂ by the Community Member States have been reduced considerably over the same period, since 1980 by around a third (Graph 69). On the other hand, CO₂ emissions, although falling in relation to GDP during the 1980s and declining in absolute terms between 1980 and 1986, have risen over the past four years as the upturn in growth has taken place and, significantly, as energy prices have fallen in real terms following the collapse of world oil prices (Graph 68). NO_x emissions have followed a very similar trend, declining in the first half of the 1980s, then increasing again (Graph 70). Emissions from industry have shown the greatest

71 Proportion of Population living in Urban Areas in the Member States 1960, 1972, 1985



reduction, while transport has been responsible for a growing proportion of the emissions produced.

To put the apparent success in reducing the rate of these emissions in perspective, however, scientists have recommended that, in order to be in line with the capacity of the environment to absorb these pollutants, CO₂, SO₂ and NO_x emissions should be reduced by at least 50% and possibly more.

Trends in the use of chemical fertilisers in agriculture, however - which are the major source of nitrate loadings in soil, and significant in the progressive eutrophication of waterways - appear less favourable. Between 1980 and 1985 (the last year for which figures are available), their consumption increased across the Community as a whole, although at a markedly slower rate than over the previous ten years (Graph 72).

The Effects of Higher Growth

The completion of the Internal Market carries three main implications for environmental protection. In the first place, it will tend to raise the rate of economic growth over and above what it otherwise might have been. Secondly, by eliminating variations in technical requirements and controls, companies will be denied the possibility of gaining a competitive advantage as a result of hitherto different levels of environmental standards in Member States. Thirdly, the opening up of competition in public sector procurement creates the possibility for the most efficient producers of various kinds of equipment for cleaning up or preventing pollution, or disposing of waste, to expand their share of the Community market.

Although some success has been achieved in breaking the link between economic growth and pollution, more economic growth tends to produce more environmental problems. The focus of attention must clearly be on electricity generation on the one hand and the transport industry on the other, with a possible view to changing methods of production in the first case and encouraging a shift in the use of different forms of transport in the second. In this regard, it is salutary to note that the beneficial effect on emissions of Community legislation making the fitting of catalytic converters to all new cars compulsory from 1992/93 is likely to be offset almost completely by the increased use of cars and lorries that is predicted (Graph 73).

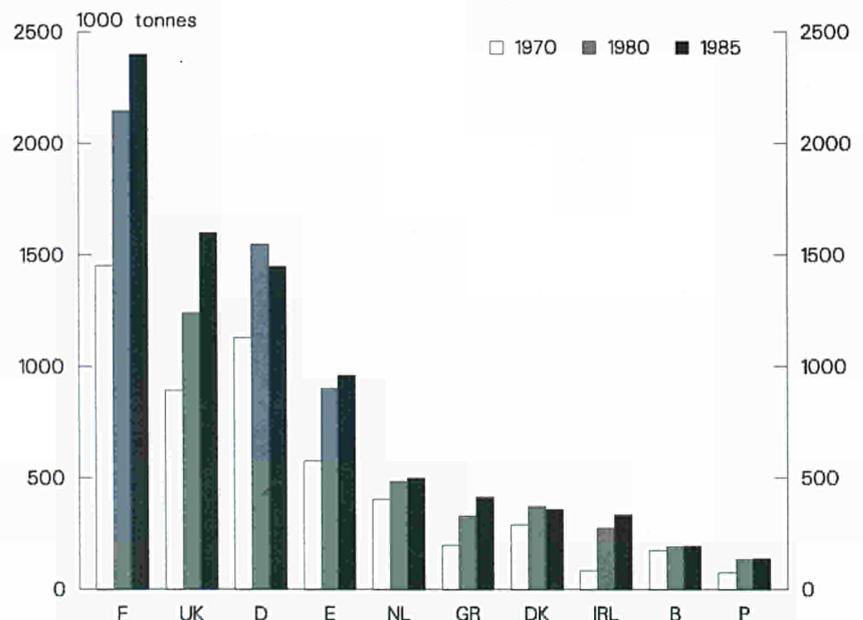
However, gains resulting from the completion of the Internal Market will provide savings which could

permit investment in environmental protection equipment and in environmentally-friendly products. For example, the Directive on large combustion installations created demand throughout the Community for equipment which was previously only sold in a limited number of Member States. The environmental protection services industry will prosper when regulation is harmonised throughout the Community, with a beneficial effect on growth and employment generally.

Community Action

A Community programme of measures to protect the environment was first implemented in 1973. This has since grown into a substantial body of legislation, imposing minimum standards and controls across the Community, cul-

72 Consumption of Nitrogenous Fertilisers in the Member States 1970, 1980, 1985



minating in 1986 with the incorporation of specific provisions relating to the environment into the Treaty (Box).

Present legislation arose from the desire to ensure fair competition in a free trade area while, at the same time, allowing countries to impose restrictions on the free movement of goods on justifiable grounds, environmental protection being one of them. Legislation at present exists over a wide range of areas, including the enforcement of product standards, limits on trade in hazardous waste, quality control (in the case of water), as well as emission standards (Box p.80).

Most legislation at present takes the form of administrative controls, but success in ensuring compliance has been patchy. The enforcement of controls is difficult and costly to implement and can involve long de-

lays, especially in cases where Member Governments, in the form of public sector agencies, are the culprits. There is, therefore, increasing interest in economic measures which work through the market mechanism to penalise offenders through levying taxes or charges, or which encourage good practice.

In addition to legislation and the imposition of standards, the Community now operates a range of programmes of financial aid for environmental protection (Box p.85). These programmes work largely through the Structural Funds, which are aimed predominantly at assisting developing regions, regions in industrial decline or the unemployed, but which since 1989 have to take specific account of the environmental consequences of the support being given.

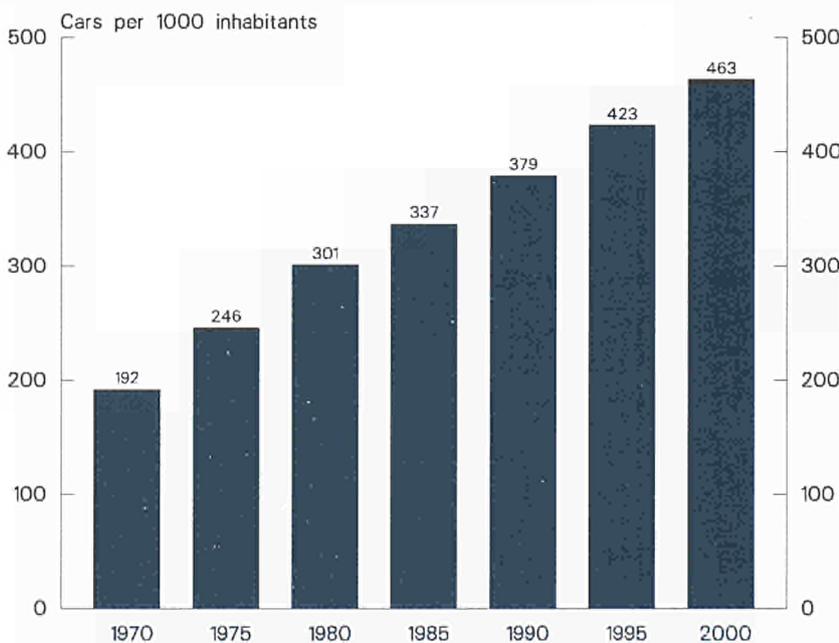
Employment Effects of Environmental Protection

The full consequences for employment of giving high priority to environmental problems is hard to gauge. There is, as yet, no consistent or coherent set of figures which indicate with any certainty how many people are employed in the environmental industries, or how the number has changed over the past, let alone a more general figure encompassing all those jobs, wherever they occur, which have a major environmental 'component'. There is not even an agreed definition of what activities the environmental industry covers. This is primarily because they are so varied: cleaning up the environment; disposing of waste; managing water and other resources; controlling pollution; producing equipment to limit or eliminate emissions and to measure their effects, and so on (Box p.81).

However, recent estimates suggest that around 1.2-1.5 million people in the Community are directly employed in activities which are related to environmental protection, and which generate value-added of around 45-50 billion ECU. These figures represent around 1% of both Community employment and GDP. The wider figure for employment in environmentally related activities could easily be twice as large.

The environmental industries can be divided into two parts. One consists of the industries supplying intermediate environmental goods, such as pollution control equipment, or basic infrastructure for the improvement or protection of the environment, such as civil engineering and construction works. Some

73 Car Ownership in the Community 1970-2000



50% or more of employment in this part is in the construction industry, and around 25-30% is in mechanical or electrical engineering.

The other part comprises the industries which purchase and operate pollution control equipment and infrastructure either to prevent emissions produced, in, for example, electricity generation, chemical production or iron and steel manufacture, or because they are concerned with waste disposal or water supply. In this part - the industries at the sharp end - 60-65% of employment is in public utilities or other parts of the public sector, with 35-40% in private industry, although the proportion varies across the Community depending on the extent to which public utilities are publicly or privately owned.

The scale of the industry varies considerably between Member States. The FRG has, by some way, the largest and most developed industry with the highest number of people employed. Estimates suggest that it accounts for around 40% of total activity within the Community in this area (Graph 74). The less developed countries of the Community have significantly less developed environmental industries. Spain, Portugal, Greece and Ireland together account for under 4% of total Community activity in environmental protection.

To some extent, this disparity reflects the differing scale of environmental problems which individual States face. More importantly, however, it reflects the extent and nature of regulations and controls, and the scale of government expenditure in this area. The higher the priority given by government to environmental protection and improvement and the more resources it is prepared to

Environmental Commitments in the Single European Act

Article 100 A

- (3) On the Internal Market: the Commission, in its proposals concerning health, safety, environmental protection and consumer protection, will take as a base a high level of protection.

Article 130 R

1. Action by the Community relating to the environment shall have the following objectives:
 - to preserve, protect and improve the quality of the environment;
 - to contribute towards protecting human health;
 - to ensure a prudent and rational utilisation of natural resources.
2. Action by the Community relating to the environment shall be based on the principles that preventive action should be taken, that environmental damage should as a priority be rectified at source, and that the polluter should pay. Environmental protection requirements shall be a component of the Community's other policies.
3. In preparing its action relating to the environment, the Community shall take account of:
 - available scientific and technical data;
 - environmental conditions in the various regions of the Community;
 - the potential benefits and costs of action or lack of action;
 - the economic and social development of the Community as a whole and the balanced development of its regions.
4. The Community shall take action relating to the environment to the extent to which the objectives referred to in paragraph 1 can be attained better at Community level than at the level of the individual Member States. Without prejudice to certain measures of a Community nature, the Member States shall finance and implement the other measures.
5. Within their respective spheres of competence, the Community and the Member States shall cooperate with third countries and with the relevant international organisations. The arrangements for Community cooperation may be the subject of agreements between the Community and the third parties concerned (but without prejudice to Member States' competence to negotiate in international bodies and to conclude international agreements).

commit, the larger will be the size of the industry set up to meet the demand created for its products and services.

The electricity generation industry is a clear example where there is existing technology, which, if implemented, could make significant improvements in global CO₂, SO₂, and NO_x emission levels, but where the cost of modifying existing plant is high and, in general, Governments have been reluctant to act.

The future growth of the environment industry in the Community is thus highly dependent on the development of environmental policy and on the specific measures taken for ecological protection and improvement. Any projections of its future importance, of the numbers of people likely to be employed or of

the skill and training requirements, are heavily contingent on political decisions.

Employment Prospects

A number of studies have been undertaken which project future output and employment, on the basis of assumptions about probable future policy. While the results should not be regarded as more than indicative, they do suggest - partly in the light of trends in the US, which has moved well ahead of the Community in this area in recent years - that the major growth of jobs in the next five years will be in waste management and water treatment. These industries at present account for over half of value-added and employment in the

sector, and could grow by 6-7% a year, possibly creating over 30 thousand additional jobs (Graph 75).

Among individual Member States, the largest potential growth could come in the developing countries of the Mediterranean where pollution control is less developed and where compliance, even with present Community standards on sewage disposal for example, would require significant expenditure. A number of other more developed countries, such as the UK and Italy, are in a similar position and are also likely to need to expand activity by relatively large amounts (Graph 76).

The impact of increased environmental expenditure will not be confined to the environmental industry alone. To bring plant and facilities up to standard, or to replace those which are incapable of being modified or repaired, will have substantial knock-on effects on employment in other sectors. A major example is the replacement of decaying sewers in many cities around Europe which, in itself, will involve immense capital spending and considerable work for the construction industry. The need to replace or renovate infrastructure and buildings will have similar consequences.

Indeed, the restoration and renovation of buildings and public places was an important area of publicly supported job creation initiatives, especially for young people, when unemployment was at its worst in the mid-1980s. These activities have in some cases been incorporated into mainstream public (often local) and, occasionally, private sector work. However, as the unemployment crisis has lessened, so has the support.

Environment policy measures taken by the Community

	Air	Noise	Water	Waste	Chemicals	Nature protection
Trading licence				●		
Installation standards	●		●			
Product standards					●	
Environmental impact assessment	●	●	●	●	●	●
Product emission standards	●	●	●	●	●	
Production limits	●					
Trading limits	●			●	●	●
Emission standards for installations	●	●	●	●		
Standards for specific areas	●		●			●
Voluntary agreements				○	●	
Product levies				○		

○ Optional to the Member States

The obstacle to all such employment creating activity is simple - finance. Much of the necessary remedial and replacement work falls within the public sector, as do many environmental activities. With present political as well as economic constraints on any significant expansion of public expenditure, reflecting a general reluctance among people to pay more taxes, the fact that work is desirable or even necessary does not ensure that it is carried out.

Short-term concerns can often be very short-sighted, however. The successful implementation of wide-ranging, long-term, environmental protection programmes have been shown not only to have achieved ecological aims, but also to have strengthened the long-term competitiveness of the region concerned. A particular case is the Ruhr area in the FRG which has devoted considerable effort to cleaning up an environment polluted by decades of heavy industrial production. After a major programme of expenditure, it has achieved remarkable success in reducing air pollution, decontaminating the soil and restoring its natural habitats. Beyond that, it has developed a thriving new industry around clean technologies and efficient waste management equipment. More than 100 thousand new jobs in some thousand small and medium-sized enterprises have been created.

More generally, a system of extensive and stringent controls and regulations on emissions and other forms of pollution has not prevented German industry from maintaining its competitive strength. Indeed, the early adoption of environmentally-clean processes and the development of new products around them has arguably served to improve even further the competi-

Main environmental industries

Services:

Water management and purification; waste management; recycling; conservation of threatened or damaged habitats; technological research and development; training and advice for operators of pollution control in industry and public agencies; public transport.

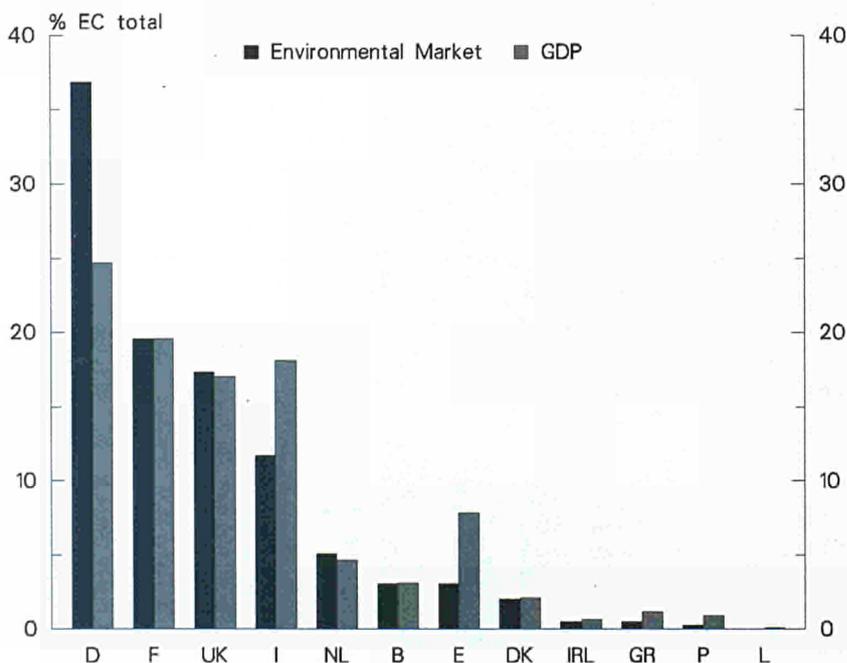
Production of equipment:

End-of-pipe filters, scrubbers, treatment plants; equipment for collection and transport of waste; monitoring and control equipment; public works materials; planning, engineering and design.

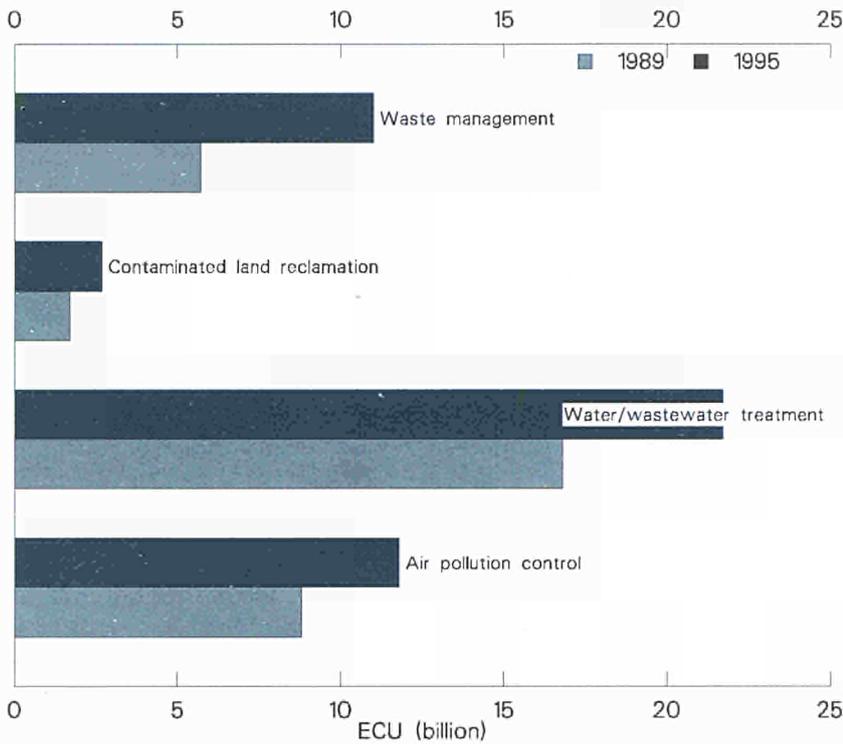
Environmentally-friendly goods:

eg. PCB and CFC substitutes, biodegradable plastics, biodegradable detergent, catalysers, lead-free petrol, non-toxic paints etc.

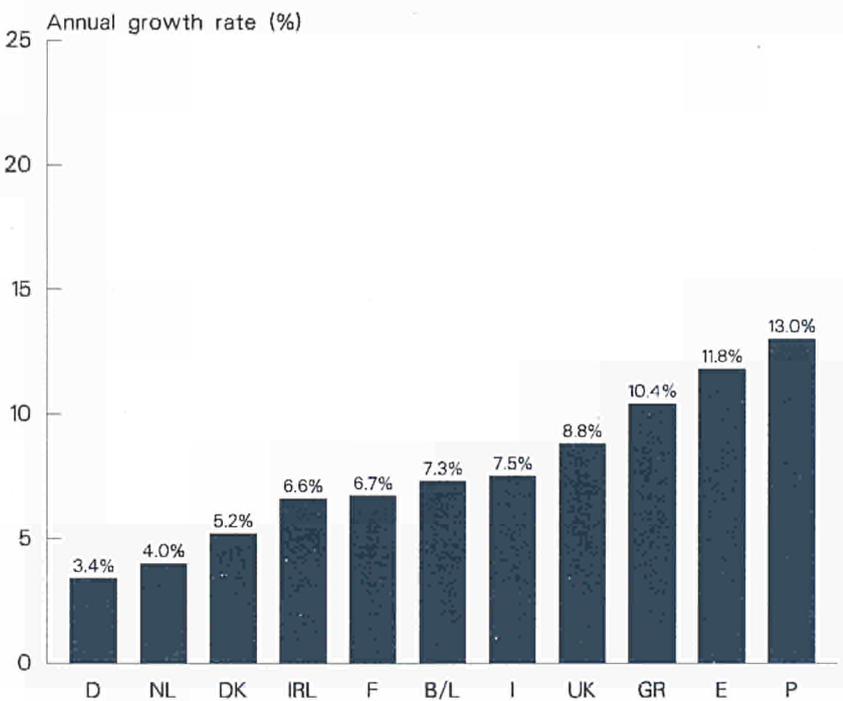
74 Share of Community Environmental Market in Member States Compared to Share of Community GDP 1988



75 Distribution of the Pollution Control Market in the Community 1989 and 1995



76 Projected Annual Growth of the Environmental Management Market in the Member States 1989-1995



tive position of German manufacturers - in the car industry, for example - since producers elsewhere now have to catch up, and try to contest already entrenched market positions.

Both examples point the way for the Community. If measures to protect the environment are not incorporated as an integral part of future development both of the economy and of particular products and processes then, not only will the threat to human and ecological well-being continue, but the Community will in the long-run lose markets, and hence jobs, to producers elsewhere who have adapted to the new imperatives.

In this regard, it has to be recognised that much of the most advanced technological equipment used in the environmental industry - that is, equipment with a high micro-processor content for monitoring and measuring - is currently either imported from the US or Japan, or is manufactured in the Community in foreign-owned firms or under licence.

All these considerations have implications for the pattern of development within the Community. The adoption of more stringent emission controls and the inclusion in the productive process of various cleaning or filtering devices could mean that producers in the South need to import such equipment from the North because of a lack of local production capability, so adding to problems of regional imbalance. At present, the pollution equipment industry is heavily concentrated in the FRG, France, the UK and the Netherlands, these four countries together accounting for some 80% of employment in pollution equipment manufacturing in the Community.

This should not mean the imposition of a less stringent set of controls and standards in the South of the Community. Such a move would tend to perpetuate the existing locational pattern of the environmental equipment industry and the expertise which exists in this sector. Instead, it highlights the importance of encouraging the development of pollution control industries in all parts of the Community in order not to worsen problems of regional imbalance. This might be easier to achieve against the background of the early adoption of a uniform system of relatively stringent controls rather than of some kind of two-level system.

It leads back, however, to the issue of financial and technological transfers which are essential if developing areas in the Community, and indeed in the rest of the world, are to be able to follow paths of development which safeguard the environment and strengthen their long-term competitive position. The Structural Funds have a part to play in this regard.

The Community's responsibility for the environment does not stop at its borders. The most pressing ecological problems are global in scale. Given the Community firms' technological edge and expertise in the environmental protection industry, they could give a lead in the protection of the global environment. A start has already been made through the PHARE programme, where assistance to Poland and Hungary to clean up the pollution caused by unregulated heavy industrial pollution is already creating jobs there and in the Community.

A further potential for job creation and the promotion of an effective strategy of sustainable develop-

ment arises from the activities foreseen by the Lome Convention, signed in December 1989.

The Need for Training

The kind of employment in the environmental industry, judged in terms of job content and skills, is not markedly different from that in other sectors. As elsewhere, a large proportion of the labour force is employed in jobs with low skill content. Around 70% of jobs are in the water supply industry, concerned with pollution control and treatment, or in waste collection and disposal, where many of the operations do not require a high level of skill. In total, some 80% of the people currently employed in the environment industry are relatively low skilled with few qualifications.

Nevertheless, the other 20% of the work force, involved in management and technical activities, are highly skilled and extensively trained. Moreover, if present environmental objectives are to be achieved, a significant increase is needed in both the number of skilled people employed and the extent and quality of training they receive. There are a number of reasons for this. Firstly, environmental problems are complex and our understanding of them is limited. Secondly, there is a need for measures to be anticipatory and preventative rather than reactive - it is often difficult or impossible to take effective corrective action after the pollution has been caused, and it is generally more costly. Thirdly, it is important to tackle problems in the most efficient and cost-effective way. Fourthly, as popular awareness of the environment increases, new sectors of activity are emerging - the creation and maintenance of nature reserves, country parks and

urban open spaces, the restoration of old buildings and places of historical interest.

The skills required are increasingly multi-dimensional as the pervasive nature of environmental problems become apparent, as the application of new technology (micro-processors and sensors) widens the scope of possibilities, and as pollution control becomes an integral part of productive processes. At the managerial level, the need is for people capable of determining the environmental action to take in full knowledge of the technical options, the economics of each and the legislation in force, and then being able to plan, coordinate and communicate this in an effective way. At the technical level, there is a need for specialists to develop and improve protective devices and measuring equipment, manage control facilities and to give advice.

Within the public sector, the need is for engineers capable of devising and operating more sophisticated and accurate measurement techniques and analysing the results, not only to monitor the scale of the problem but also to give advice, especially to small and medium-sized companies which cannot afford to employ specialists. In the environmental industry itself, the need is for technicians who understand both the production process and the environmental aspects, so that they can advise on cost-effective means of avoiding or minimising pollution, while maximising the efficiency of production.

At present the education and training facilities available in most parts of the Community are inadequate in terms of both the number of people they can take and the courses they offer. In particular, teaching needs to move away from the traditional

separation of scientific disciplines and become broad-based and multi-disciplinary in character because of the complex nature of environmental problems.

There is also a need to adapt to the emergence of the rapidly growing industry around the provision of recreational facilities, conservation and nature reserves, where the range of skill requirements include urban planning, the restoration of buildings and areas of land, urban and rural landscaping, the management of nature reserves, town and country parks, forests, and so on. Many of the jobs being created here do not require a high level of scientific knowledge, but they do require broad training programmes which can encompass the wide range of issues involved.

Community Financial Aid for Environmental Protection

Projects involving environmental improvements can qualify for assistance from a range of Community programmes. These funds, which provide opportunities for new jobs, include:

ACE - Action by the Community relating to the Environment

Subsidies for:

- the development of new and clean technologies;
- the upkeep or restoration of seriously threatened biotopes which are the habitat of endangered species;
- waste recycling;
- reclamation of sites contaminated by waste or dangerous substances;
- protection or restoration of soil threatened or spoilt by fire, erosion or desertification

The Structural Funds

The Community's Structural Funds (European Regional Development Funds, European Social Funds, European Agricultural Guarantee and Guidance Fund - see Chapter 10) all play a role in environmental protection. For example, a per hectare aid is granted to farmers for the extensification of production, or for practices compatible with environmental protection in sensitive areas

ENVIREG

A new initiative within the Regional Fund, provides financial assistance for productive investment, and for environmentally beneficial investment in infrastructures directly linked to economic development. ENVIREG's priorities are:

- investment in the storage, treatment, recycling and safe disposal of dangerous industrial waste and effluent, and agricultural waste;

- monitoring of emissions into the air and discharges into water and soil;
- investment in small and medium-sized enterprises (SME) with a view to reducing emissions or installing clean technologies;
- vocational training linked to such activities;
- reforestation, prevention of forest fires and soil erosion

IMP - Integrated Mediterranean Programmes

Actions aimed at improving the socio-economic stability of certain Mediterranean regions. Includes protection of the environment.

MEDSPA - Strategy and planning for the protection of the environment in the Mediterranean basin

This fund is focused on the problems affecting natural water resources, marine pollution, the management of urban or industrial waste, and the upkeep of open spaces.

EIB - European Investment Bank

Provides financial support for a wide range of projects, including loans to environmental protection schemes. These include those dealing with transport, waterways, energy, industry, agriculture, forestry and fishing, the service sector, housing, professional training centres, tourism, and pollution control. Projects applying for any EIB funding must comply with Community Directives on the environment.

NCI - New Community Instrument

Provides loans for investment in SME, including those relating to the environment, new technologies, and the rational use of energy.



Chapter 6 Employment for Women - Is Access to Jobs Easier or Not?

The participation of women in the labour market continues to increase. However, many women face specific, often very practical, difficulties which need to be overcome if they are to have equal access to employment.

Introduction

Throughout the 1980s, women's share of total employment rose in every Member State, largely due to the growth of part-time jobs in the service sector. Despite this growth in women's employment, the lower levels of labour force participation in the Community compared with the United States or Eastern Europe suggest that women remain an under-utilised resource during a period when the Community's working-age population is shrinking.

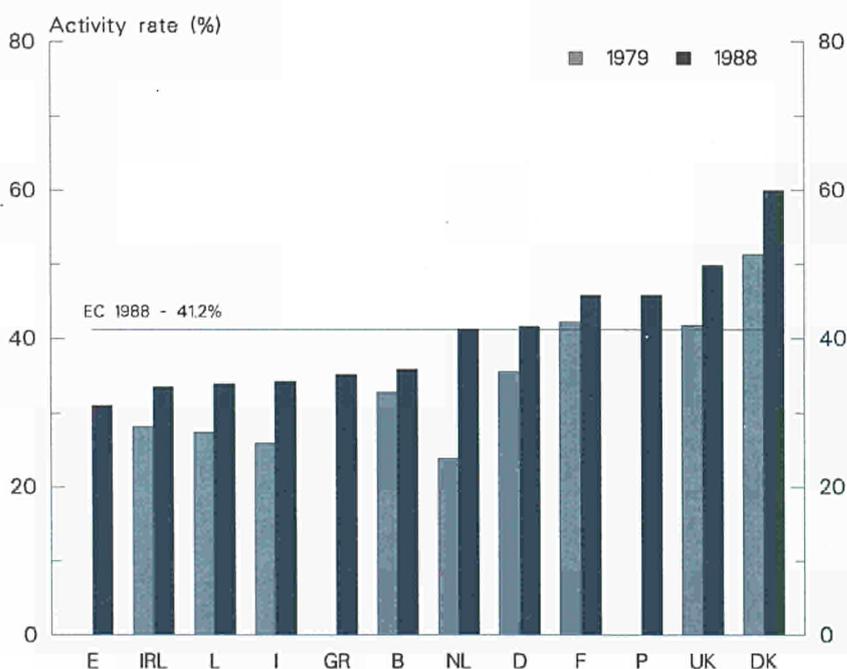
If the Community is to reach its full economic potential in the years to come, it will need to make full use of all the human resources available. With greater emphasis on the need for women to work, the positive growth of jobs for women has brought another issue - that of equal access of women to the labour market - to the forefront.

How far women come onto the labour market depends on a number of factors - how women register the fact that they are looking for work, the social infrastructure that makes it possible for them to work and the social security and working time ar-

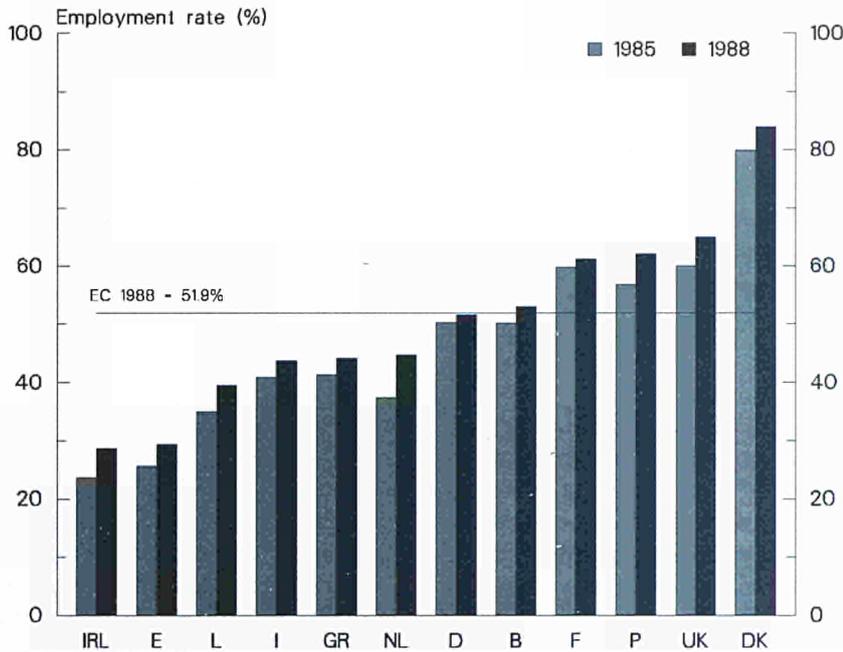
rangements that would enable both women and men to combine work and family life. The sort of jobs they are able to do will also depend on the access they have been able to have to appropriate forms of vocational training. The importance of the different obstacles to women's labour force participation varies widely between Member States.

Access to the labour market throws up more difficulties for women than for men. Indeed, for particular groups of women, the road to work or back to work appears to be littered with obstacles. There are 21 million economically inactive women in the Community in the pivotal 25 to 49 age group, a growing proportion of whom would like to

**77 Activity Rates of Women in the Member States
1979 and 1988**



78 Employment Rate of Married Women Aged 25-49 in the Member States 1985 and 1988



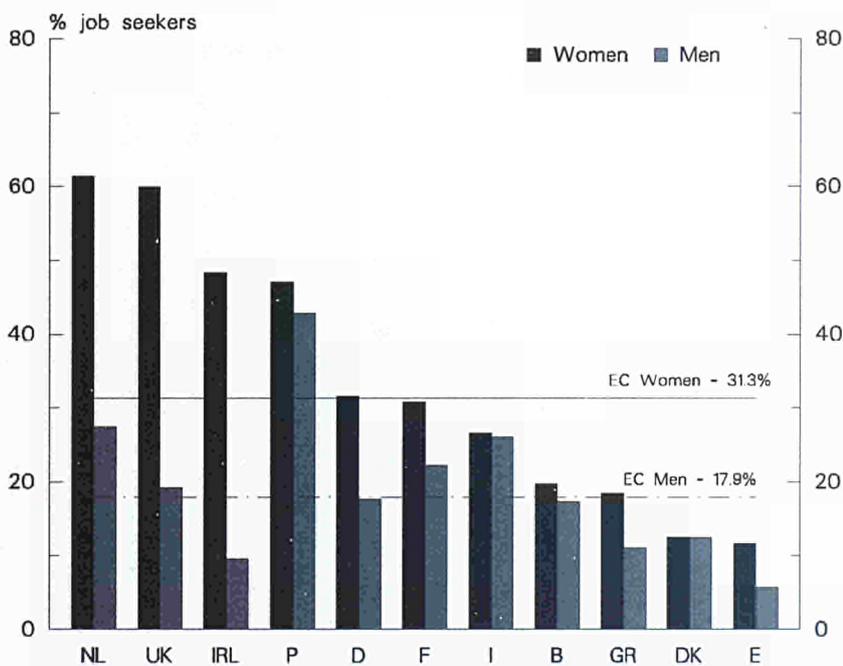
work. They are composed of two groups:

- women seeking to re-enter the labour market after an absence of several years or more.
- women seeking to combine their jobs with family responsibilities which require absences or leave of varying duration.

The first group were identified by the Commission's first Action Programme for Equal Opportunities for Women in 1982 as requiring special measures to facilitate their return to working life.

Concern about access to employment for the second group of women - mothers with family responsibilities for children and adult dependants - has come to the fore during the 1980s as part of a wider debate on family time and its relation to working time and working life.

79 Share of Women Job Seekers in the Member States Seeking a Job after a Period of Inactivity 1985 and 1988



Women's Access to Employment

The issue of access has been highlighted by both demographic and economic changes. The female labour force comprises fewer and fewer younger single women and more and more older married women with children. Between 1985 and 1988 the proportion of married women aged 25 to 49 years old in employment rose by 2.5% while that of men in the same age group declined by 0.5% (Graph 78).

A second indicator of the desire to work is the number of unemployed women in the Community seeking a job after a period of absence from the labour market. In 1988 they accounted for 2.2 million or 31% of

women job seekers compared to only 1.2 million or 18% of men job seekers (Graph 79).

There are substantial and growing numbers of women seeking employment. Many of these are women who have been economically active (as family helpers in Greece for example), but who are now seeking guaranteed paid employment.

The flow of women onto the labour market has been accompanied by a decline in fertility rates. The inverse relationship between fertility and labour market participation is world-wide and not unique to Europe. The fall in fertility can be seen in the rise in the age of mothers at the birth of their first and often only child - a result of longer education and increased labour market participation of their mother. The proportion of women with a second and third child in the Community is falling (Graph 80).

The number of young people available to join the working population has been shrinking since 1981. An increasing proportion of children are being raised in single-child, single-generation and even single-parent families. In Denmark, the UK and the FRG one household in ten with a child under the age of ten is a one-parent family, headed in most cases by a woman. Between 1960 and 1986, divorce rates doubled in Denmark and the FRG, tripled in Belgium, France and Luxembourg, quadrupled in the Netherlands and increased six-fold and nine-fold in the UK and Portugal respectively.

This changing family structure is causing profound changes in the extended family support that earlier generations of women relied upon to allow them to go to work. This has

implications for improved access to the labour market for working mothers.

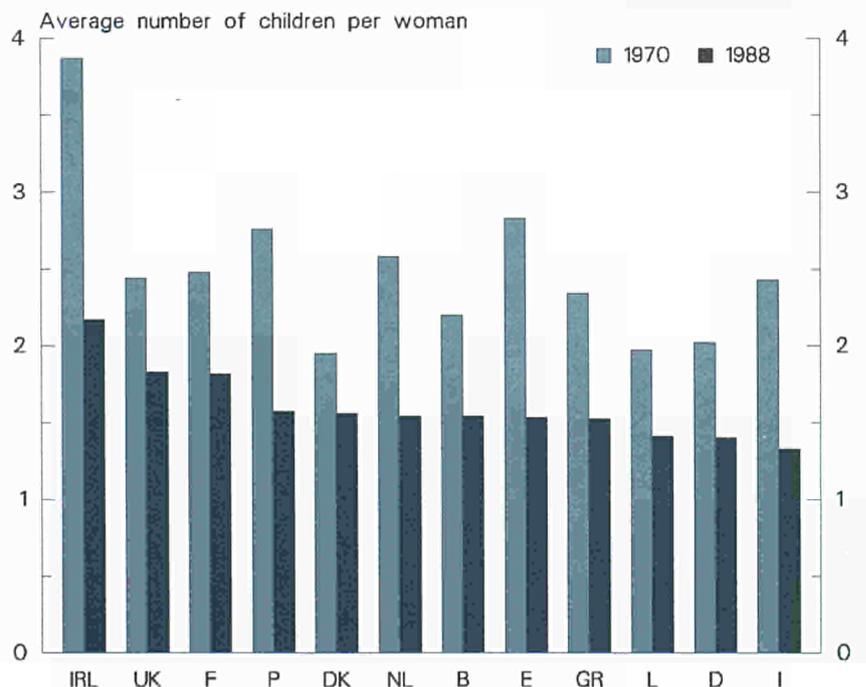
The labour force participation of lone mothers with children under four is not very different from that of all mothers with children under four, at around 50%. There are considerable variations between Member States, however. Where lone mothers with dependent children work, they tend to work longer hours than other mothers. Since maintenance payments play a less important role than wages and salaries in the income of lone mother families, the faster rate of household decomposition may propel ever greater numbers of mothers in the 25 to 49 age group to seek jobs.

For many employers in some sectors (e.g. financial services) who are facing shortages of skilled staff (see Chapter 8 of *Employment in Europe*

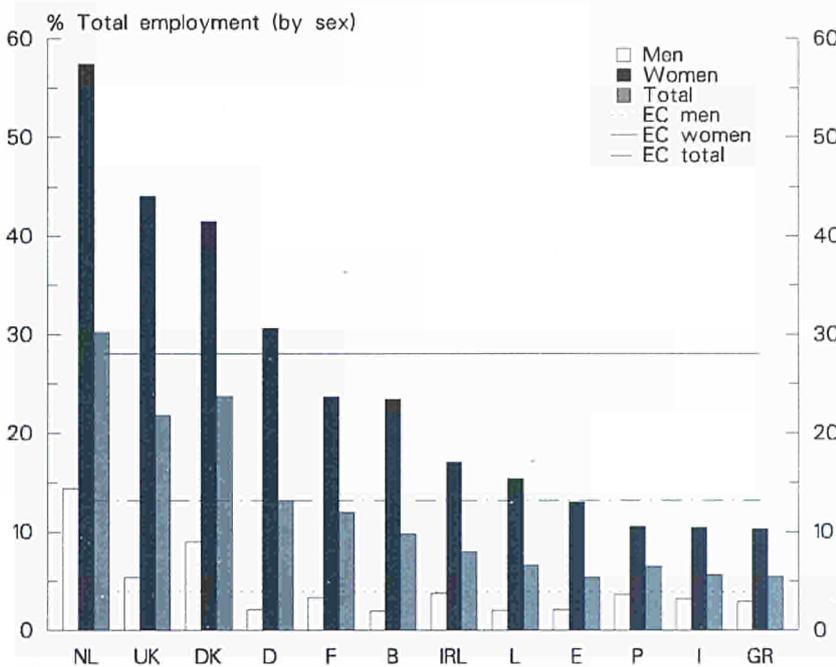
1989) women seeking to return to work are an obvious solution to their problem. Despite the existence of a substantial pool of long-term unemployed, many employers do not readily recruit from this supply of labour. The reasons are complex, but include the fact that there are both regional and skills mismatches between the long-term unemployed and jobs available.

The convergence of interests between employers who want to recruit women seeking to return to work and the desire of women to have an independent working life has led to a vigorous debate around the so-called 'extra-work' dimensions of equality policy. These include what were regarded in the 1960s and 1970s as disparate 'mother only' concerns - childcare, maternity leave, transport to work, the care of sick and dependent children and adults.

80 Average Number of Children per Woman in the Member States 1970 and 1988



81 Part Time Employment as a Share of Total Employment in the Member States 1988

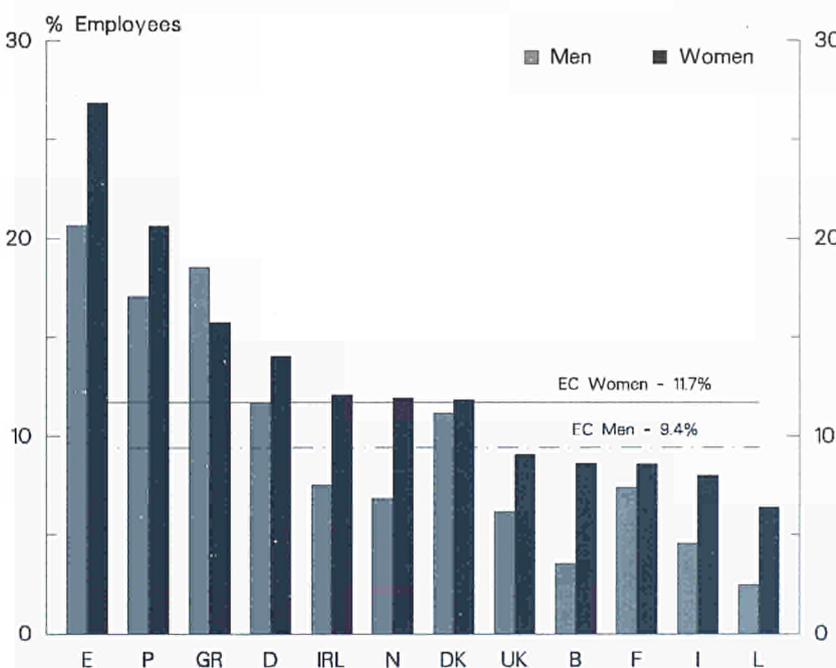


Attitudes have changed. In the 1989 Eurobarometer study, 11,000 European respondents were asked to choose the top priorities for their governments in family policy. Top of the list came housing, selected by 44% of respondents, followed closely by the availability of childcare arrangements, identified by 39% of interviewees.

The same study found that the ideal number of children per family averaged out at 2.1, a level similar to that necessary to maintain the population of Europe at its present level, but well above the present average number of children per family in the Community.

Women's Employment: Still more Precarious than that of Men

82 Share of Employees working under Temporary Contracts in the Member States 1988



Progress in ensuring that women have equal access to paid employment is slowly being achieved. Women now account for 38% of total employment in the Community and this proportion continues to rise. Such positive advances for women have another dimension as far as the quality of jobs they hold is concerned. Opportunities for work outside the home for some women means reluctant acceptance of non-standard employment for others.

Part-time employment represents only 13% of total Community employment (1988) but 28% of women's employment (Graph 81). Part-time employment is increasing both in the Community as a whole and among women in particular. In 1988 alone, part-time employment among women increased by just under 1% which meant an additional half a million women holding part-time jobs in the Com-

munity. While for the majority of part-time women workers and their employers, this form of working arrangement suits their respective needs, for a growing number of women - 1.6 million - part-time working is not a choice. It is involuntary, in that they are unable to find a full-time job. Similarly, temporary working is more prevalent for women than for men (Graph 82). It is also often involuntary. Among women temporary workers, 50% hold such jobs because they could not find a permanent one.

Many temporary jobs are part-time as well and this compounds the problem of secure employment for women who are marginal on the labour market. Besides part-time and temporary working, other forms of atypical or non-standard employment contracts account for large shares of women's economic activity. Examples are to be found among family helpers, among whom women represent 50-80% in the majority of the Member States, and manufacturing homeworkers, of whom there are an estimated 1.5 million in the Mediterranean countries, the majority again being women.

The importance of the different forms of non-standard jobs for women's employment varies considerably across the Community depending on the demand for flexible labour. One in every two women at work in the Netherlands works part-time while one in four women in Greece is a family helper.

The continued tendency for women's employment to be segregated into a restricted range of jobs, occupations and sectors of industry adds to the precarious nature of women's position on the European labour markets. This is especially the case where flexible forms of

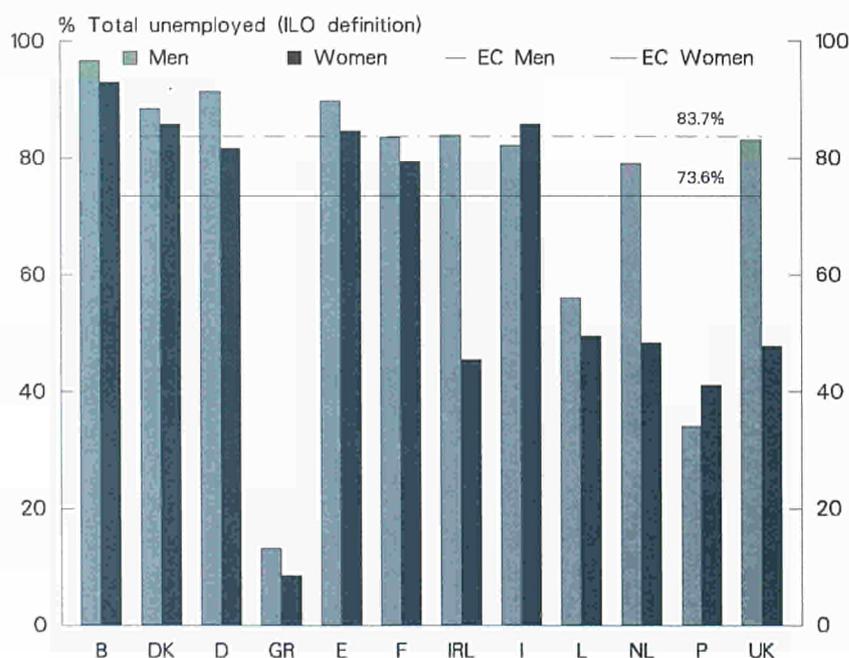
Registering for Unemployment

Entitlement to unemployment benefit is one of the most important incentives to register at an employment office. Entitlement depends on registering, on being available for, and actively seeking, work, on having been in insurable employment and having acquired a contributions record. Many women, particularly those returning to the labour market, are not entitled to benefit and so have less incentive to register.

The type and duration of work sought are factors in registration in some countries. In France and Ireland, people seeking part-time work are not counted as unemployed. In Spain, Luxembourg and the Netherlands, those seeking less than 20 hours work per week (19 hours in FRG) are excluded. In Denmark the cut-off is 15 hours. Similarly in France, the FRG, Luxembourg and Spain, those seeking temporary work are not counted as unemployed. These administrative arrangements are more likely to exclude women than men, since women predominate among part-time workers, among those working short hours and among some groups of temporary worker.

Certain categories of women are also treated differently from men with regard to requirements to register at labour exchanges. In the UK and Ireland, for example, all lone mothers supporting dependent children are exempted from the requirement to seek work. This is also the case in the Netherlands for lone parents of children up to 16 years old. In France and the FRG most lone parents (usually mothers) with children under three years old are exempt from the requirement to register for work.

83 Share of all Unemployed Men and Women Registered as Unemployed in the Member States 1988



working fall outside the protection of labour law, collective agreements and social security systems. Paradoxically the response need not lie in separate solutions for women. Increasing the statistical and social visibility of atypical employment, preparing measures to improve the coverage of health and safety regulations and the discouragement of their use as a means for gaining unfair advantage in the competition process would benefit both men and women.

The Social Amenities for Women in Employment

Women as mothers or carers for dependants need various forms of permanent social amenities in order to facilitate their entry and re-entry to employment. These amenities

embrace all those responses of employers, local authorities, the voluntary sector, collective agreements and national state measures, which make it easier for women to work and go on training courses and allow them to combine a job with domestic responsibilities.

The first stage in making employment accessible to women is to establish their availability for work. Even at this early point, the paths pursued by women and men are somewhat different. A large proportion of women in the Community make no contact at all with public labour market placement agencies in seeking work. One in four women, compared with only one in seven unemployed men in the Community, do not register at public agencies (Graph 83). Only in Italy and Portugal are registration rates higher for women than for men. 16% of unemployed women use news-

papers and personal contacts exclusively to find work, compared with only 7% of men.

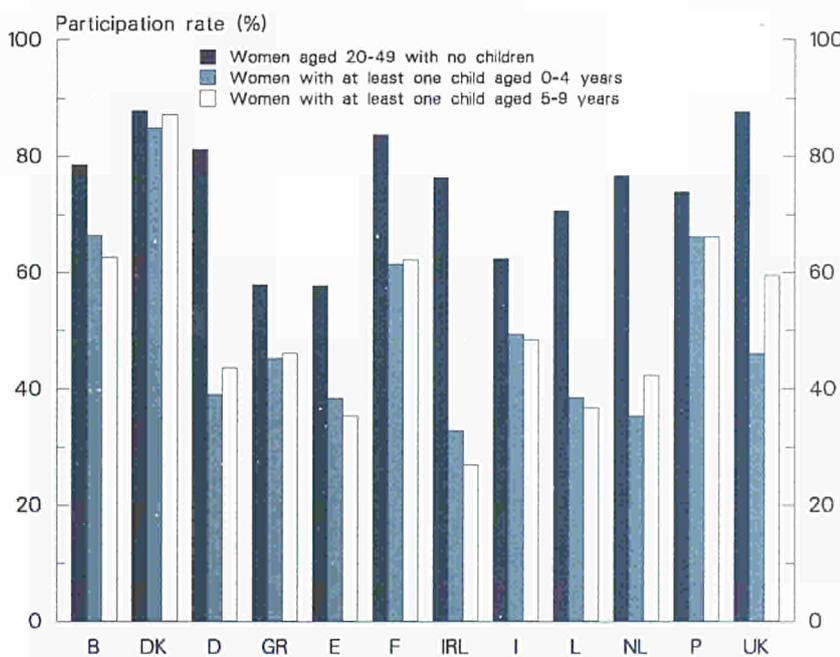
The use of informal networks to find work makes sense given that many women expect to enter jobs usually done by women, similar to those occupied by their neighbours and friends. However, because registration may be a condition for access to labour market training and employment programmes, the absence of registration or failure to register may exclude substantial numbers of women in some countries from entering training programmes and obtaining advice on training and employment opportunities (Box p.91).

The type of jobs sought by men and women, not surprisingly, are different - because of sex segregation of the employment market and to the unequal sharing of family responsibilities. In the crucial 25 to 49 age group, only 2% of men are seeking a part-time job compared with 30% of women and 37% of married women in the same age group. Research in the UK indicates that the greater readiness of women to accept part-time work in jobs below the level of their qualifications contributes to lower levels of income and job devaluation.

At this initial stage, special pre-vocational training courses have an important role to play in enabling women to update their knowledge of job opportunities, rebuild confidence in presenting themselves for jobs or training programmes which match their capabilities, and examine constructively some of the obstacles they may encounter after an absence from the labour market.

Women with children have less success in establishing themselves in employment than women without.

84 Activity Rates of Women with and without Children in the Member States 1988



Mothers with school age children have higher employment rates in general than mothers with pre-school children (Graph 84). Both have lower employment rates than women without children from approximately the same age group.

Travelling to Work and Equal Opportunities

Having decided to look for a job, what distances will women travel to work? Labour market access for women raises the question of how far they are both willing and able to travel away from home.

The relationship between gender, transport and employment for women now seems indisputable and has complex repercussions for mothers' employment options, their household arrangements and public transport policy. Evidence from France has identified access to a car and numbers of children as factors which influence where mothers work.

The research found that poorly educated or unskilled mothers were more reluctant to work far from their home because the extra pay was insufficient. Even if they were willing to do so, they were more restricted than more educated and skilled women because they frequently had less access to a car. Thus employers and potential workers can find themselves cut off from each other.

The proportion of married women and married men working full-time, combining work and childcare trips on the way home from work varies enormously. 62% of French married women, for example, but only 31% of married men with children over six, combined work and childcare trips on the way home from work.

68% of Dutch married women, compared with only 12% of men, made childcare trips on the way home.

These issues have wider implications, for example, for the relationship of employment to the environment (Chapter 5). The failure of transport systems to meet the needs of working parents in either quality or quantity may lead to increased demand for car usage at peak hours to transport themselves and their children to school and work, leading to increased traffic congestion.

The relationship between transport, mobility and work underlines the different constraints on women and men in obtaining and retaining a job. A transport policy for working parents needs to be sensitive to the multiple transport demands of working mothers in particular. Such policies would improve women's access to a wider range of

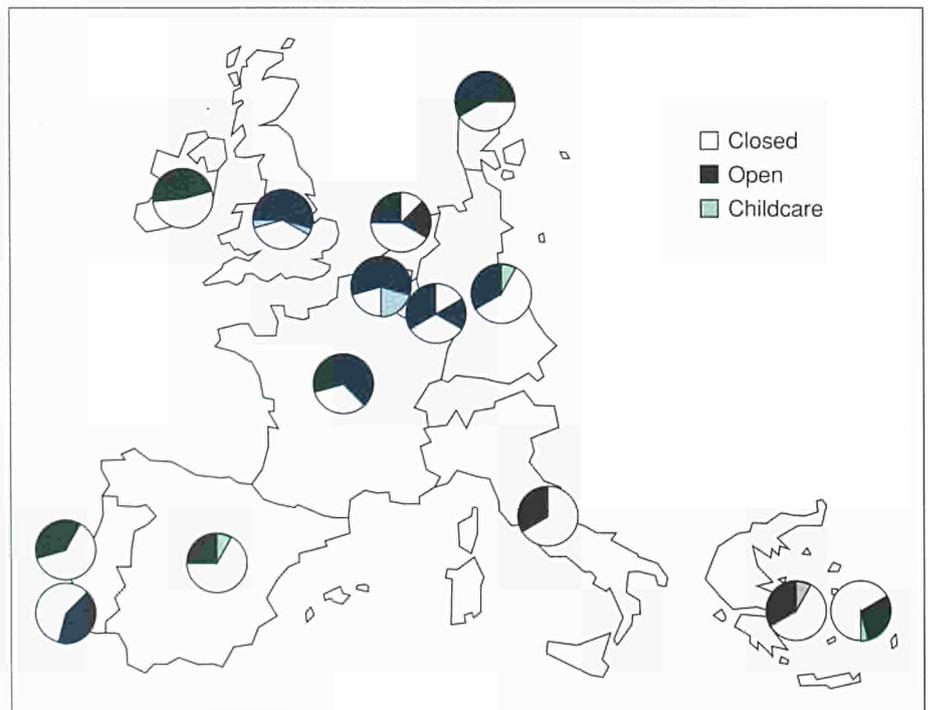
jobs and facilitate employers' access to larger numbers of potential recruits.

School Hours and Working Hours

The mismatch between working hours and school hours is a common obstacle to women's access to the labour market. School hours affect both working mothers seeking to stay in their jobs and women seeking to return to work after an absence caring for smaller children. The mismatch between school hours and working hours typically means that the working mother must choose between:

- seeking and accepting part-time work which corresponds to school hours;
- organising after-school care;

85 Opening Hours of Schools in the Member States



- remaining economically inactive.

School hours correspond little, if at all, to working hours and vary considerably between Member States and between different school systems within Member States. For example, there are just three hours in any day when all the schools of the Community are open at the same time: from nine in the morning to midday. Outside these three hours, school systems function quite differently so the implications for women's employment are specific to each country (Map 85).

School hours in the Community can be categorised into four groups according to their compatibility with working hours and compared with the activity rates of women with a child aged 5 to 9 years old (Graph 86). (A continuous school day means

that school continues into the mid-afternoon with or without post-school childcare. A broken school day means that children are expected to leave the school premises.) The absence of sufficient school buildings obliges a large number of children in Greece and Portugal to attend school mornings or afternoons, on a rota basis. The situation is changing in Spain, where canteens for school lunches are being introduced in some regions. Though there are regional differences inside Member States, the four different patterns exist in a general form.

The broken school day in the Netherlands, where children go home to lunch may have something to do with the high rate of part-time working there: 87% of employed women in the Netherlands with a child aged 5 to 9 years old work

part-time. This pattern should be distinguished from the desire to be at home at midday to take charge of the family. A recent French study revealed that half the married women questioned who were working full-time outside Paris managed to get home at midday for lunch.

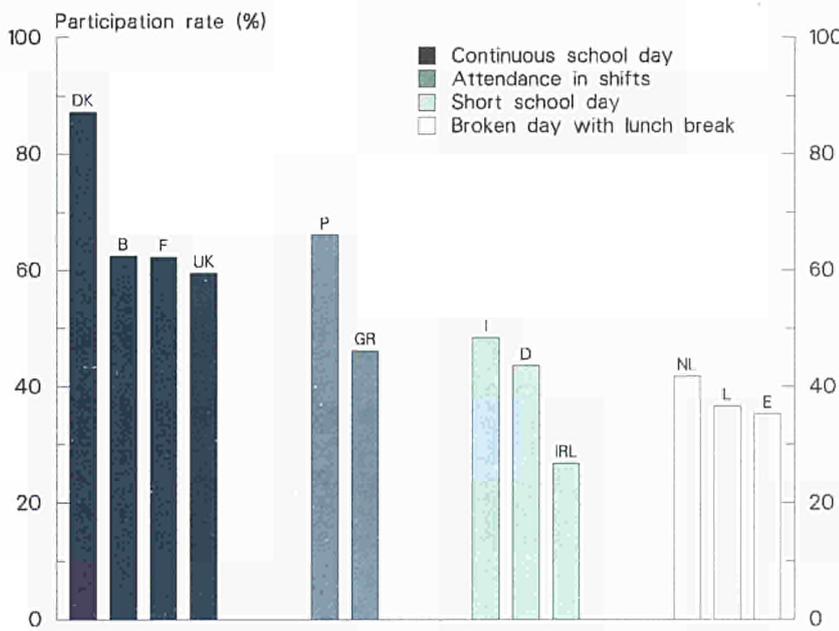
School hours are just one of the aspects of school organisation that affect women's working lives. School holidays, breaks, and free days also need to be considered and these issues should form part of any arrangements for pre-vocational training and preparations for returning to work.

While the labour force participation rates of women are different in Portugal and Greece, they share a common trait: they have the highest rates of non-salaried employment in the Community. This has consequences for women in that it may allow more flexibility in working hours. One in four employed women in Greece with a child under 10 is a family helper and one in four women in the same category in Portugal is self-employed. In other respects Portugal is exceptional. There is a higher rate of child employment reported than in other Member States. With an underdeveloped schooling system it is not unknown for young children to accompany their mothers to work in certain sectors and regions.

Solutions to the mismatch between school hours and working hours have the attraction of generating local employment. The employment of after-school carers, school canteen workers and managers and school holiday schemes, all have the potential for labour-intensive flexible employment for women (and men). The undervaluation of such service activities - in terms of pay, career and working conditions - has

86 Activity Rates of Women with a Child Aged 5-9 in Relation to School Hours in the Member States

1988



blocked their emergence as a coherent, and necessary, adjunct to both the employment of women and the protection of children.

Expecting a Child and Expected to Work

The arrival of a child or the sudden need to care for a dependant relative frequently obliges many women, old and young, either to accept a rigid work pattern or withdraw from the labour market. The importance of family responsibilities in women's and men's employment has formed part of the Community's social policy since its inclusion in the first Social Action Programme published in 1974.

The Commission has supported a wide variety of proposals to stimulate a greater sharing out of family responsibilities. Among these measures have been the promotion of systems of childcare and of parental and family leave. Not all women with children, for example, wish to work. Where they live, the needs of their child or children, the type of job they hold, their own health, and the availability of suitable childcare may be temporarily incompatible with working.

The fact that some mothers, despite such obstacles, manage to hold a full-time job is not an argument in favour of propelling them onto the labour market. The Community Labour Force Survey of 1988 reveals that 1.5 million women in the Community with a child aged 5-9 worked 40 to 49 hours a week. A further 500 thousand worked over 50 hours a week.

The Question of Leave

The introduction of different forms of authorised paid, part-paid or un-

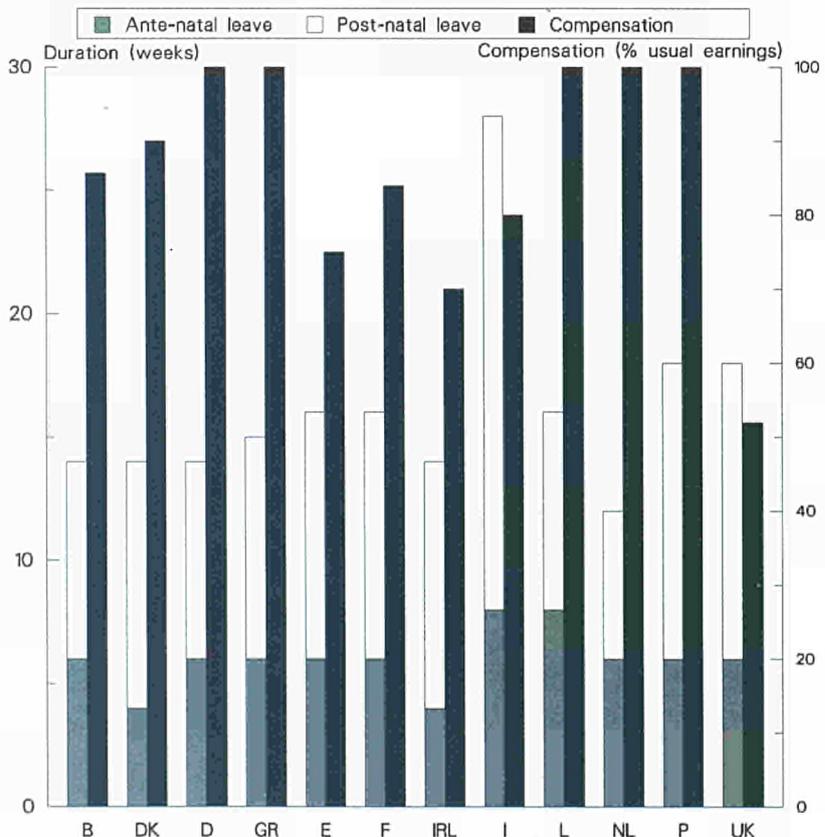
paid absence from work is a post-war phenomenon which gathered momentum during the 1980s and is likely to rise in importance during the 1990s. The importance of legitimate or authorised periods away from work inside an otherwise continuous employment contract arises from various factors. Firstly, there is the shortage of labour in some Member States. Secondly, there is the interest of service sector employers in holding on to working mothers with children by facilitating their re-entry into the workforce, so saving themselves re-training costs. Thirdly, there is the promotion of leave as a contribution to achieving equal opportunities for women at work.

A fourth factor is the growth of salaried employment among women as opposed to being self-employed or family helpers. A fifth factor is undoubtedly the desire of parents to protect the interests of their children. For an increasing proportion of European families, the experience of child-raising comes just once or twice and is not to be delegated or neglected.

Three types of leave are of interest to women who wish to leave the labour market temporarily and yet retain a guaranteed right to return. These are:

- pregnancy and maternity leave before and after a birth for

87 Duration of Maternity Leave and Average Weekly Compensation as % of Usual Pay in the Member States 1988



women and paternity leave for fathers at the time of birth;

- parental leave for mothers and/or fathers in the months and early years after a birth or adoption;
- family leave for mothers or fathers to attend to school, medical and family responsibilities.

While leave for holidays, illness, occupational injury and disease are now widely accepted as a standard part of the terms of employment, both practice and attitude towards other forms of leave differ widely across the Community. These differences tend to reflect divergent attitudes towards women and the family rather than financial considerations.

Maternity leave is relatively standard across the Community, averaging around 16 weeks (Graph 87). Pay for this period is generally calculated as a proportion of former earnings. The lowest proportion - 70% - is found in Ireland and the shortest duration of pay is in the UK - six weeks at 90% of earnings and 12 weeks at a flat rate.

Graph 88 shows the number of women on maternity leave during the reference week for the Community Labour Force Survey in 1988. Less than 1% of women in the Community with a job are on maternity leave at any one time. Among the countries for which harmonised data are available, the highest proportions of women absent from work due to maternity leave are found in Denmark (1.8%) and France (1.4%).

bour force participation rates among women and considerable experience with maternity leave schemes.

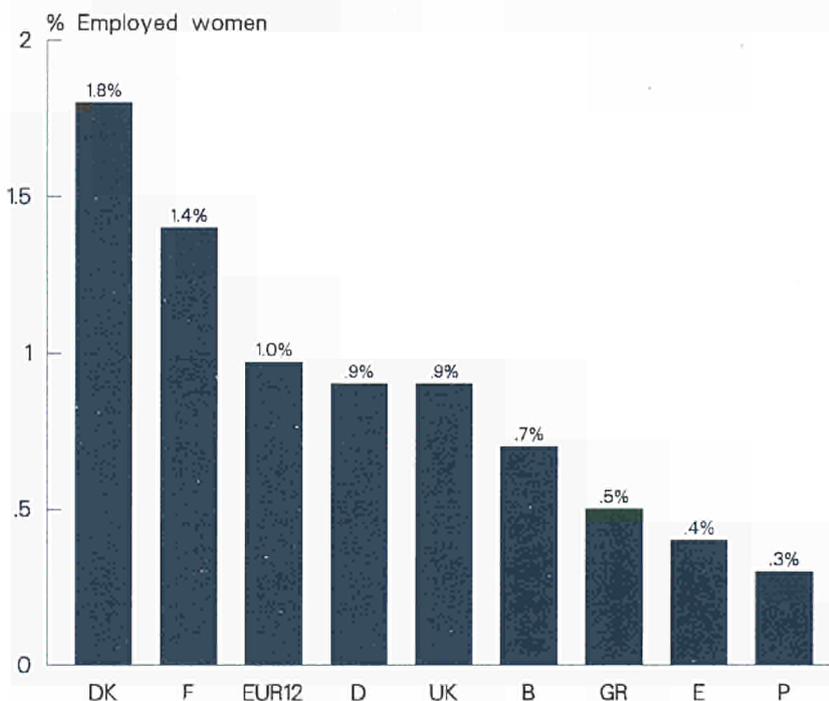
Eligibility for maternity benefit - a payment exclusively for women - seems to be based on rules which include criteria of continuity of employment or hours of work which are met much less frequently by women (married women in particular), than by men.

Examples of eligibility criteria are two years continuous employment with the same employer in the UK, and working 18 hours a week and having 6 months insured employment in Ireland. These criteria exclude as many as two out of three women part-time workers in the UK and Ireland who work less than 20 hours a week.

Parental leave provisions have grown in Member States, partly through collective agreements. Such provisions, along with the re-organisation of working time and childcare services, are one of the ways that women, and men, can combine work and home. They guarantee a job on return to work and, for employers, ensure continuity of staff familiar with their operations and needs.

Nine of the 12 Member States have developed forms of parental leave, paid or unpaid, but there are huge differences between the various schemes. The UK has no provisions at all. Ireland has a limited form of career break scheme in the public sector and Belgium has a more general career break scheme, 85% of whose beneficiaries are women. Denmark provides for up to 10 weeks leave paid at 90% of previous salary. The schemes vary not only in duration and payment (if any) but also in the extent to which they are

88 Share of Employed Women Absent from Work Due to Maternity Leave 1988



transferable between mother and father. There are further variations which take account of adoption, numbers of children and, in France, for example, of multiple births.

Absences from work for personal, family and other (undefined) reasons are typically more important for women than for men. In 1988, 1.3% of women and 0.5% of men in the Community with a job were absent from work in a selected week due to personal, family or 'other' reasons, according to the Labour Force Survey. Relatively small numbers are involved: half a million women in ten Member States (excluding Netherlands and Italy) out of 40 million women with a job. Denmark again, has the highest proportions of women (1.7%) and men (0.9%) who cite such reasons for their absence from work. Denmark is followed closely by the UK, which has no parental leave scheme, but where 1% of women and 0.9% of men with a job fell into this category.

Hours

Taking a break from work is one way of coping with work and family combined. Shorter working hours is another. According to the Labour Force Survey, the number of women (and men) who worked less than their usual hours in a week due to maternity leave, special leave or for family or personal reasons was very small. Shorter hours for personal and family reasons involved less than half a million women and men out of over 100 million job holders in the Community.

The Nordic countries, including Denmark within the Community, have an enlarged concept of leave which allows for more extended leave, for a wider range of reasons and with considerable consensus

between employers and unions as to their desirability. Thus in Sweden, for example, there can be a 20% gap between the numbers of women recorded as working and the numbers actually at work on the day of a survey. This is due to the generous paid leave provisions for parents.

Women in Sweden are entitled to eight weeks paid leave before and six weeks after childbirth and additional nursing leave. Either parent is entitled to full-time parental leave until the child is one year old with 90% pay or half-time leave at half-pay until the child is two years old. Parents retain seniority and the same or equivalent job and, on returning to work, can reduce their working hours by two hours a day in addition to their 90 days a year family leave for the care of sick children.

Such a system of leave not only reduces women's recorded level of

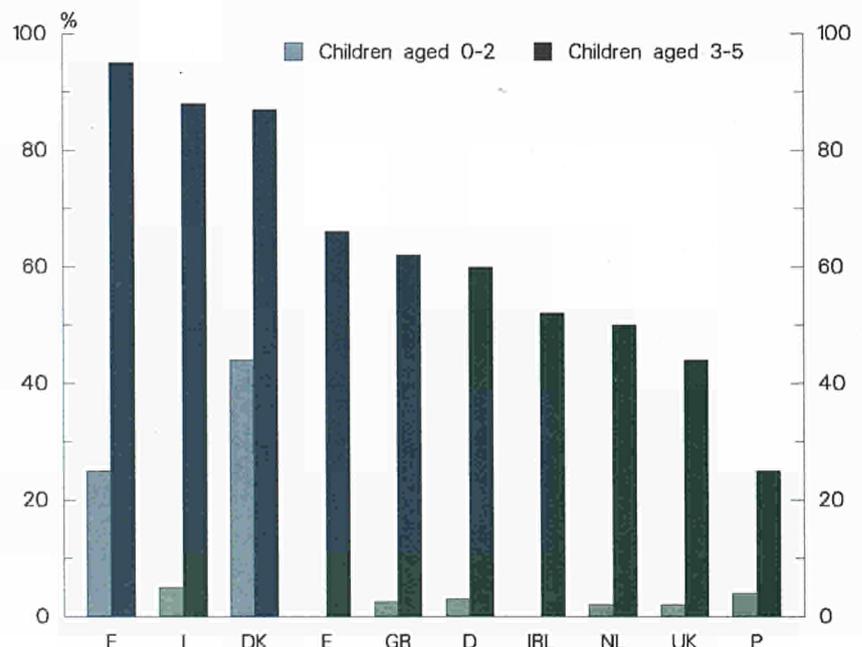
unemployment but contributes to the high level of labour force participation (80%) among women in Sweden.

But for many women in the Community, when parental leave comes to an end or a single income no longer suffices for a larger family, the decision to return to work arises. At this point, childcare moves to the top of many families' priorities.

Childcare

The relationship between women's employment and the availability of childcare in the Community has been well established by research. Commission research into childcare has outlined the link between women's employment, full-time or part-time, the numbers and ages of children in the household and the availability of childcare provision.

89 Share of Young Children Accommodated by Public Childcare Provision in the Member States 1988



The presence of children in the household has a far greater impact on the employment rate of women than that of men. In the 12 Member States, 89% of men with a child aged under four work full-time. The rate for women with a child of the same age is only 25%, compared to 57% for women aged 25 to 39 years old with no children.

The activity rate of women tends to fall further as the number of children in the household under the age of ten increases. The number of children which constitutes a turning point varies between Member States. In Ireland, a second child leads to a sharp fall off in activity rates of women, while in France, Belgium and Denmark, the critical point is three children.

In some Member States the growing concern about labour shortages during the next five years due to demographic changes has prompted some employers to increase their efforts to recruit women who have left work to have a child. Several large firms have decided to open workplace creches. This trend is likely to grow as competition for new staff increases.

The availability of public childcare services in the form of nurseries or infant classes in schools varies widely across the Community. At one end of the spectrum are Denmark, Italy, France and Belgium where a large proportion of pre-school children are catered for by public childcare services. In contrast, Luxembourg, Netherlands, Ireland and the UK have limited provision for less than 5% of children aged under 4 (Graph 89). In nearly all countries of the Community, childcare arrangements inside the family is the predomi-

nant form when children are small, according to Commission research.

The quality of childcare often leaves a lot to be desired. Childminders are frequently unregistered. Training for childcare staff and indeed carers in childcare are in their infancy. Yet, as more and more mothers seek to return to work, unregulated solutions are spreading into a mosaic of private arrangements.

The European approach to childcare differs from trends in the United States. There, developments have centred on the role of employers in supplying and advising on childcare as well as on use of the tax system. Only 2% of US employers provide workplace nurseries, but there are other employer models. One such model involves private childcare corporations which enter the market to provide childcare to employers on supply contracts. Even faster growing as a model is tax deductible childcare assistance for employees organised by employers into 'Funds'.

Like other social infrastructural developments, childcare expansion is employment creating. Improvements in training, qualifications and career development for childcare workers would enhance the value and eventually the earning power of childcare workers who are predominantly women.

Community Policies

Women's access to the labour market has been developed by the Community in a variety of forms: under its current Second Programme of Action for Equal Opportunities for Women (1986-90), as part of special

Community-wide social programmes, and under the activities of the European Social Fund.

The European Social Fund, in collaboration with the Member States, has developed a wide range of responses to integrate women more fully into the labour market including: all-women courses for those returning to work after an absence; training programmes in non-traditional occupations; and training in occupations where women have traditionally been under-represented.

In 1987, the ESF grant-aided just under 7,000 projects involving 1.2 million women in the 12 Member States. Women constituted 39% of the beneficiaries of ESF grants. The proportion of women among the total of ESF beneficiaries was as high as 47% in the FRG and 49% in Denmark.

Apart from the Commission-funded IRIS network of women's training programmes launched in 1988 (which now joins together over 200 women's public and private sector training projects across the Community - Box), there is also the Commission action-research programme - ERGO - for the long-term unemployed. ERGO supports or promotes projects and programmes which can help unemployed women and men break out of the vicious circle of labour market exclusion by sharing experience and developing good practice (Chapter 10).

Under the Commission's Second Programme of Action for Equal Opportunities for Women, the Commission has funded a wide range of research and action in the field of childcare and its relation to the labour market. Research has

been supported on the subject in every Member State, technical seminars on childcare costs, staffing and the role of men in childcare have been funded and the Commission's expert network on childcare has contributed to widening the arena of the childcare debate across the Community.

As part of its Action Programme relating to the implementation of the Community Charter of Basic Social Rights for Workers, the Commission will present a Recommendation on Childcare before 1992.

In relation to transport, geographical and social infrastructural constraints on women's access to the labour market, research by the Commission has begun to identify the policy issues, as has the research of the European Foundation for the Improvement of Living and Working Conditions on the theme of social cohesion.

The introduction of paid leave from work for family or parental responsibilities is an important policy measure which will allow women to retain their jobs and careers. A Draft Directive on Parental Leave has been prepared by the Commission and presented to the Council, where it remains.

Protecting the health and safety of pregnant women in the workplace is part of the Commission's priorities set out in the Action Programme to implement the Community Charter of Basic Social Rights for Workers. The Commission is due to publish a Draft Directive specifically on pregnancy and maternity in 1990. This will allow women both to have children and to remain in the workforce. In addition, the Commission will

prepare a code of conduct for the protection of pregnant women in the workplace.

The Second Programme of Action of Equal Opportunities for Women is drawing to a close at the end of this year and is currently being evaluated. With the expected increase in

the labour force participation of women, access to employment and the labour market will remain a policy issue in the Third Programme of Action currently being prepared by the Commission. In a changing labour market, old barriers will be overcome and new obstacles may have to be identified and measures

IRIS - A Community programme for women's training schemes



The history of IRIS

The IRIS network was created on the initiative of the Commission in recognition of the importance of training for women if they are to benefit fully and equally from economic growth and technological development. A Commission Recommendation was adopted in November 1987 on vocational training for women and their access to all types and levels of training. A year later, in December 1988, IRIS was launched.

Its Objectives are:

- to increase the provision of good quality training for women
- to publicise women's training needs, promote exchanges of information and experience, develop cooperation and identify partners
- to evaluate and develop training programmes adapted to the needs of women
- to increase the involvement of employers and trade unions in vocational training programmes for women

Its Actions are:

- inter-programme exchange visits and possibilities for transnational partnerships and sponsorships
- four national seminars and a transnational seminar organised annually to analyze training strategies as well as a series of technical evaluation meetings
- publications including the IRIS bulletin with update news on the network and on training in Europe; the Skills Message Board which presents the IRIS training programmes which have finished and the skills acquired by trainees; specialised dossiers and an annual directory giving a profile of network members
- a database of IRIS member programmes, which gives detailed information on the sector and type of training carried out, the trainee target group and the training programme
- an electronic mail and bulletin board facilitating communication and exchange of information, still in its experimental phase.

designed to remedy them. This will be among the tasks of the Third Programme for the period 1991 to 1995.

Conclusions

The 1970s was a period of affirmation of women's place in the labour force and entitlement to equal treatment with men. The preoccupations turned around demonstrations of the similarity of women and men on the labour market and of the need to compare like with like. The 1980s has seen a shift towards recognising that there are differences and that, to ensure equality, policies on pregnancy, on different forms of employment and on educational orientation need to be developed.

With the close of the decade, the debate has gradually shifted in the Community from establishing the nature of the differences - for example, part-time versus full-time work - to devising policies and specific measures to take account of those differences. Access to the labour market is one area where women start out with handicaps not generally encountered by men. The intention of new policy measures is not to develop a new form of labour market protectionism for women,

but rather to remedy the specific barriers which block the full utilisation of women's capabilities and prevent their entitlement to equal treatment.

The needs of women attempting to re-enter the workforce after a long absence and of those who want to retain their jobs while taking leave or career breaks are similar in many ways. Retraining and return-to-work programmes will have a large role to play for older women who have been absent for a considerable period. Their special labour market difficulties are recognised in the training and employment measures of the Structural Funds.

The decline of old manufacturing regions and the widening divide between developed metropolitan zones and their outlying residential areas risk creating new time-space constraints on women's ability to make use of new employment opportunities. This will affect both older women and younger mothers.

The development of different forms of leave and working hours, available to women and men alike, could offer to parents the type of flexibility in household management which many employers seek in the workplace. As the population of Eu-

rope ages and life expectancy lengthens, leave for the care of the elderly will take on the urgency that childcare has today.

The Commission has sought to play a leading role in the Community as far as public awareness and information on these issues is concerned. Many Member States and local authorities have shown an interest and willingness to involve themselves and share their experiences in discussion about policies on childcare. The Commission and the Member States are currently evaluating these measures as the Commission's Second Programme of Action for women draws to a close at the end of 1990.

The Commission has supported a considerable research programme into childcare, different forms of leave and social infrastructure affecting women's labour mobility. Women need little tempting back to work. For many households, a double income is imperative. Lifting some of the obstacles will establish equality of access and provide women with an effective right to work in a labour market where they will represent an ever greater proportion of the participants in the 1990s.

Chapter 7 Managing Change in Large Companies

The way large firms recruit and manage their labour forces has an important impact on standards and practices within the labour market generally. Globalisation of markets is bringing many changes - not least in management styles.

Introduction

In the 1980s, the talk was all about dynamic small and medium sized firms as the source of new job creation, and as the key to adaptation and recovery within the European economy. Despite squabbles about the correct interpretation of US and European statistics about the birth and death of businesses, it was clear that there was something in the argument.

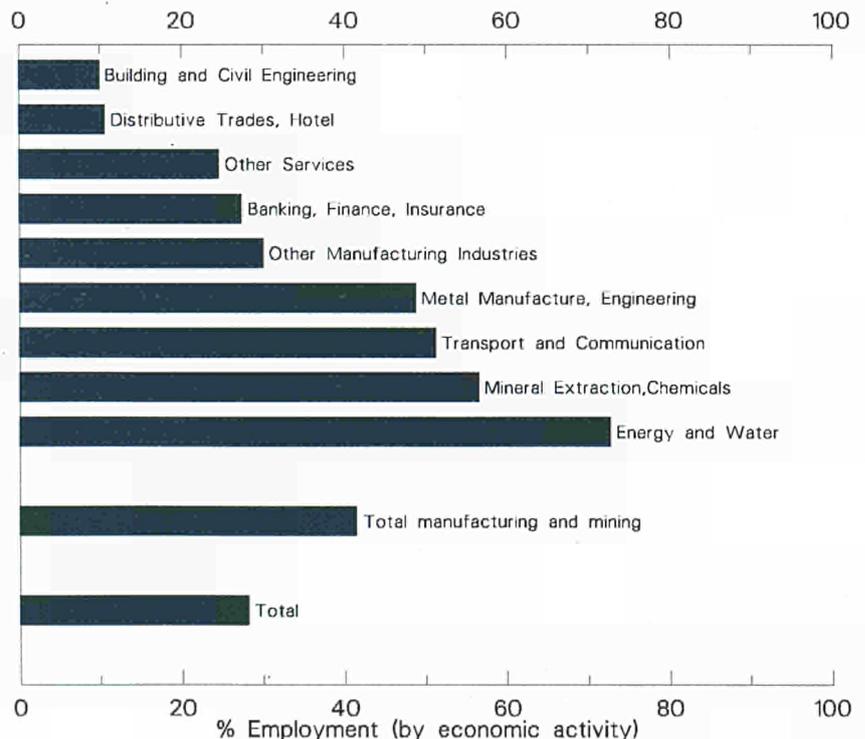
Small companies with less than 100 employees remain important and still account for well over a third of total employment in the European Community. In 1986, however, 28% of all people in work in the Community and 42% of those working in manufacturing were employed in large companies with over 500 employees (Graph 90). As the decade ended, the traditional strengths of the large companies have re-emerged, reinforced by the market prospects opened up by the 1992 programme and reflected in a new wave of mergers and concentration (Graph 91).

The relative importance of large versus small and medium sized firms is not the only issue, however. The way large firms do business is important for all sizes of firm since

they set many of the standards which others eventually follow. In particular, the way large firms operate with regard to the recruitment and management of their labour force has an important impact on the standards and practice within the labour market generally.

Not that the learning process is all one way. Large firms have learnt the benefits of flexibility from smaller businesses and begun to make their own operations more flexible. They have also seen the importance of the people they employ and have themselves moved away from for-

90 Employment in Large Companies



mal, bureaucratic structures towards more entrepreneurial organisational systems in which rewards are more directly related to performance. They have also been quick to modify their recruitment practices as labour markets slackened and then tightened. The outcome of all this has been to raise the profile of human resource issues within the general context of company management strategies and this profile is likely to remain high over the coming decade.

Changing Priorities Within Companies

Historically, the emphasis in management has been with production and the production process - investing in the right plant and equipment and using it to produce quality products. In the 1950s and 1960s there was a marked shift in

emphasis towards marketing, identifying consumer and user needs and organising the companies' activities to meet them, pushing production into a secondary, supportive role.

The economic crises, high rates of inflation and major structural changes of the late 1970s and early 1980s brought another change of emphasis, this time highlighting the importance of sound financial management. The emphasis was on cost control, both in terms of the shop floor and in terms of corporate borrowing.

Human resource management in the 1980s was largely about managing the recession. In terms of employment, it meant coping with, at best, low growth and, at worst, a serious structural decline. It meant, for many companies, especially larger ones, finding ways of reduc-

ing the labour force without resorting to mass redundancies. Firms use a variety of devices to achieve this - leaving vacancies unfilled or offering early retirement - whilst at the same time seeking to contain labour costs, both by holding down nominal increases and cutting back on non-wage labour costs.

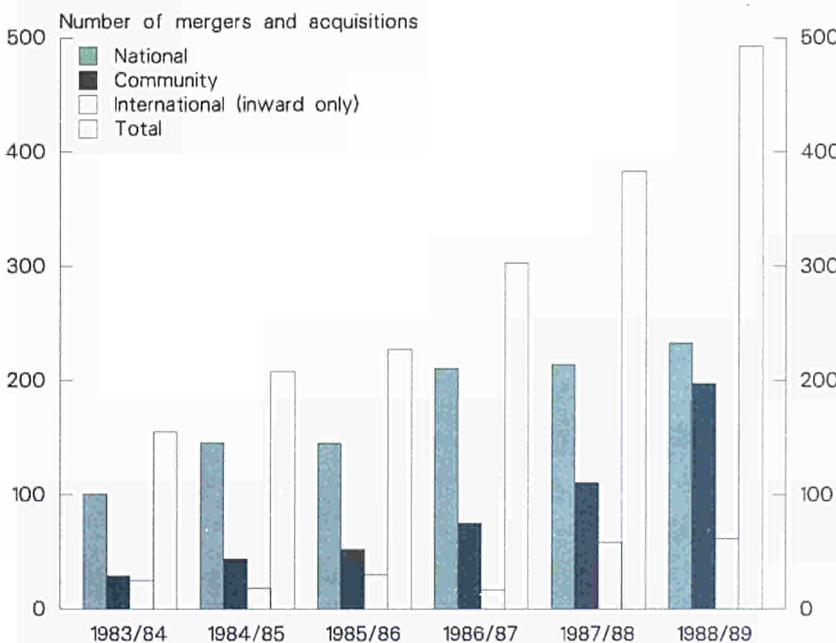
As the 1980s came to an end, and as confidence in the expanding Community economy increased, a new balance has emerged, combining the different strands of management concerns into a more integrated and cohesive strategy.

Not all factors have changed, some have just persisted like the pervasive spread of new technology which is a constant warning to companies of the dangers of slipping behind. Equally, the continuing trends towards global markets for a growing number of products and services and the on-going flurry of mergers all put pressure on companies, which are forced to run in order to stand still.

Overall, however, there has been a marked improvement in market prospects which have brought greater confidence and enhanced profitability. Indeed such is the pressure in some areas of the Community that firms are beginning to report labour shortage as a potential bottleneck to meeting production targets.

All of this would, anyway, have put emphasis on the labour and human resource management policies of companies, but it has been reinforced by demographic trends. The reduction in the number of young, better educated and adaptable people coming on to the labour market is both pushing up the average age of the labour force and forcing companies to come to terms with

91 Mergers and Acquisitions in the Community 1983/84-1988/89



using new sources of labour. At the same time, a range of other issues - from education, training and working time arrangements to the extent of labour force involvement in management and the place of the corporation in the local community - is broadening the human resource agenda for large companies.

Human Resource Management

Human resource management, or personnel management to give it its more traditional title, is still accorded low priority in many companies with, for example, managers earning less than their counterparts responsible for other functions and being less well represented on boards of directors.

The position is changing, however. The competition to attract scarce young brain power to implement and guide company strategy as well as to attract personnel to implement that strategy on the shop floor on in the office is becoming intense. Many companies now feel that they need to compete as hard to attract and keep the labour they want as in selling the goods or services they produce.

Moreover, companies who operate progressive employment practices are finding that such policies give them a competitive advantage in the market place. The search for greater flexibility in the workplace, more involvement in education and training, new forms of contract and greater employee participation are creating a new agenda among human resource managers in large companies.

Just as markets have been globalised, so have management ideas. Thus the Japanese ways of doing

things, or the strategies of US multinationals, are becoming as much a part of the European labour market management scene as the practices of indigenous European companies. Different approaches are being assessed and exploited in order to ensure that European-based industries and services maintain their competitiveness in world markets.

Current Issues

Many issues are currently being reviewed in the human resource field, but high on the agenda of large companies are the education and skill ability of the labour force, working time patterns, the development of production systems able to meet global market conditions, systems of performance incentives, the ownership of the company and the company's relation to local conditions and communities.

Education and Training

Skill shortages, and even more basic problems of labour force literacy and numeracy, are leading many large employers to seek much greater involvement in education and training. Such involvement, however, has gone further in the US where businesses are increasingly developing corporate education strategies and taking a sustained interest in reform of the school system. The problems are often similar as regards existing employees, many of whom need retraining but have generally had little recent exposure to education.

Skills are not limited to the operation of machines or other practical matters. Skills of communication and teamwork also need to be taught in modern companies. Moreover, the successful upgrading of a

company and of its products or services can require remedial and advanced training for the entire workforce. Basic numeracy skills are increasingly needed, for example, in order to implement statistical process control, and here European companies suffer a disadvantage relative to the Japanese with their superior teaching of mathematics in school.

The involvement of companies in education can extend to setting up their own education courses or even institutes. Even so, much training is still done on the job, but in the more progressive companies this is increasingly performed within structured programmes which monitor the level of achievement.

Working Time

Working time issues have been the subject of tough negotiations in Europe for over a decade. While much remains to be resolved, and the Commission is making proposals in this area, the pattern of working life for employees in large companies is continuing to change under pressure of both the production process and the global market.

Companies naturally seek flexibility in their operations but, most of all, they seek a high level of capital utilisation and continuous operation. Sometimes this is driven by technology, as in the chemical and other processing industries, but it can equally be determined by market needs, servicing the globe on a 24 hour a day basis.

However, companies need to balance their own demands against the social and individual needs of the workforce in the countries in which they operate. As various forms of shift-working become even more widespread in production, mainten-

ance, delivery and retailing, there is a continuous search for formulae to reconcile the interests of company and employees. So far no universal patterns seem to have emerged, and local negotiations are common in agreeing arrangements in individual cases.

Companies have also sought to make the form of employment more flexible, with the growth of part-time, temporary and self-employment (Graph 92).

Productivity, Pay and Ownership

Incentives to promote productivity have been developed with pay linked to performance for many groups of workers, especially managers. A related trend is the move towards skill-based pay, where workers are rewarded for the range and

number of skills that they can develop and apply.

Pay-for-performance schemes can raise productivity if they are integrated within an overall employment strategy for the firm. They do not necessarily work if simply tacked on to existing employment contracts.

While most of the European economy is still owned in traditional ways, by families, banks or shareholders, senior managements has come to take a bigger share - notably through management buy-outs. This is being extended further with the spread of employee share ownership plans (ESOPs), which have been used particularly in the case of succession or distress purchases of private companies.

Giving the work force a stake in the company's performance is not a

universal panacea for improved profitability, but it tends to be associated with positive management approaches which, overall, raise the performance of the company. This shows itself especially in 'high involvement organisations' (HIOs) as described later.

Flexibility and Sub-Contracting

Major changes have been observed in the pattern of vertical integration and disintegration of companies in recent years and in the structure of ownership.

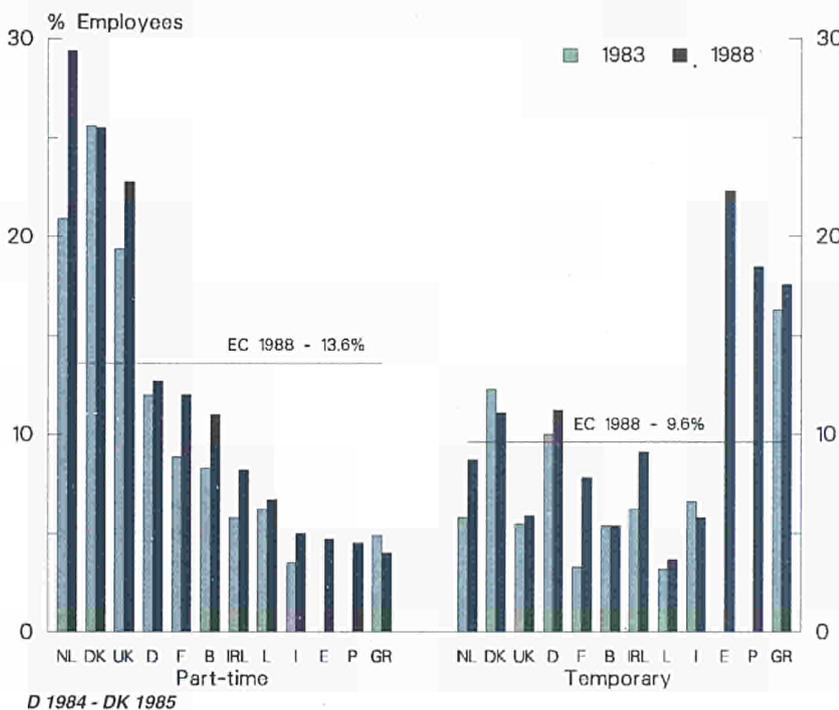
The whole question of company structure relative to purpose (what business are we in?) has led to organisational changes which are aimed at maintaining control over product or service quality and delivery, but which may affect the management of production in a variety of ways.

The new emphasis on core activities has encouraged companies to contract out functions such as security or catering but many others also put marginal or irregular activities out to specialised, mostly smaller, companies.

The advantages in terms of reducing the company's risk or financial stake in operations is offset, however, by the need for much more rigorous systems of management and control which again have implications for the training and skill structure of the work force.

At the same time as companies have been expanding in size through mergers and acquisitions, they are also under pressure to be more responsive to local consumer demands and to develop their own distinctive products. Flexible systems of manu-

92 Part-Time Working and Temporary Employment in the EC 1983 and 1988



facturing and distributing goods and sophisticated information and telecommunications systems have allowed companies to decentralise their operations while at the same time expanding in size.

The computer industry, for example, has centralised its R&D to benefit from economies of scale, while decentralising its supply and distribution networks better to serve and service its customers. Likewise, firms specialising in fast food or financial services have found that their success depends upon opening clusters of shops with longer opening hours in various sections of large towns. They need to offer a wide range of products which involve some element of individual customisation to cater for local tastes.

Companies in fashion markets have similar experiences. A successful clothing enterprise operating in a world market may supply its products through a computer-controlled network of factories based on flexible manufacturing technology, warehouses that operate modern stock control systems and shops that regularly put new products in front of consumers. As local fashions change, the manufacturing system can respond quickly. Thus the company benefits from both the advantages of being local and of being able to exploit transnational economies of scale.

Companies and the Local Community

While companies are increasingly global in scale, they are nevertheless constrained by the fact that their operations are inevitably locally-based. For a variety of reasons - good business sense as well as good neighbourliness - they have to be

careful about their relations with the local community and, in case of major difficulties such as closures or redundancies, much more inclined to participate actively in the wider process of readjustment of the local economy than in the past.

Local image is important, not least because large companies generally seek to recruit the best people available on the local labour market. Moreover, with the changing pattern of work - notably the much higher participation of women in work and the consequent demand for flexible hours, creche facilities, transport etc. - companies have to be more involved in the local economy and local family life in order to attract suitable employees.

Companies will, ultimately, put their own interests first in times of economic difficulties, but quality companies know that their success depends on the active and positive involvement of their workforce.

Management Philosophies

The ways in which companies adapt their recruitment, training and employment policies to the new environment depend on a variety of factors, not least the overall business philosophy of the company. In this respect, the dominant model is still the management prerogative one, with the more participative involvement model still in the minority and examples of the high involvement model relatively few and far between.

However, in the tight labour market conditions of the 1990s and with the increasing need for companies to maintain flexibility in their operations, all management models have to place emphasis on human

resources. Management models with a higher involvement may give a competitive edge. In this respect, while there is good European experience to draw upon, lessons are also to be learnt from outside the Community - notably from the US and Japan.

The traditional management prerogative model - where management decides and the workforce obeys - is based on the premise that, not only do managers represent the owners of capital, but they are better informed about the company. Decision-making inside a company is restricted to senior management whose task is to ensure that change is implemented effectively.

The weakness of this model is that many management decisions have implications for the entire workforce. The decision to merge with or acquire another business, for example, may have major effects on future prospects, pay levels or location of work. Arguments in favour of greater involvement are not purely altruistic. There is evidence that lack of employee involvement, just as much as a clash of corporate cultures, may be an important factor behind the failure of many mergers and acquisitions, which otherwise seem commercially sound.

Because of these factors, many firms have begun to involve employees much more - at least in the later stages of decision-making when, for example, budgets and target dates for implementing changes are discussed. At this operational, as opposed to strategic, level many firms have developed more formal systems of worker involvement. These may take the form of consultations at the workplace, negotiations with trade unions, surveys of workers' attitudes or the involvement of employees in discus-

Managing Change - Transatlantic Experiences

The ways in which large multi-national companies manage their internal company labour markets have changed considerably in recent years. The Commission has supported various face to face meetings in order to promote a wider exchange of experiences between European companies, and between them and US and Japanese companies.

Transatlantic dialogue began in 1985 between the Commission, the US Industry Co-ordinating Group (USICG) and European firms concerning approaches to planning for growth and managing change. A series of seminars and meetings have been held, built around case study experiences and exploring the policy ideas being developed by the Commission, government and industry.

The first seminar in May 1986 in Bruges was on 'Employment Practices in American and European Firms'.

Three main themes were covered:

- Planning for change within the company: growth and reduction of the labour force.

Examples of labour force growth and of adapting to technological advances through organisational designs and systems were given together with examples of labour force reductions that demonstrated the involvement of employees.

- New areas of job creation.

Large firms are the mainstay of most economies but they are not major new job creators. The majority of jobs created over the last fifteen years in the US and Europe have been in the service sector and concentrated in small and medium sized companies. The impact of trucking deregulation in the US on new small businesses, the problems experienced by large non-competitive companies in adjusting to the new environment, and examples of two successful business start-ups were given.

- External considerations.

Three examples were used to show the growing need for closer cooperation between industry and educational institutions, including small business job creation programmes and company sponsored youth training schemes.

The second seminar, in Antwerp in May 1987, was on "Managing Change: Working for Growth and Employment".

sions on quality control through 'quality circles'.

The advantage of 'involvement models' of management of various sorts is that, by associating a broad range of management and workers and/or their representatives in decision-making, this ensures a high quality of ideas and speeds up the implementation of change. Once change has occurred, its results are likely to be more effective.

A new form of managerial approach being increasingly tried in the US is that of the 'high involvement organisation' or HIO. This takes involvement to its logical conclusion, drawing all levels of the work force into the decision-making process.

HIOs generally encompass four types of involvement, extended to workers at all levels in the hierarchy:

- power to make decisions (without which employee involvement in any form remains trivial)
- rewards for performance (to align employees' motivations with business needs)
- information (to allow employees to make good informed decisions)
- training to expand employees' knowledge and skills (to help them make decisions and implement them)

While applied most in the US, the high-involvement approach was developed by the Tavistock Institute in the UK in the early 1950s. Since then the concept has developed little in Europe, although isolated examples exist, such as in the use of

small teams to build Volvo cars in Sweden. In the US, by contrast, some thousand companies have incorporated the idea, mainly in the manufacturing sector but also in services.

Perhaps because of the opportunities for imitation, HIOs have become clustered in certain manufacturing sectors such as the paper industry, where it is fast becoming the norm in the US. While it has wide applications, it appears to be particularly attractive in industries using continuous-process technologies, where each employee is given responsibility for one part of the production process.

Though trade unions in the US have not been particularly involved in high-involvement, there are examples of unions participating in setting them up, and where aspects of the organisation's design was discussed in advance, with full union representation.

While one of the key features of HIOs is the low number of managers, the single most important factor behind its successful adoption is seen to be the vision and imagination of the managers involved. They have to be able and willing to break the mould - cautious managers will rarely pull it off.

The basic lesson that can be gleaned from the examples of successful large companies over the past decade is that innovation needs to be undertaken across the company as a whole, and that it needs to involve all people in the organisation. Change is not easily implemented if it is introduced in a piecemeal, *ad hoc*, top-down, manner.

This seminar was an opportunity for the European Commission to present its policies to promote employment growth to representatives of the US and the European business community. The Seminar stressed the completion of a unified Internal Market by 1992 as the European Community's strategic goal, and covered employment and economic growth strategies; Internal Market and industrial policies; labour market adaptability and managing change.

Meetings were held in 1988 and 1989 leading up to a seminar in April 1990, in Washington DC, on 'Work Organisation Flexibility and Workplace Education and Training', which was attended by Commissioner Vasso Papandreou.

Participants at the US seminar looked at a series of problems in the labour markets of the US and Europe.

A range of company case studies were presented, from how US employers are coping with the increasing need for high levels of skill in their workers, to ways in which even small firms are making partnerships with universities to develop and deliver both remedial and advanced training. The changing balance of bargaining power in the labour market was stressed, encouraging companies to offer work environments which meet the needs of a more discriminating and demanding labour force. Policy issues which arose were examined, including the role of Government in training.

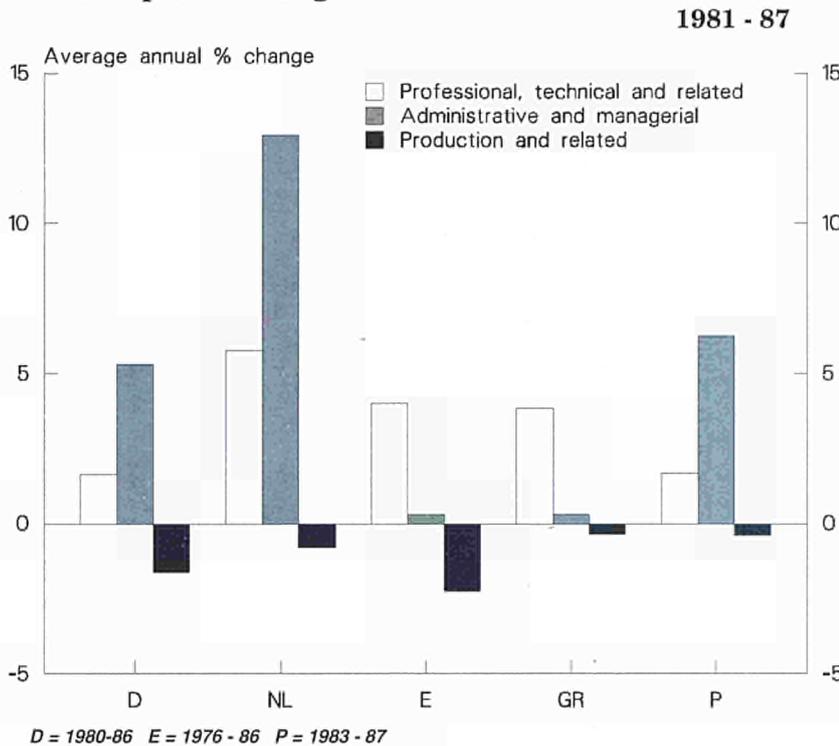
Other Seminars

A series of other management-related seminars have been held, outside of the Commission-USICG framework, and which have focused on employment issues for large companies in the context of 1992.

Four seminars have been held:

- Managing the Size and the Composition of the Labour Force. June 1989 Brussels.
- Relations Between Large Companies and their Local Communities. November 1989 Barcelona.
- Alternative Working Patterns and Demographic Change. March 1990 Dublin.
- The Workforce as a Vital Resource. June 1990 Brussels.

93 Occupation Changes in 5 Member States

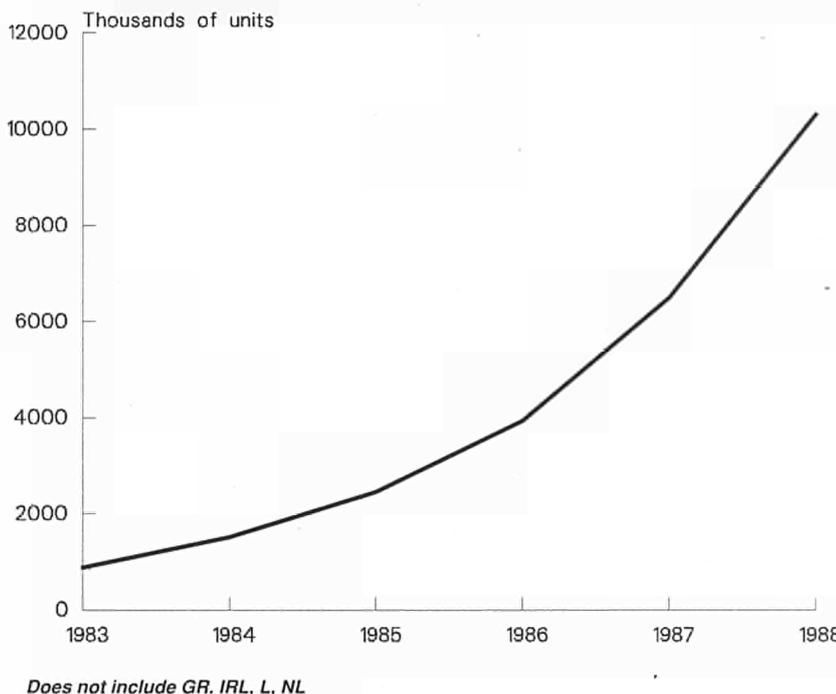


Economic, Technological and Social Pressures for Change

In addition to external economic pressures and the managerial style of the company, technical innovations at the workplace also affect employment. Developments in information technology, biotechnology and materials technology in recent years have provoked a major change in employment structures, and further transformations lie ahead (Graph 93).

Technical change reduces costs and brings new products onto the market. The speed with which information technology know-how is applied is crucial to economic success. Lowering of trade restrictions has opened up a world market for new technology, which has become a pre-requisite of competitiveness. Countries which do not have access to this technology market are heavily disadvantaged - as seen in Eastern Europe.

94 Installed Base (office and home) of Personal Computers in the Community 1983-88



As the value of IT has grown, so has its cost fallen. Prices have been reduced by as much as 25 per cent each year over the past 20 years. The extent of the reduction is illustrated by the falling price of DRAMS (Dynamic Random Access Memories), an essential component of most sophisticated electronic and consumer goods used today. It is estimated that the market for DRAMS grew by 36 per cent in 1988 and 1989 alone. The spread of information technology is also indicated by the rise in the ownership of PCs, which was as much as 1000% over the five years 1983 to 1988 (Graph 94).

However, information technology is only of value if it is used in an appropriate working environment. A major benefit of IT comes from its ability to integrate the activities of the firm. This requires restructuring and a redesign of jobs in order to ensure a smooth information flow throughout the enterprise. This in turn requires organisational changes which can have a significant influence on employment and working conditions, and which often require a trial and error period during which technical, operational and training problems can be identified and put right.

If firms do not do this, they may find that IT has yielded low productivity gains because they have over-invested in the hardware and software but under-invested in the organisational structures required to make it work.

As economic, managerial and technical pressures act as a stimulus for change, political and social forces will also be brought to bear. The Community is committed to ensuring that companies gain their competitive edge through increased efficiency, rather than at the expense of vulnerable groups within the workforce. Economic pressures for change are therefore tempered by concerns for basic standards on issues such as pay, working conditions and employees' rights.

The combination of these political and social pressures, together with economic and technological innovations, will continue to act in the coming decade.

Conclusions

The first step towards managing shifts in employment is to under-

stand and anticipate them. The Community has an important role to play in this. The great diversity of laws, customs, practices and cultures across Member States makes it difficult to generalise about responses to changes in employment structures, and there are little hard data available. This underlines the need for Member States to pool their knowledge and experience.

Effective management of change depends on an integrated view of an enterprise or of the economy. New technology is inseparable from employment practices, as it is from working conditions. Employees are as valuable to production as management.

Piecemeal, top-down methods do not seem to have been as successful as a means of introducing change as a managerial style which emphasises mutual effort and involvement.

On a macro level, the Community has a role to play in ensuring that structural shifts in employment work to the benefit of all. The side-effects of change should not fall unduly on disadvantaged social or economic groups or deprived regions.

The challenge is to mitigate the negative costs while maximising and sharing the benefits. The first step is greater awareness and under-

High Involvement Companies - A Case Study

The response of one US manufacturer to competition from low wage countries was to develop an 'involvement team' composed of representatives of all levels of the workforce, from factory operators to technicians, engineers and marketing people. At the same time, their product was redesigned so that it could be made in the high labour cost US suburbs and still be competitive.

The company achieved a remarkable transformation. It reduced the production cycle from four weeks to one hour. This meant that faults in the product could be quickly detected and repaired, with a dramatic improvement in quality. Wages went up by 20-30% because new levels of productivity were tied to performance pay. Company profits also increased, by a factor of two to one over the bonuses it pays to its employees. The high-involvement method has now become standard within the company and has been adopted successfully in plants outside the US.

HIO companies need not be particularly large. Another US example makes a children's drink and has a plant with 40 employees but only one manager. The plant operates around the clock, and employees make most decisions on their own, with minimal managerial interference - they regularly hire and fire team members, make recommendations for promotion and take technical decisions.

A sister plant has 80 employees and again only one manager. The employees benefit from profit sharing, the use of information programmes down to operator level and extensive training.

The company has calculated that its high-involvement plants are 40% more productive than traditionally-organised factories, which matches similar estimates from other companies which have adopted the HIO approach.

standing, gained through shared experience. From there, the Community can begin to develop its own strategy for change for the coming decade.

In the 1990s the impact of change will be very different from in the 1980s. Economic and employment growth are forecast to go hand in hand and companies will be encouraged to focus on:

- encouraging geographical/industrial/occupational mobility;
- attracting young married females back into employment;
- encouraging those of retirement age back into employment.

Work packages will have to be more tailor-made for different types of employee. For example, in-house training could be offered to school-leavers, nursery facilities to women

with children, and a shorter working week for elderly people on the point of retiring.

While the proportion of unskilled workers is generally likely to fall, employees with technical skills, particularly in IT, bio-technology and materials technology will be sought after. Similarly, while routine clerical work is likely to tail off, managerial and professional tasks will probably expand, just as over the 1980s (Graph 93).

The general shift towards skilled work suggests that a broad based education and training programme will become as important as apprenticeship and specific technical qualifications. Firms are likely to want their workers to cover a wider range of functions. Closer attention will be paid to recruitment policies and training practices, as well as to providing conditions of employment suited to these groups.

Chapter 8 The Development of Vocational Training

Member States need to respond to forthcoming changes in the labour market which will require higher standards of skills. This means developing a common policy of education and training, while respecting the national systems which exist.

Introduction

The 1990s are likely to be a period of intense pressure on the vocational training systems of the Community. They will need to respond to changes in demand from the labour market characterised by a stronger emphasis on quality and higher standards of both general and technical skills. At the same time they must work out how to prepare young people to enter a labour market which will be increasingly European in character. This will require changes in attitude, levels of communication skills and better knowledge of other Member States.

The creation of the Internal Market will lead to restructuring at national and international level, demanding new and different skills. Companies which operate worldwide require staff who think internationally, are willing and capable of operating in different cultures and of fostering international contacts.

Member States are already actively responding to many of the challenges implied and are engaged in reforms and reviews designed to extend, diversify and improve

provision. There is already a much stronger perception of the importance of training - both initial and continuing - and of the need to review its content and the adequacy of existing structures and systems for providing it.

Under Article 128 of the Treaty of Rome, the Commission has a duty to develop a common vocational training policy and has undertaken in 1990 to bring forward proposals to revise the 1963 Decision which sets out the basic principles of such a policy. It has already made a number of other commitments, namely:

- to prepare an instrument proposing a right of access to training, in accordance with the Social Charter;
- to make proposals for rationalising existing Community-level training programmes;
- to speed up action on establishing comparability of training qualifications.

These developments will have to take account of the marked differences between the national systems of training and of education. The development of a common policy is not a matter of making proposals for

structural changes to these existing systems in order to harmonise them: national education systems are the product of long and complex development, reflecting national history, culture and values. The evolution of Community policy must therefore work through them, not against them, leaving responsibility in national hands where appropriate but paying proper regard to common European objectives.

Some Key Differences

There are a number of significant differences between national systems of providing initial training.

- The age at which compulsory schooling finishes still varies considerably. In about half the Member States the statutory minimum age for leaving full-time schooling is fixed at 16. In Greece, Ireland, Luxembourg and Belgium it is 15 and in Portugal, it is 13.

Although in practice many young people stay on in general education after the end of compulsory schooling, this means that countries with low minimum leaving ages may face two problems: first, pupils who do

not stay on may arrive on the labour market inadequately prepared; second, those who stay on and enter training may find that a shorter period of compulsory schooling has not have provided the necessary broad general education needed as the foundation for good quality vocational training.

- Some systems require participation in part-time compulsory education or vocational preparation after the pupils leave school (e.g. the Netherlands up to the age of 17 and Belgium and the FRG up to 18).
- Mainstream initial training is mainly work-based in the FRG, but mainly based on school, college or training centres in all other systems.

- The location of central ministerial responsibility for training varies. Apprenticeships and work-based training are regulated by education ministries in Denmark and the FRG, but by employment ministries in Portugal and the UK. In nearly all Member States, post compulsory vocational courses longer than a year are the responsibility of education ministries (the Youth Training Scheme in the UK is a notable exception).

But where there are not enough courses or they are of low status or quality, post-compulsory vocational training is provided to young people by much shorter courses run by employment authorities. Because they are not under education sponsorship, these

courses are usually outside the regulated mainstream systems and separate from them. They include, for example, the training programmes run under the authority of the regions in Italy, the large number of shorter and longer courses organised through the employment authorities in Portugal and Spain, and the various types of courses ('stages') offered to unqualified or poorly-qualified school leavers in France.

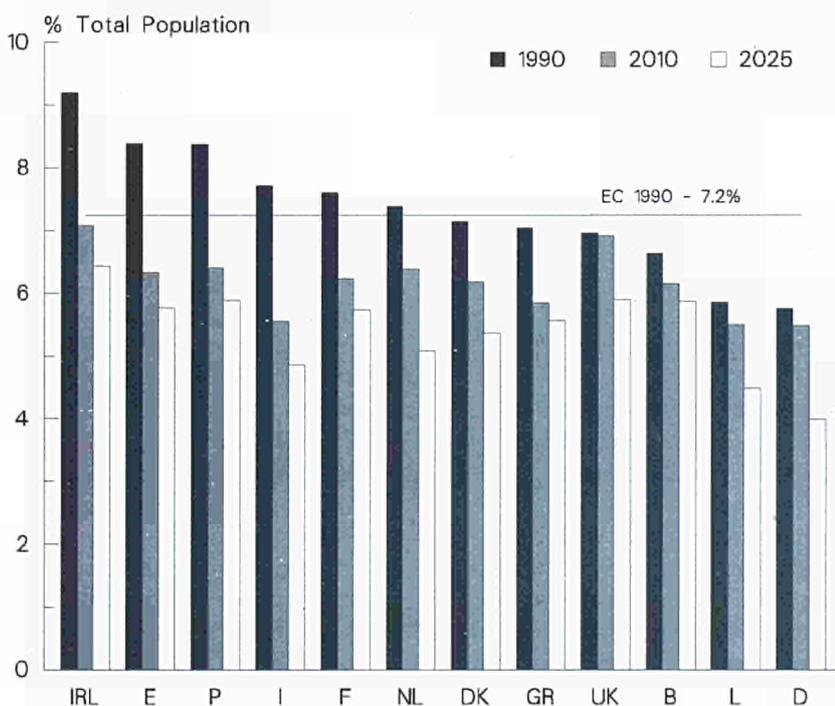
- The socio-economic status of a young person in training varies according to the type of training and the system of provision, so that young people may be treated as students, trainees or employees and may be receiving training allowances, salaries, or nothing.

The Consequences of Demographic Change

European and national policies need to take account of the demographic 'time-bomb' which is likely to affect the supply of young people coming onto the labour market. Over the next 35 years, the numbers of young people aged between 15 and 19 is projected to decline from over 7% of total population to around 5%, with even greater proportionate falls in certain Member States, such as Italy, Spain and Ireland, where this particular age group currently represents a higher percentage of population than elsewhere (Graph 95). Overall the decline in numbers across the Community might be as much as 15% over this period.

While one positive consequence will probably be a fall in youth unem-

95 Share of 15-19 Age-Group in the Total Population in the Member States 1990, 2010, 2025



ployment, the changes could also mean:

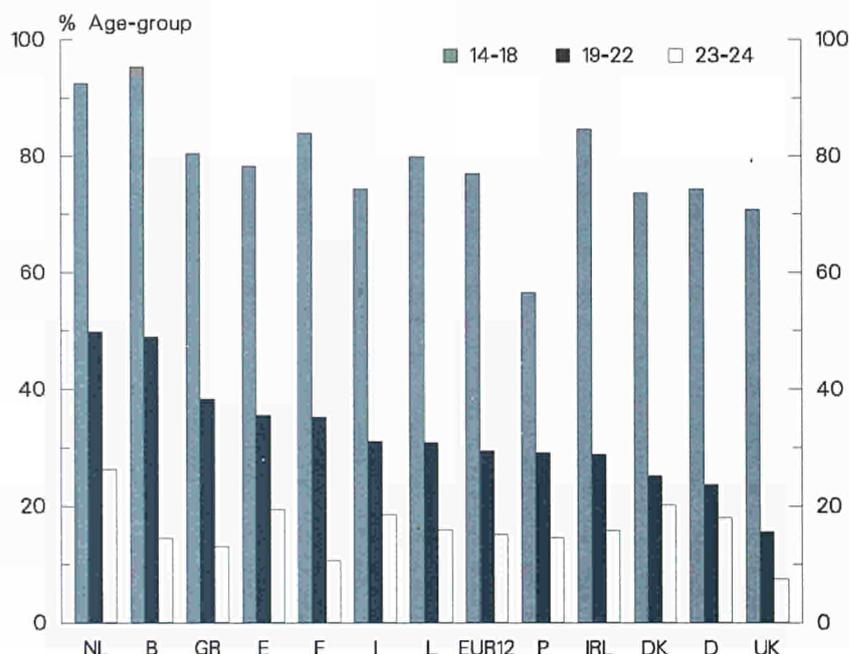
- increased urgency to ensure that all young people receive training so that a greater proportion enter the labour market with a qualification;
- competition between employers, which in some regions may lead to earlier recruitment of young people into employment and the risk of them not getting adequate general education and basic training.

Different Patterns of Education and Initial Training

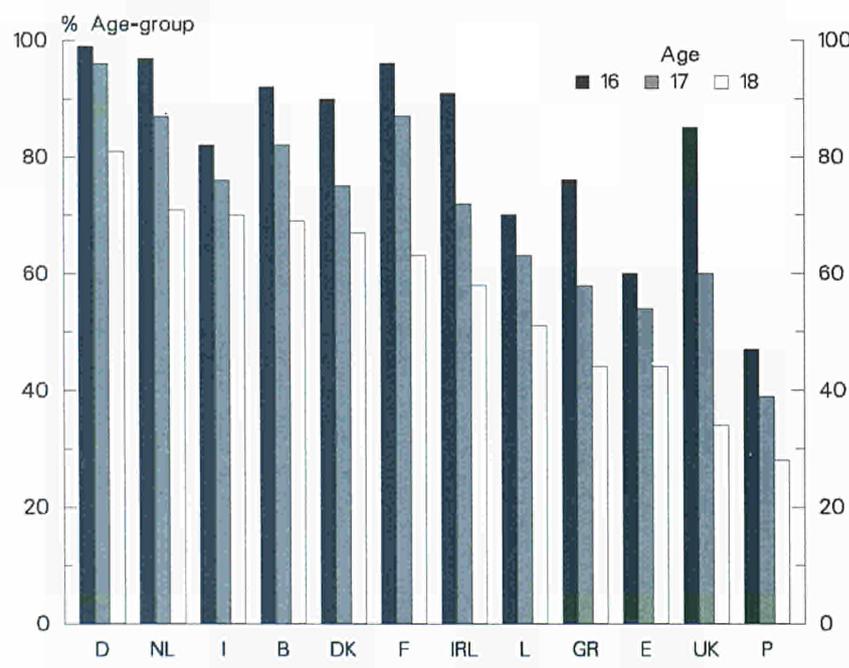
The differences in the length of compulsory full-time schooling (and the inclusion of compulsory part-time training in some Member States) make it difficult to compare retention rates - the extent to which all young people receive a substantial period (one to three years) of training or education after the end of full-time compulsory schooling. Nevertheless, such a comparison gives some idea of current differences between Member States which, in some cases, are substantial.

According to the Community Labour Force Survey for 1988, some 80% of young people aged between 14 and 18 were in education in the Community, with the proportion varying between 70% and 90% in Member States, with the exception of Portugal, where it was under 60% (Graph 96). For 19-22 year-olds, the university age-group, the proportion in education was around 30% in total, though close to 50% in the Netherlands and Belgium as opposed to only just over 15% in the UK. For the 22-24 age group, the

96 Share of Young People in Education in the Member States 1988



97 16-18 Year Olds Participating in Education or Training in the Member States 1985/86



UK = 1986/87 - Italy, Portugal = 1987/88

Notes

- Under education are grouped all types of education provision not directly intended to prepare students for a particular occupation. In addition to academic upper-secondary courses, a number of Member States (France, Ireland, Italy, the Netherlands) include tertiary level technical education.

The data referred to here exclude evening courses, of whatever kind, and job-specific, in-firm, training courses offered by private or commercial training firms for which reliable comprehensive data are not available.

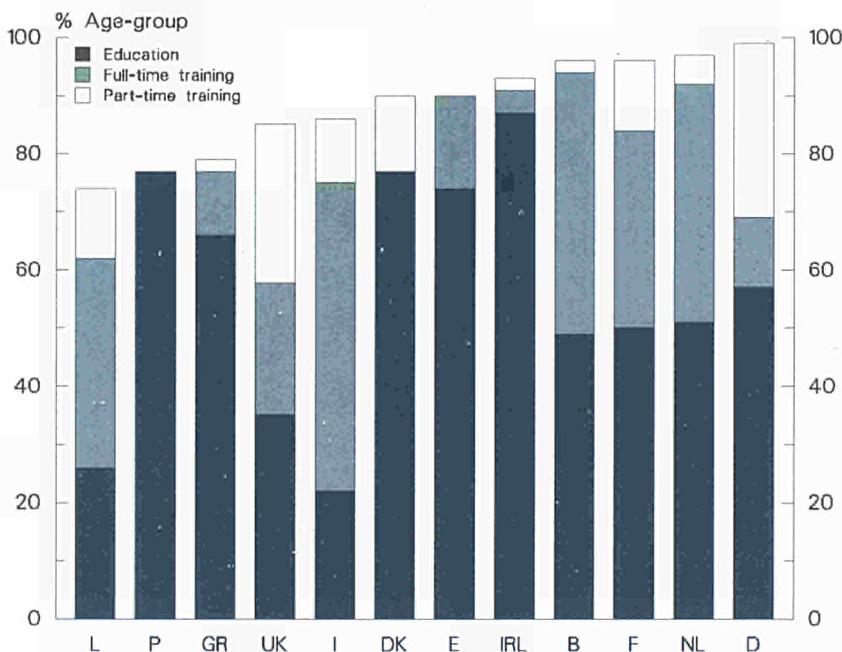
- Full-time training includes all wholly school-based provision as well as sandwich-type courses, in which students keep their 'student' status but spend part of their time working.
- Part-time training includes:
 - apprenticeships, which are classified as part-time training, both because only part of the training takes place in a training institution and because the trainee often has the status of an employee;
 - other part-time training courses, which covers a wide range of different types. Some are part-time in the sense that the student can exercise another activity, and most are shorter than 12 months, though they may be full-time during the actual training period - for example, the European Social Fund-financed short training courses.

proportion in the Community was around 16%.

However, figures for education exclude those on training courses whether full-time or part-time. They, therefore, tend to be somewhat misleading for Member States, notably the FRG, where vocational training is important.

Statistics for training are less up-to-date. In the mid-1980s, the latest period for which data are available, the proportion of 16 year-olds in education or training varied from close to 100% in the FRG, France and the Netherlands to under 60% in Spain and less than 50% in Portugal (Graph 97). With the exception of Luxembourg, however, all the more developed Member States had over 80% of 16 year-olds in full-time education or training. For 18 year-olds, there are equally pronounced differences between countries, with the FRG having 80% of this age group in training or education as compared with only around 30% in Portugal and the UK - the latter being in marked contrast to the other more developed economies. Note, however, that the data are incomplete for part-time training courses and therefore may understate the actual figure in some cases.

98 Participation in Education and Training in the Year Immediately Following the End of Compulsory Education in the Member States 1985/86



UK = 1986/87 - Italy, Portugal = 1987/88

There are also marked differences between Member States as regards the relative use made of education, on the one hand, and training, on the other. With the exception of Denmark, 40% or more of young people in the more developed countries of the Community go on to do some form of training, whether full-time or part-time, when they finish compulsory education (mostly at the age of 15-16, though only 13 in Portugal) rather than continuing with schooling (Graph 98). In Italy, this proportion reaches 60%. In the

less developed economies, the proportions are around 15% or less.

More extensive data on training and education beyond the initial year are difficult to obtain. Although it is notoriously hard to make comparisons between countries with very different systems and practices, or to establish common methods of collating statistics, it is vital to have reasonably accurate information about the current position and about trends if a coherent Community approach is to be developed. At present, although there is a widespread feeling that training provision is inadequate in many Community countries in relation to the provision in the US or Japan and that an increased effort is required, it is almost impossible to verify this view by reference to hard evidence. Too much of research at present seems to be directed at projecting trends in skill and training needs into the 1990s and beyond, despite there being almost no evidence of what the current position is.

Some data, however, are available for the education and training experience of young people up to the age of 24 in the mid-1980s, but only for four Community countries, the FRG, France, Netherlands and the UK. These data confirm that in the FRG, close to 100% of young people aged 24 had had some formal training or education beyond the compulsory school-leaving age (Graph 99). In the Netherlands, the figure was 97%, in France 89% and in the UK only 77%.

In the FRG a high proportion, around 40%, had had experience of part-time training in the dual system - which combines work with formal vocational training courses (Box) - even if they had not been in

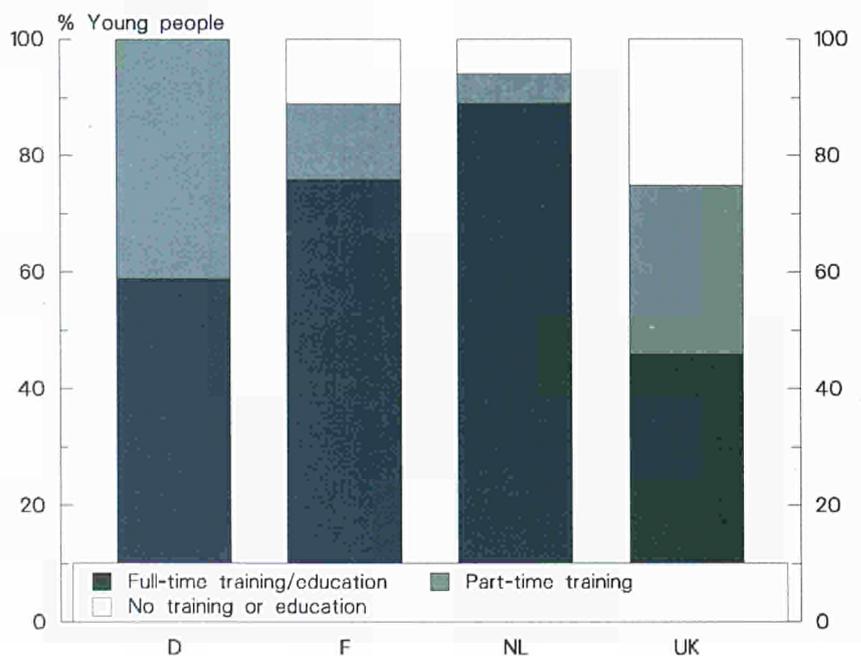
full-time further education or on a full-time training course. In the UK, part-time training is also important, although here a much smaller percentage of 24 year-olds than elsewhere had had experience of full-time education or training.

There are also marked differences between the four countries in the movement of young people between education, training and paid employment. In the FRG, some 17% had moved from full-time vocational training into the part-time training provided by the dual system and a significant proportion had also moved in the opposite direction, implying that there were many more people with double qualifications than in the other countries. In the Netherlands also, there was significant mobility between general education and

full-time training schools. In the UK, in contrast to the three other countries, there was little movement between education and training.

Such differences are also shown by the evidence on the numbers of people qualifying in engineering and technology. In 1985, some 80 thousand people in the UK obtained some qualification in engineering or technology, as compared with 140 thousand in France and 185 thousand in the FRG (Graph 100). The main disparity, however, was not so much in the number of graduates obtaining degrees in these disciplines but in the number of craftsmen. In the UK the number of craftsmen qualifying was only around a third of the French number and a quarter of the FRG number.

99 Proportion of Young People receiving Post-Compulsory Education or Training by the Age of 24 in some Member States (D,F,NL,UK)



Towards Convergence Despite the Differences?

Community policies to improve vocational training need to take account of the marked differences in national systems of provision and their consequences in terms of how young people progress through them. At the same time, they must produce a better qualified workforce and greater equality of opportunity between regions - two of the priority objectives of current Community policy.

The following set of key priority objectives should be reflected in Community policy aimed at increasing convergence and cooperation in initial and continuing education and in training :

- raising the status of vocational training;
- adapting content and methods to new needs;
- increasing coherence and flexibility within education/training provision;
- promoting stronger cooperation between providers of training;
- strengthening apprenticeship/work-based systems;
- improving vocational guidance;
- training more young women in technical and scientific fields.

Fundamental to all such strategies, however, is the need for coordination between education, initial training and continuing training.

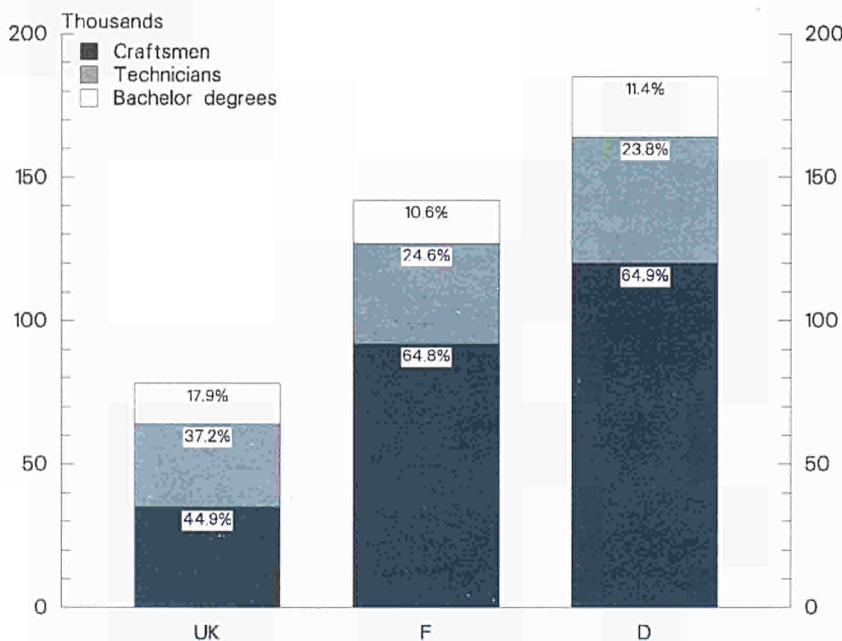
This is still often impeded, both nationally and locally, by the separation of responsibility for vocational training between education authorities, who provide courses of longer duration as part of the education system, and employment authorities, who provide short courses which may not lead to certificates of any value for further training.

A second structural necessity for the future is the development of greater partnership between government and the two sides of industry. People responsible for education and training are increasingly aware that they cannot respond effectively to the new needs by 'going it alone'. The definition of new training requirements has usually been a matter for joint action between firms and training authorities in most Member States. But the active involvement of the two sides of industry is now needed in the delivery of training. It is increasingly seen as necessary to enable compulsory schooling to provide an introduction to the 'world of work'.

Hence the growth of large-scale schemes for giving not only trainees, but also pupils and teachers from compulsory schools, some direct experience of industry. There has also been an increase in the number of schemes linking together schools and local companies with the aim of stimulating among pupils, teachers and employers alike, a greater awareness of the need for continuity and coherence between compulsory education, initial vocational training, employment and continuing training.

Many national initial training schemes today are characterised by a major reduction in specialist training and a correspondingly

100 Numbers Qualifying in Engineering and Technology in FRG, France and UK 1985



greater emphasis on better mastery of general subjects, all-round skills and problem-solving experience. There is a corresponding need to ensure that training in the workplace - whether part of such broader courses or of subsequent specialist courses - is well integrated with the school or college-based component.

The growing use of modular units is important here for the flexible approach they offer to training. They allow parts of courses to be more rapidly revised and updated; they allow courses to be more flexible and they oblige those developing them to be clearer and more specific about the aims and content of each stage of the training process. The potential for the use of modular 'European' courses is only just beginning to be explored.

Universities and other educational establishments will still be centres of knowledge and research, but not necessarily places where students will come to learn specific skills. More flexible ways of organising training and research are likely to develop and be considered as normal ways of acquiring knowledge and skills, after compulsory schooling or basic further education. 'Distance' learning could be an important part of this development, exploiting the potential provided by the expansion of information and communication technologies.

Another key concept is that of 'enterprise training', to develop

creativity, initiative and independence in the trainee, in contrast to much training which often tends to actively discourage such qualities.

These changes in training philosophy reflect the need to give technical and vocational training a new status and image. In a world with a shortage of potential trainees, where initial and continuing training are becoming increasingly important as regards the importance of an economy, much more attention will have to be paid to wooing young people. Hitherto, vocational training has been too closely associated with low-status, pseudo social welfare, institutions, especially in the older industrialised countries. At the same time, in many Member States the gap between general education, as a preparation for university and technical education, has been considerable.

If both technical and vocational training are to fulfil their role in the Europe of tomorrow, all this will have to change. The social status of trainees must be raised to a point where it reflects their economic importance. The same applies to those who train them. Such changes require political action and depend on national government to take a lead. The Community can help develop the basis for such policies by defining these priorities in its own policy statements.



Part III Employment Policies

Chapter 9 National Labour Market Policies

**Chapter 10 Promoting Economic and Social Cohesion - the
Community's Structural Policies**

Chapter 11 Priority to Fighting Long-Term Unemployment

List of Graphs

Sources



Chapter 9 National Labour Market Policies

National expenditure on labour market policies is still dominated by unemployment compensation, but the importance and variety of more active policies is increasing.

Introduction

At the beginning of the 1990s, policy makers in Member States of the Community still face the problem of high and persistent unemployment. Although the number of unemployed has been gradually falling since 1986, it still stands at more than 12 million (a figure equivalent to the entire population of Greece and Ireland combined) or 8% of the Community's work force. With long-term unemployment remaining at a high level as unemployment comes down and since joblessness is now the most common cause of poverty, unemployment is more than ever a social problem and not just a problem of labour market imbalance.

Policy-makers in Community countries also face an increasing problem of a mismatch between labour supply and demand, in qualitative rather than quantitative terms. On the one hand, growing competition on world markets requires a shift from standardised mass production towards diversified high-quality products and consequently a more skilled labour force. On the other hand, the reduced numbers of young people entering the labour market and the deficiencies in the

general education and vocational systems hamper the development of the required skills. Skill shortages are emerging as a major labour market problem.

Labour market policy is potentially an important weapon for national governments to combat unemployment and skill shortages. While labour market policy alone cannot solve these problems and needs to be supplemented by policy in other areas - by general economic management and education policy - it can have a powerful effect:

- a) through 'active' programmes of public expenditure in the form of public employment services, adult training schemes, employment subsidies and special measures for the young and disabled, it can directly influence the supply of and demand for labour as well as the matching between them;
- b) through 'passive' measures such as unemployment benefit and early retirement schemes, it can maintain the income of those who become unemployed;
- c) through the regulatory framework of public rules and regulations, it can set the condi-

tions for contracts of employment and the general terms under which people work.

As this chapter shows, labour market policies in Community countries have in some degree developed in similar ways but also display a number of differences. As the number of young people entering the labour market has declined, and with it the rate of youth unemployment, as long-term unemployment has failed to decline and as concern about skill-levels has grown, policies have tended to change in response.

Most Member States have put increased emphasis on adult training, labour market adjustment and special measures to help those who have been out of work for a long period. They have also tended to put less emphasis on early retirement schemes and direct job creation programmes. On the other hand, there are differences in the degree of reliance on special schemes to combat youth unemployment and in the extent to which policy is directed towards improving the flexibility and adaptability of work forces within companies as opposed to improving the balance of supply and demand in the (external) labour market.

In most Member States public expenditure on unemployment compensation continues to be considerably larger than expenditure on active policies aimed at improving the workings of the labour market. With the increasing possibility of mismatch between supply and demand for particular skills, a shift of emphasis and resources from income maintenance to active measures is likely to become necessary in most parts of the Community.

Trends in National Labour Market Policies

The scale of public expenditure is not an ideal basis for comparing the relative importance of labour market policies across the Community. It neglects non-financial measures as well as private sector initiatives,

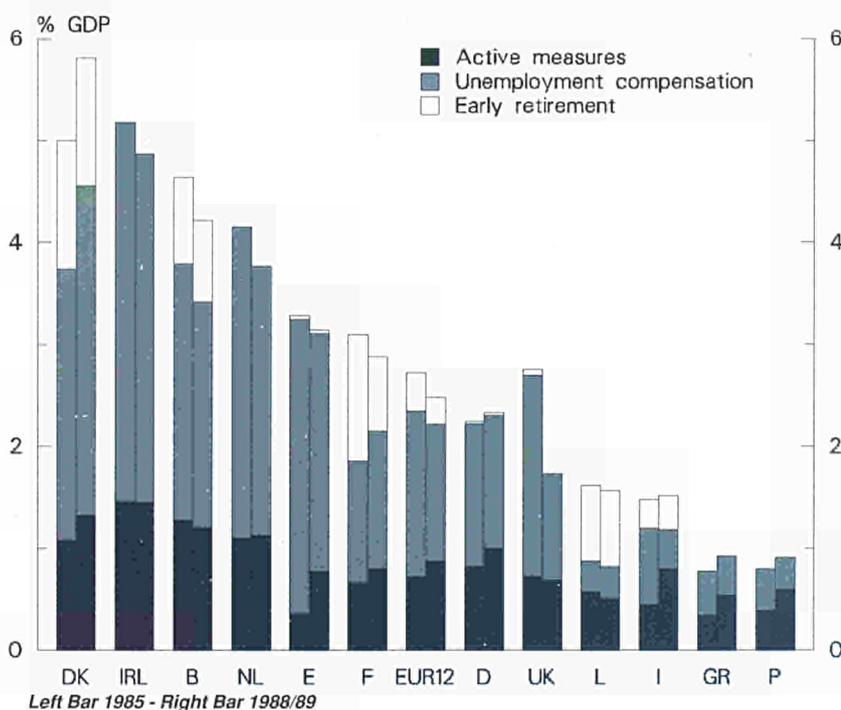
it reflects past rather than present spending priorities, and it measures the amount of money put into a programme rather than what it achieves, which depends on the efficiency and effectiveness of expenditure relative to needs. Nevertheless it is better than nothing and if used judiciously in conjunction with other information, represents a useful indicator for reviewing comparative approaches and degrees of effort.

It should be noted, moreover, that such public expenditure is only partly financed from national revenue sources. To varying degrees, the active spending programmes are financed from the Community Social Fund, in the case of the poorer countries substantially so. Most Member States, however, do not publish information in a form which allows the importance of this source of finance

to be identified. What appear to be national initiatives, therefore, are in a number of cases largely supported from Community resources, various training schemes in Ireland and the Youth Training Scheme in the UK being particular examples.

At present, Member States spend an average of 2.5% of GDP on labour market programmes, although there are wide variations between countries. In 1988/89, the level of expenditure ranged from less than 1% of GDP in Greece and Portugal to over 4% of GDP in Denmark, Ireland and Belgium (Graph 101). In the majority of countries, expenditure has tended to decline slightly in recent years as unemployment has come down. The reduction has been most pronounced in the UK where the fall in unemployment has been largest. On the other hand, expenditure has increased in four countries - Denmark, the FRG, Greece and Portugal - despite falling unemployment.

101 Labour Market Policy Expenditure in Relation to GDP in the Member States 1985, 1988/89



In most Member States, expenditure in this area is still dominated by spending on unemployment compensation. On average, active policies of, for example, training, employment subsidies and special youth and disabled schemes, together account for only around one-third of expenditure (Graph 101). Only in Portugal, Greece and Italy does spending on active measures exceed spending on unemployment compensation. This, however, is a reflection of the low rates of unemployment benefit in these countries rather than of high levels of active expenditure. Spending on active policies, at over 1% of GDP, is highest in Denmark, Belgium, Netherlands and, perhaps surprisingly, Ireland (much of which is financed from the Social Fund). It is lowest in Greece and

Luxembourg, where it is less than 0.6% of GDP.

Early retirement schemes, which are different in kind from both unemployment compensation and active policy measures, are important elements of labour market policy in Denmark, Belgium, France, Luxembourg and Italy. Elsewhere in the Community, they account for little or no expenditure, though similar end-results are achieved in the FRG and Spain, as well as in France, by regulation of pension schemes or more favourable treatment of older workers in the unemployment system. In most countries, however, early retirement schemes have become less important in recent years, especially in France where spending almost halved relative to GDP between 1985 and 1988.

In recent years, expenditure on active measures has increased in relation to GDP in all Member States with the exception of Luxembourg, Ireland, Belgium and the UK (Graph 101). The increase has been especially marked in the Southern States of Italy, Spain, Portugal and Greece, where such measures were relatively under-developed and where in the case of Spain and Portugal joining the Community has provided additional finance. Expenditure on active labour market policies in the Community, however, is still well below the level in Sweden where it exceeds spending on the generous unemployment benefit scheme.

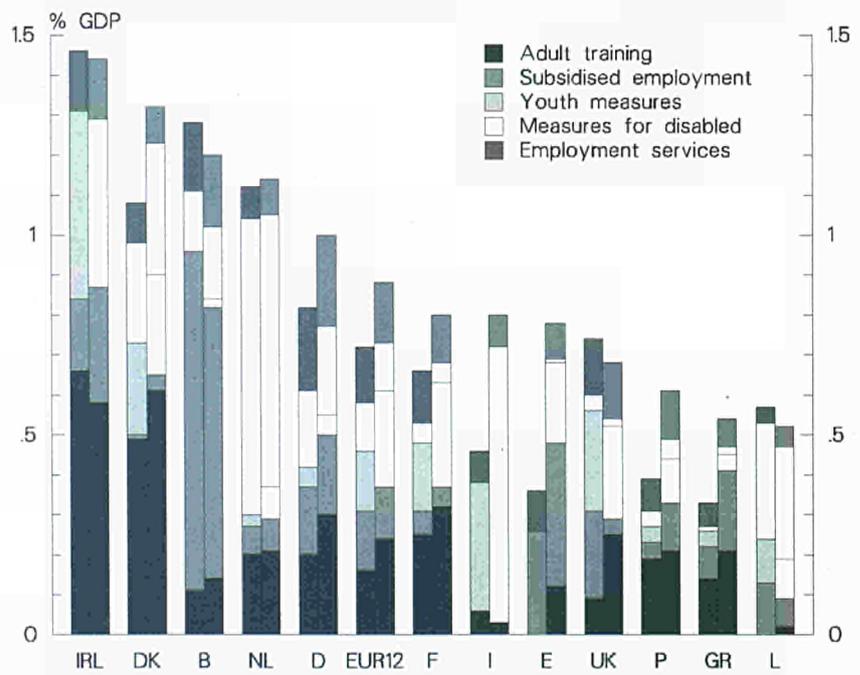
The incentives schemes, it should be noted, generally fall in to the category of state aids, and as such, under the provisions of Articles 92 and 93 of the Treaty, they have to be notified to the Commission and authorised before being implemented.

There are significant differences in the composition of active policies as between Member States. In the majority of countries, training and retraining of adult workers is at present the most important element of expenditure. In Italy and Luxembourg, however, it is of negligible importance. Measures to combat youth unemployment account for a similar proportion of expenditure as training policies across the Community as a whole, but are of much greater significance in Italy and Ireland than elsewhere. Indeed in Belgium, Greece and the FRG, they account for very little spending at all. Similarly, employment subsidies are important in Belgium and Spain, but in the UK, France and Denmark are hardly used at all, while measures for the disabled are significant in the Netherlands and Denmark but are almost non-existent in Ireland, Italy, Spain, Greece and the UK.

In recent years, at least three major shifts in the composition of active policy measures are evident (Graph 102). Special programmes to combat youth unemployment and employment subsidies have declined in importance while training schemes for adult workers, especially for those unemployed, have become increasingly more important. Several Member States have either introduced new programmes or redesigned and expanded the funding of existing programmes (e.g. Denmark, UK, France and Spain). The UK and the Netherlands have phased out direct job creation programmes in the belief that the unemployed are better served by the provision of training rather than artificial jobs.

Two other common tendencies are an increased concentration of policy on the long-term unemployed and the growing importance of benefits

102 Breakdown of Expenditure on 'Active' Labour Market Policies in the Member States 1985 and 1988/89



Left Bar 1985 - Right Bar 1988/89

in kind instead of cash payments. Member States have either redirected training schemes towards the long-term unemployed (e.g. France and the UK) or created new training programmes specifically for this group (e.g. the FRG and Denmark). In addition, a number of Governments have introduced new job-search facilities for those finding it hard to find work. These new services take the form of 'job clubs' in France, the UK and the Netherlands, or of 'job-search courses' in Ireland and Denmark.

Changes in rules and regulations governing the working of the labour market are much harder to identify and assess than public spending programmes. The most significant

changes in recent years have concerned employment protection and working time arrangements. In the former area, there has been a widespread, though generally modest, trend towards deregulation in the form of relaxing restrictions on dismissal of employees. This trend, however, has varied in content. In the UK, for example, it has taken the form of confining protection to workers in larger companies who have been employed for more than two years. In France, the government initially eased the administrative requirements for redundancies, but has since restored some measure of protection on a decentralised basis by enlarging the rights of works councils and enforcing retraining initiatives. In many

countries, in Belgium, France, the FRG and Spain, the legal scope for fixed-term contracts has been widened and in two countries, Spain and Italy, temporary on-the-job training programmes for young people are also used as a kind of fixed-term contract.

As regards working time, the movement towards a reduction now seems less strong than in the early and mid-1980s. In a number of countries, such as the FRG and Denmark, it has been left entirely to collective bargaining, whereas elsewhere, in France, Spain, Belgium and Greece, government action has been taken. In many countries, the issue has been combined with moves to increase the flexibility of working time through extending shift systems to utilise plant and machinery more intensively and through weekend working.

Placement services for the long-term unemployed

- The UK's Job Interview Guarantee and the linked Work Trial scheme were introduced into a number of inner city areas in April 1990. The idea is to offer enhanced recruitment services to employers who will sign a formal agreement to guarantee job interviews to long-term unemployed people. These services consist of short customised training courses to train people to the employer's requirements and also making the unemployed available on a three-week trial basis without wages. Only travel and meal expenses will be paid by the employer.
- In Greece, employers in receipt of a general wage costs subsidy to promote job creation are obliged to take half of those they hire from amongst the registered unemployed. Job centres attempt to give priority to the long-term unemployed. In practice this is difficult because of their lack of qualifications and experience. Although the official job centres are the only permitted employment agencies in Greece, employers often turn to informal channels of recruitment, thus reducing the number and quality of vacancies available to the official service.
- In Italy, employers must notify all vacancies to the official placement service, and the service has a system of offering them to the unemployed in order of priority of their need for employment. They are placed on the waiting list in an order determined by their duration of unemployment, family situation, health and other social criteria. Employers are obliged to accept the applicants offered to them provided they meet agreed criteria on qualifications and experience.

Changing Labour Market Problems and Differing Policy Responses

The trends in labour market policies and the differences between countries are the result of various factors, including the changing nature and importance of specific problems, how they are perceived by national governments, the changing order of priorities and the institutional framework within which policy is framed and implemented.

Labour market policies are, of course, likely to change as the nature of the problem they are addressing is changing. Similarly, differences between the problems faced by individual governments will tend to be reflected in differences between the policies

implemented. The common trends in policy identified above in some degree reflect general changes in the nature of labour market problems across the Community.

The fall in unemployment over the past few years has led directly to a reduction in unemployment compensation and a consequent increase in the relative importance of active policy measures -though in Southern states this increase was the result of a conscious policy decision. Similarly, the decline in early retirement schemes and special youth employment programmes reflects major demographic changes in the Community. The significant fall in birth rates which occurred in the 1970s means a substantial decline in the numbers of young people entering the labour market, which together with a rising proportion going into higher education, has already brought a sharp reduction in youth unemployment in most countries and so has reduced the need for measures to combat this.

As a result of falling numbers of young people, the introduction of new skills into the work force and adaptation to new technologies have to be achieved more through training existing employees rather than through relying on the new generation. Adult retraining schemes are therefore becoming increasingly necessary and are consequently accounting for an increasing share of labour market spending in many states. The same demographic trend explains the declining emphasis on measures to reduce labour supply, such as early retirement schemes, which in any event have proved costly to finance and therefore hard to sustain for long periods.

In place of generous subsidies to persuade people to stop working

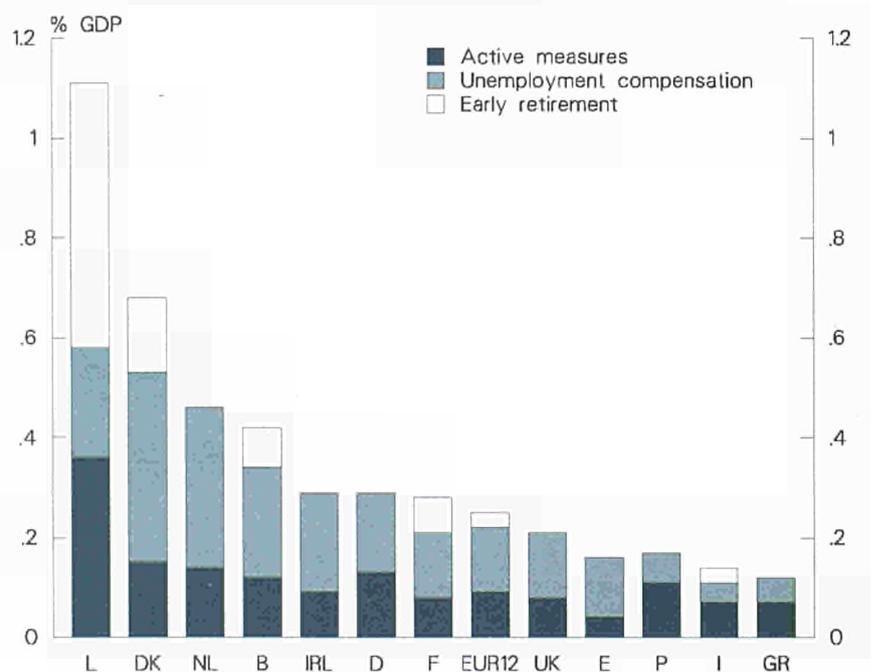
completely, several member governments, e.g. Denmark, France, Italy and the FRG, are now experimenting with more flexible schemes under which people work part-time or retire gradually over a period. Such schemes can potentially achieve two objectives at the same time: that of tackling the unemployment problem which still remains, while ensuring that the increasingly scarce skills possessed by older people are not lost completely.

More emphasis is being put on measures to ensure reintegration of the long-term unemployed into the labour market and greater participation of other groups such as married women. In the case of the long-term unemployed, new measures include those aimed at helping them in the search for jobs through training on techniques of self-presentation and other forms of guidance and counselling. Such pro-

grammes are increasingly personalised and tailored to the particular needs of each individual (Box).

Differences in policy trends between countries owe something to differences in the problems faced. Variations in the scale of unemployment compensation are closely related to variations in rates of unemployment, Ireland, Spain and Belgium with the highest rates being the largest spenders and Portugal and Luxembourg where rates are lowest being the smallest (Graph 101). However, there are significant differences between countries in the rates of benefit paid to those out of work and in the coverage of the system. Denmark and the Netherlands have by far the most generous and most extensive schemes and therefore spend much more on unemployment compensation in relation to the numbers out of work than other Member States.

103 Labour Market Policy Expenditure per 1% Unemployment in the Member States 1988/1989



For Italy and Greece the reverse is the case (Graph 103).

Differences in the composition of active policy measures also reflects in some degree different manifestations of problems as between Member States. In the 1980s, youth

training schemes were most pervasive in Italy, Ireland, France and the UK, where youth unemployment was highest. In the FRG, on the other hand, where the dual system of vocational training as part of basic education ensures that school leavers are for the most part inte-

grated into the labour market, youth unemployment never became a serious problem. This illustrates the fact that differences in labour market problems to some extent reflect differences in institutional arrangements, especially as regards systems of education and basic vocational training. Education systems which combine practical experience with theoretical training may therefore serve to ensure that young people are better able to find work and so prevent a youth unemployment problem arising.

Help in developing job search skills

- Belgium, France, the UK and the Netherlands have job clubs in which groups of long-term unemployed people make intensive applications for work under the guidance of an advisor, with the employment service providing stationery, postage stamps and other practical aids to making applications. In Ireland, the job club concept is provided within the context of a four-week counselling course.
- In France, an initial assessment interview may be followed by an evaluation of the level of occupational ability, sessions to advise on job-seeking techniques or in-depth guidance sessions. The last two measures have decreased in importance since 1987, and now about 15% of long-term unemployed people interviewed after a year of unemployment go onto modular training courses lasting around three months. These include training in job-search techniques, as well as elements of vocational training chosen specifically for the individual's needs.
- The UK's Employment Training scheme (ET) also incorporates training in job-search techniques alongside vocational training. Another element in the UK package of measures are the Restart courses, which last one week and are intended to develop job search techniques and raise self-confidence. These are attended by about 9% of long-term unemployed people, whereas job clubs are attended by about 2%.
- In the FRG, an extensive vocational guidance and counselling service is provided, offering individual or collective information sessions through which 27% of participants are placed directly into employment.
- In Ireland, the job-search programme helped 8% of participants to get work within one month of completion, and a further 8% enrolled on training schemes.
- Job clubs seem to be very successful in getting long-term unemployed people into work. In the UK, 50-60% of the (2% of) participants obtain work, with an average stay of 8-9 weeks. The small pilot experiments in the Netherlands have had a success rate of 73%.
- If a large number of people enter job clubs, the number and quality of applications reaching employers will rise. Thus over the long-run job club participants compete with each other and with non-participants, which could lead to a decrease in placement rates.

Policy Strategies

Differences in the problems faced, however, only explain part of the variation in the nature and direction of policy across the Community. An important distinction can be drawn between policies aimed at bringing supply and demand on the labour market into balance (external adjustment) and policies whose aim is to improve the flexibility and adaptability of labour within firms (internal adjustment). The first approach is intended to encourage greater mobility of workers between companies, the second to promote a more skilled labour force which can more easily be redeployed from task to task as needs change inside a company. The first is best represented by labour market policy in the US, the second by the policy of large firms in Japan.

None of the Member States in the Community has opted for one of these two approaches to the exclusion of the other and so differences within the Community tend to be smaller than are found outside. There are, however, significant differences in emphasis between

internal and external adjustment. In the FRG, the focus of policy tends to be more on improving internal adjustment through measures to increase job security, improve skills, adjust working time, and so on. In other countries, like France and the UK, there has been more reliance on trying to adjust supply and demand in the labour market through early retirement, redundancy payments, government training schemes, new forms of placement services and so on. In line with this approach, both countries have made it easier for firms to get rid of workers, and in the UK, in contrast to the FRG, public financial support for short-time working has been abolished.

Despite these differences, there seems to be a common trend towards internal adjustment policies in the Community. This in turn reflects the important demographic changes taking place and the increased emphasis on producing high quality, diversified products rather than mass produced, standardised goods. Accordingly, early retirement schemes have declined in importance and more and more large firms are developing long-term labour force strategies, which involve transferring and retraining workers rather than simply opting for mass redundancies.

While there seems to be a common trend towards emphasis on active policies, it is still the case, however, that no Community country has tried to match the Swedish system which combines positive incentives and support for re-entry to the labour market with an unemployment insurance scheme which is strictly seen as providing temporary income support and so avoids becoming a long-term social security fall-back system.

Training

- The dual system is the core of the vocational training system in the FRG. In 1989, some 600 thousand training places were offered through the placement offices. Training occurs in two separate places: in the firm and at the vocational training centre. Young people undergoing training have the status of employees and receive a training allowance which is fixed by collective agreement. A course of training in the dual system usually lasts three years, although for some highly technical occupations it may be extended to three and a half.
- FIP is the Spanish national training and vocational integration plan launched in 1985. It covers all the vocational training carried out for the Ministry of Labour. The training generally takes place in centres directly controlled by INEM (the national employment institute) as well as in a network of collaborating centres. The training is free of charge to participants, who may also be eligible for other help and grants. The Plan also provides for subsidies to enterprises and collaborating centres to compensate them for the costs incurred.
- In Ireland, with a relatively large proportion of the population under 25 years, training is high on the list of priorities for meeting the objectives of integrating young people into working life, and an extensive range of measures has been developed (Graph 102). In 1989, out of an estimated total of 67 thousand school-leavers, 42% had jobs, 31% were in further education, 11% were still seeking their first job and 5% were unemployed. 10% had emigrated and 1% were unavailable for work. Almost 45% of those leaving school in 1988 with no formal qualifications were unemployed a year later, compared to 28% of those with some qualification, and 9% of those who completed secondary education.
- In Italy, recent measures have emphasised the regional aspects of training systems. Innovation plans of the regional training systems aim at enhancing the quality of the regional training systems by developing closer links with schools and firms, targeting measures more closely on disadvantaged groups and strengthening the contribution of vocational training to the spread of new technologies.
- Employment Training, for adults, and the Youth Training Scheme are the main elements of the training system in the United Kingdom. Employment Training, the new programme for training unemployed adults, aims to provide appropriate training of the right quality and relevant to the jobs available. YTS was introduced in 1983 and some 2 million young people have passed through it. The scheme has recently been reviewed and a number of areas needing improvement identified. Only 40% of trainees obtain a recognised qualification, often at a low level; the training does not always reflect the needs of the labour market. A reform of the scheme will place more emphasis on the achievement of qualifications and employers will be expected to progressively take over the provision and development of youth training.

Measures affecting the functioning of the labour market

- Private placement agencies have recently been made legal in Portugal. A law of April 1989 allows both commercial and non-profit-making agencies to operate. Commercial agencies have to have a licence and non-profit agencies an authorisation from IEFP, the national employment and vocational training institute which is responsible for overseeing the system. Jobseekers may not be asked to pay for the services of registration, guidance and selection, but may be asked for up to 50% of the national minimum wage in the case of finding a temporary job, and 75% for a permanent job.
- The latest amendment of the Employment Promotion Act in the FRG allows temporary work agencies to operate for an additional period of 6 months
- New rules have been introduced in Belgium governing part-time work. Part-time workers must have written notice of their work schedule, and regulations governing the flexibility of part-time workers' hours have been introduced.
- Portuguese enterprises may now employ temporary workers, but recourse to temporary work is strictly regulated. Temporary workers are to be treated in exactly the same way as permanent workers. The placement of workers abroad has also been regulated to guarantee their repatriation and social protection.
- In France, new mechanisms for preventing redundancies and holding joint consultations have been introduced. To prevent redundancies, joint consultation is required for the forward-looking management of labour, state support for the preventive actions of companies have been brought in and sanctions on employers to discourage the dismissal of the over-55s have been generalised. Dismissal procedures have been clarified, improving individual guarantees and establishing the methods and time limits for the consultation of workers' representatives. Retraining agreements have been extended to all cases of redundancy, regardless of the size of the workforce and the number of workers affected.

Institutional Frameworks

National policy makers are constrained in their ability to choose among potential policy instruments by institutional factors. Each of them has to operate within their own national institutional framework defined by the nature of the political system, industrial relations, the legislative system, historical experience, customs and traditions and so on.

One institutional factor which has a major influence on the composition of policy in certain parts of the Community, as noted above, is the fact that a number of measures are co-financed by supra-national funds, in particular by the European Social Fund which supports training and youth programmes, particularly in poorer countries and regions.

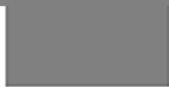
Institutional differences are also part of the explanation of why in

some countries, like the UK in particular, labour market measures have changed frequently in scale and focus while in others, like the FRG, there has been hardly any change at all.

But institutional variations cannot explain all the differences in the policy response to common problems which are observed. The order of priorities varies significantly between countries, partly reflecting differing national perceptions of the relative importance of particular problems, partly reflecting different stages of economic development and levels of prosperity. For example, the much higher spending on measures for the disabled in the Netherlands and Denmark than elsewhere in the Community has everything to do with the ordering of priorities in these comparatively prosperous countries and nothing to do with the relative numbers of disabled who happen to live there.

Examples of wage subsidy schemes

- The amended Vermeerd/Moor Act in the Netherlands amalgamates three existing measures offering wage cost subsidies to employers who hire long-term unemployed - MOA (Measure to support integration into working life), MLW (Scheme for the long-term unemployed) and MVM (employment creation scheme). Under the amended scheme, employers may qualify for a lump sum payment for LTUs who are given work experience for up to one year, for exemptions from social security contributions (worth up to 17.5% of wage costs) and a lump sum payment towards any training costs if they offer a normal job to someone unemployed for two years. The Temporary Employment Refund Scheme offers employers a subsidy amounting to one third of the gross minimum wage if they hire long-term unemployed as temporary workers.
- Return to Employment Contracts (CRE) - work contracts for the long-term unemployed - in France offer 100% exemption from social security contributions to the employer in return for providing long-term unemployed people with a job for at least 6 months, and a lump sum payment for every full-time contract. Any training is also subsidised with a lump-sum refund for every training hour.
- France also offers 50% exemption from social security contributions for up to a year for employers who hire long-term unemployed people on completion of a training programme.
- The Young Workers Scheme in the UK (now abolished) offered a fixed sum per week to employers who recruited youth and paid them less than a certain wage. This scheme was primarily designed to prevent, rather than reduce, unemployment.
- The Jobstart allowance in the UK is paid as a wage supplement to long-term unemployed people who take up a job at less than a certain wage. Two-thirds of applicants for the allowance obtain it.
- In Denmark, long-term unemployed people who have been out of work for two-and-a-half years are guaranteed a job. A subsidy of around 60% of wage costs is offered to employers for offers of work of seven to nine months duration. Those who are not offered a job by a private employer are placed in the public sector, usually with a local authority. In 1983 this measure reached 96% of those eligible, but finding the vacancies placed a strain on local authorities, despite the increased involvement of private sector employers, who provided 27% of the jobs offered. Some skilled workers had to accept work beneath their level of qualification, but despite this, 40% of those found work in the private sector were taken on permanently, although only 11% of those who entered the public sector stayed with the same employer.
- A job guarantee scheme is being introduced in the Netherlands for people under 21. This coincides with the abolition of unemployment benefits for this group. Remuneration will be at the minimum legal wage for youth, which is a little above the former level of social security.



Chapter 10 Promoting Economic and Social Cohesion - the Community's Structural Policies

The Community's Structural Funds have been reformed to become effective instruments of economic and employment development. Measures are being planned and co-ordinated to promote economic and social cohesion and to enable all regions to benefit from the Internal Market.

Introduction

The signatories of the Treaty of Rome recognised that the re-adjustments needed in order to bring about an integrated Community economy could not, and should not, take place without public intervention. From the beginning, the Community has had policies and budgets earmarked for the structural adjustment of its economy and for the treatment of serious social problems.

The basic arguments behind these interventions have remained the same from then until now: economically, it is more efficient to assist the process of adjustment than to let it take place on its own; socially, it is desirable in order to avoid the burden and costs of adjustment falling mainly on those least able to bear it; and politically, it is necessary to provide support for the economically weaker regions in the Community.

However, the adoption of the Single European Act in 1987 (Box) has greatly enlarged the scope of Community action and given coherent

purpose to its structural policies. New priority objectives have been set with the aim of promoting the overall harmonious development of the Community and of devising and pursuing actions leading to the

strengthening of its economic and social cohesion. In particular, the Community is committed to trying to reduce disparities between the various regions and the backwardness of the least favoured regions.

Economic and Social Cohesion in the Single European Act

Article 130 A

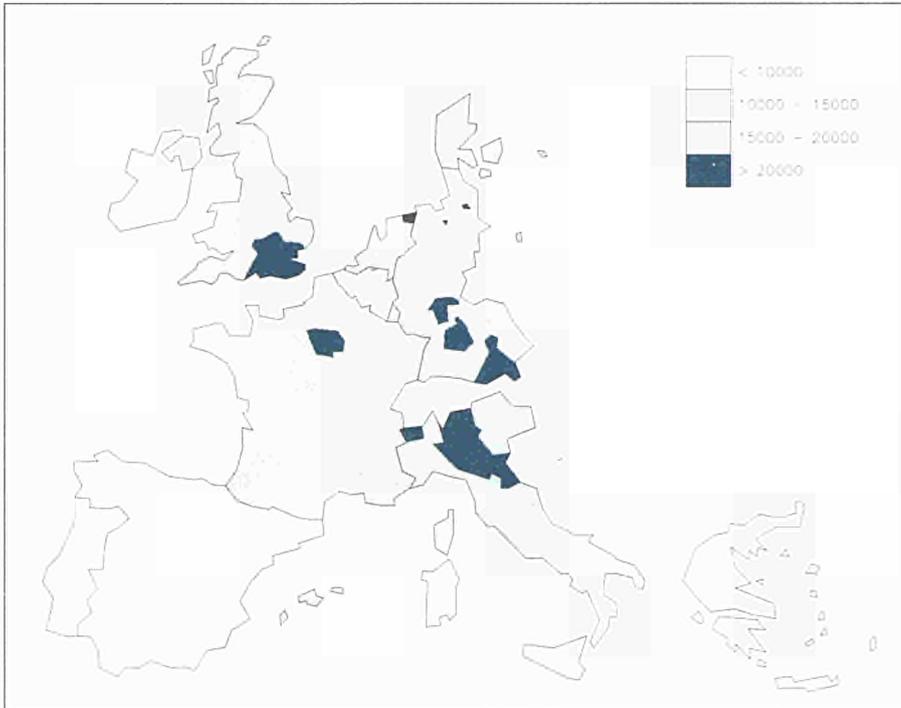
In order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion.

In particular, the Community shall aim at reducing disparities between the various regions and the backwardness of the least favoured regions.

Article 130 B

Member States shall conduct their economic policies, and shall co-ordinate them, in such a way as, in addition, to attain the objectives set out in Article 130 A. The implementation of the common policies and of the internal market shall take into account the objectives set out in Article 130 A and in Article 130 C and shall contribute to their achievement. The Community shall support the achievement of these objectives by the action it takes through the structural Funds (European Agricultural Guidance and Guarantee Fund, Guidance Section, European Social Fund, European Regional Development Fund), the European Investment Bank and the other existing financial instruments.

104 Income per Head in Purchasing Power Standards
1988

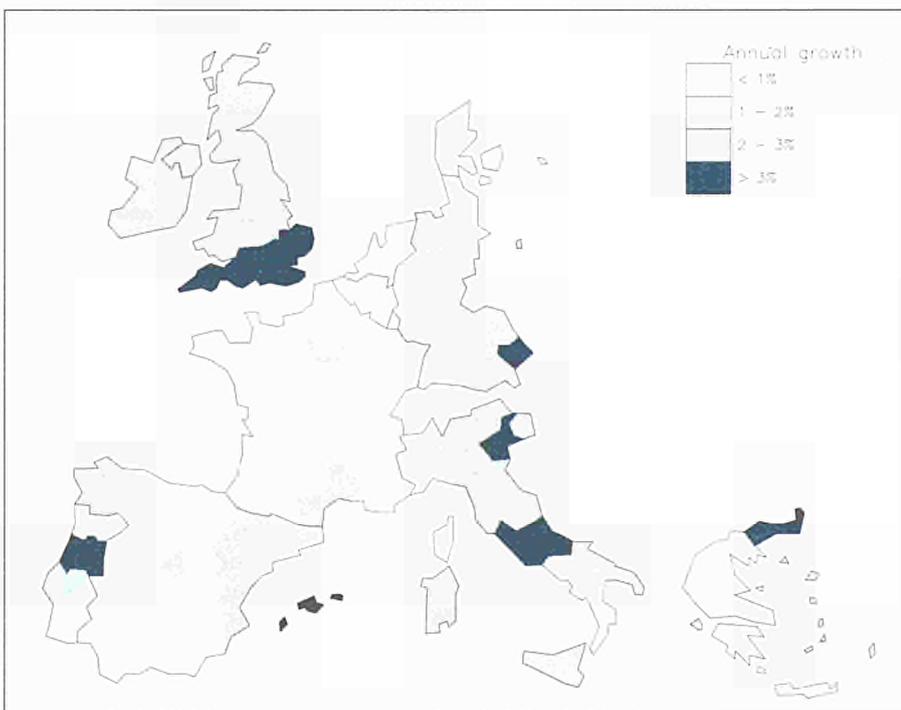


Economic and Social Disparities between Regions

Community structural support policies need to be seen in the context of the Community's regional and unemployment problems, and to be set against the wide range of policy initiatives that have been taken to combat these problems by the Member States.

The Community faces considerable regional imbalances. The distribution of income between the Member States of the Community is wide. In 1988, the most recent year for which figures are available, the average level of income per head in the 25 most prosperous regions of the Community was two and a half times higher than in the 25 poorest regions (Map 104).

105 Change in GDP per Head
1980-1988



At the same time, regional disparities exist within Member States. In the FRG, Lüneberg has a level of income per head only half that of Darmstadt. In France and the UK the situation is broadly similar. In Italy, variations are greater with the poorest regions of the South having an average level of income per head under half that of the prosperous Northern regions.

In general, regional disparities within the Community are greater than the United States or Canada. It is difficult to compare like with like, since the more narrowly the regions are defined, the greater the differences tend to be. However, for the nine standard United States census regions, the difference between the highest and the lowest average income per head is around 45%. For the European Community, the difference (attempting a similar level of aggregation by combining

Portugal with Spain and Denmark with the Federal Republic), is 85%. At a more disaggregated level, Washington DC has a level of income per head twice as high as Mississippi, whereas the income per head of Ile de France is several times that of the poorest areas of Greece.

Over the 1980s, disparities in income per head have shown little tendency to narrow. As Map 105 shows, large areas of Spain, Greece and Southern Italy, which are among the poorest parts of the Community, experienced relatively little growth in income per head between 1980 and 1988, while South-East England, parts of Southern Germany and Northern Italy, which are among the most prosperous areas of the Community, experienced relatively high rates of growth. On the other hand, Eastern Macedonia and Thrace in Greece and the Centro region of Portugal, both comparatively poor areas, enjoyed among the highest rates of growth.

Unemployment problems

Although unemployment in the Community has begun to fall significantly, it still averages 8.5% and its distribution is very uneven across the regions. In 19 regions of the Community in 1989 it exceeded 15% (Map 106). The problem is concentrated, not only in different areas of the Community, however, but also on particular groups of people - notably young people and older workers.

This polarisation of unemployment and the problems it creates is addressed elsewhere in the Report (Chapters 1 and 11). It is sufficient here to underline two dimensions of the problem, other than the regional

one - firstly, that over half of the unemployed have been unemployed for more than one year (a particular problem for older workers) and secondly, that the rate of unemployment of young people under 25 years old is twice that of the unemployed in total.

New Priorities

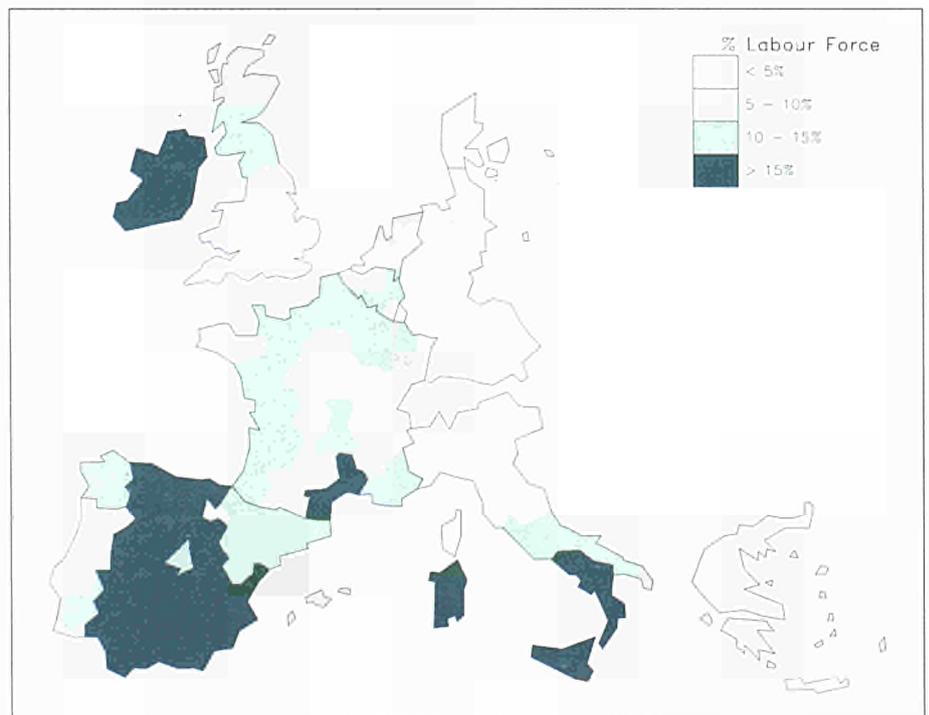
In the early years of the Community, Community funds were primarily intended for the retraining and relocation of the labour force in order to compensate for the effects of removing trade barriers, or other sectoral changes - the role assigned to the European Social Fund. A new dimension was added by the setting up of the European Regional Development Fund in 1975 which put the emphasis on a broader regional approach designed

to counteract problems of regional imbalance and decline.

The adoption of the Single European Act strengthened this process by ensuring that the Member States conduct and co-ordinate their economic policies in order to pursue the overall goals of economic and social cohesion. Moreover, the Community was committed to supporting the achievement of these policies by the action it takes through the Structural Funds (European Agricultural Guidance and Guarantee Fund, Guidance Section, European Social Fund, European Regional Development Fund), the European Investment Bank and the other financial instruments.

These changes of orientation and emphasis in policy have, to a large extent, paralleled the expansion of the Community. While the latest

106 Unemployment Rates in the Community 1989



The Structural Instruments

These are the financial mechanisms administered by the European Commission and the European Investment Bank, which can help to fund measures or projects carried out within the Community to meet common objectives: economic development of the regions, promotion of employment, environmental protection, energy conservation and new sources of energy, provision of linking infrastructures, adaptation of activity sectors (agriculture, fisheries, steel, etc).

They break down into instruments making grants and instruments making loans.

- (a) Grants are made mainly by the three structural Funds, with 1989 commitments totalling 9.5 billion ECU (Graph 107):
- (i) the European Regional Development Fund (ERDF), which was set up in 1975 to help reduce regional imbalances in the Community (1989 commitments: 4.5 billion ECU);
 - (ii) the European Social Fund (ESF), which has the task of promoting job opportunities for workers (1989 commitments: 3.5 billion ECU);
 - (iii) the European Agricultural Guidance and Guarantee Fund (EAGGF), guidance section, which, as part of the reform of the common agricultural policy, aims to speed up the adaptation of agricultural structures and to contribute to the development of rural areas (1989 commitments: 1.5 billion ECU).

Grants are also provided to promote structural policies in the following areas: fisheries, environment, transport infrastructure, energy etc.

- (b) The Community can place its borrowing capacity at the disposal of economic operators by granting Community loans
- (i) the European Investment Bank (EIB);
 - (ii) the New Community Instrument (NCI);
 - (iii) the European Coal and Steel Community (ECSC), some of whose loan may carry interest subsidies;
 - (iv) the European Atomic Energy Community (EURATOM).

These loans are granted at market rates and provide an important additional source of funding for investors.

The total volume of the financial assistance is appreciable; it amounted to approximately 20 billion ECU in 1988 (grants from the three structural Funds accounting for 7.7 billion ECU). These figures compare with a Community budget total of 45 billion ECU for the 1988 financial year and agricultural market support of 27 billion ECU in the same year.

1988 changes have still to be fully digested in terms of integrating the various dimensions of Community and national policies, and while much remains to be done to ensure maximum effectiveness in the use of Structural Fund resources, a basic re-orientation of Community action is now well underway.

Responses to Regional Imbalance

The successful promotion of economic and social cohesion in the Community is dependent on the combined actions of the Member States, of the Community with its common policies, and of the Structural Funds. While the most visible developments in recent years have been in terms of Community level responses, Community actions need to be seen against the background of the long-standing measures taken at national level, which vary significantly between countries (though it is difficult to make meaningful comparisons from the data available).

National regional policy measures can be difficult to define since most Government economic policy decisions have some distributional effect between regions. However, it is normal to avoid considering the effects of such aggregate measures as part of regional policy and to concentrate on those measures which are intended more directly to combat major problems of regional imbalance. Such measures can be categorised into four broad groups:

- Measures to support incomes and raise the level of demand in the poorer regions through budget transfers from national to regional level.

- Measures to reduce production costs in the poorer regions through subsidies or lower taxes. Examples are the reduced social security taxes applied in the South of Italy since 1971 and the Regional Employment Subsidy in the UK in the mid-1970s, designed to encourage companies to employ more people.
- The relocation of public services and public administration departments from the richer to the poorer regions in order to provide employment directly and to generate additional income. Examples include the UK and Portugal.
- Measures designed to increase the economic strength of poorer regions by expanding and improving the resource base through investment in infrastructure, through the extension of productive capacity, through assistance to employment creation, and by the training and education of the local work force.

The first two groups of measures, involving large-scale financial transfers, are the most familiar and the longest standing. However, their long-term effectiveness in improving the economic potential of weak regions has been questioned. Subsidising income and employment may provide short-term relief, but it does not automatically lead to the elimination of long-run dependency.

Since government departments and public services are generally growing slowly, if at all, or are being privatised, the use of this third option has diminished in recent years.

The main emphasis, therefore, of Community action is now on the fourth type of approach. While there is no standard set of measures, it generally involves a comprehensive, locally or regionally based set of activities designed to improve economic capacity through enterprise development, workforce training and technology transfer, as well as through more conventional investment in industrial and physical infrastructure.

Unemployment Policy Responses

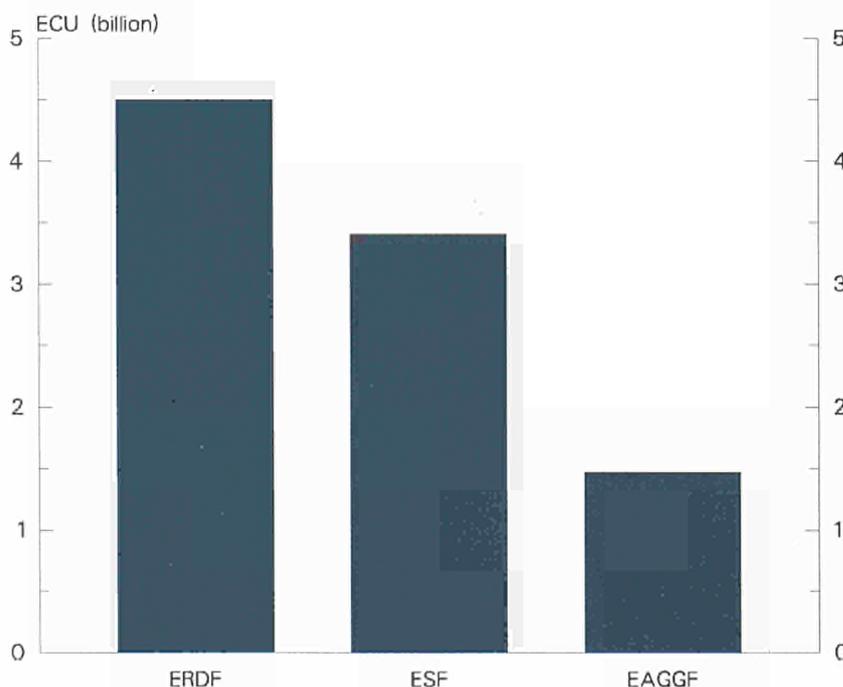
The principal policy response to unemployment has been training, but, as described in Chapters 9 and 11, this policy has been considerably extended in recent years, particularly as regards help for the long-term unemployed. While Structural Fund support through

the European Social Fund is also being readjusted, it is still primarily geared to vocational training (Box).

The effectiveness of policies to tackle unemployment are as much a matter of debate as the effectiveness of regional policies, with some giving greater emphasis to flexibility and mobility as solutions to unemployment (the European Round Table Report produced by a group of European business people in mid 1990) and others (such as the WIDER Report produced by a group of economists in early 1990) giving greater emphasis to vocational training and Swedish-style labour market policies.

Increasing emphasis is being placed in the Member States on the correct diagnosis and counselling of the unemployed as well as upon programmes which are locally based. The aim is to develop broad,

107 Breakdown of the Structural Funds (Regional Fund, Social Fund, EAGGF) for the Community 1989



The European Regional Development Fund

The European Regional Development Fund (the Regional Fund) is intended to help redress the principal regional imbalances in the Community and is directed towards Objectives 1, 2 and 5b (see below). Its aim is to strengthen the economic potential of the regions, support structural adjustment and growth and create permanent jobs. It contributes to the financing of productive investment, infrastructure investment and measures designed to develop the indigenous potential of the regions.

It also helps to promote regional development at Community level by means of studies and pilot schemes. The Commission will continue to prepare periodic reports on the social and economic situation and development of the regions with a view to assessing the impact of regional policy and identifying guidelines for future policy.

integrated approaches to unemployment problems including guidance, counselling, appropriate training and encouragement for employers to recruit the unemployed. Even when programmes against unemployment are developed and introduced across a national spectrum, they still generally need to be implemented regionally and locally, so that they can be adapted to both local labour market requirements and the needs of the unemployed. As the labour market improves, emphasis is moving away from massive State-funded job creation schemes towards activities which will help the unemployed get into the growing number of job vacancies which are becoming available.

The Reform of the Structural Funds

The immediate reason for the reform of the Structural Funds was the enlargement of the Community and the subsequent pressure for actions to strengthen economic and social cohesion in the Community. The accession of Spain and Portugal to the Community brought a substantial widening of regional disparities. It led to a doubling of the population of the least-favoured regions - those with a per capita GDP of less than 50% of the Community average.

However, pressures for reform had been building up for some time. There was a need for better administrative procedures, greater effectiveness in dealing with the problems of regional disparities and better targeting on priorities. Also, the experience of the Integrated Mediterranean Programmes - which had been set up in order to compensate for the effects of enlargement on certain areas in France, Italy and Greece - had shown the benefits of

The European Agricultural Guidance and Guarantee Fund

The EAGGF (Agricultural Fund), guidance section, is concerned with the adjustment, reorganisation and strengthening of agricultural structures and their continued development. It provides funding under Objectives 1, 5a and 5b.

The main categories of assistance are:

- measures to help re-establish a balance between production and market capacity such as set-aside schemes, afforestation, abandonment of certain types of production, etc;
- measures to modernize and adjust production such as the reorganisation of holdings, helping young farmers, early retirement schemes, etc;
- measures to promote the processing and marketing of agricultural and fisheries products;
- protecting and reserving the environment;
- measures to support farm income in less favoured and mountainous areas.

The Agricultural Fund is also concerned with rural and tourist infrastructures and development of forestry. A modulation of market management measures in favour of small farms, or farms located in less favoured areas, comes under the guarantee section of EAGGF.

supporting programmes rather than relying on the project based approach which had been prevalent previously.

Pressure for greater integration and social cohesion was expressed in Article 130A of the EEC Treaty supplemented by Article 23 of the Single European Act, passed in 1987, which required the coordination of the Structural Funds and the Community's lending instruments (the European Investment Bank and the New Community Instrument) to "strengthen economic and social cohesion" and "reduce disparities between the various regions and the backwardness of the less favoured regions".

Decisions were taken by the European Council and the Council of Ministers in 1988 to reform both the financial resources and administration of the three Funds which make up the Structural Funds - the Regional Fund, the Social Fund and the European Agricultural Guidance and Guarantee Fund. The reforms have expanded the Structural Funds and the scope of their operations. (In the mid-1980s, the distribution of the funds between Member States was broadly in line with their relative poverty - Graph 108.)

In February 1988, the Council decided to increase the budget available to the Structural Funds from some 7.2 billion ECU in the 1988 budget to some 14 billion ECU (in 1988 prices) by 1993. This represents a major change in Community spending: in 1986, the Funds took up 18% of the Community budget; by 1993, they will have reached 25%.

The purpose of better coordination between the Funds and the Financial Instruments is to enable the

The European Social Fund

The European Social Fund contributes to the financing of two types of measure:

- vocational training projects, accompanied where necessary by vocational guidance;
- subsidies towards recruitment into newly created stable jobs and towards the creation of self-employed activities.

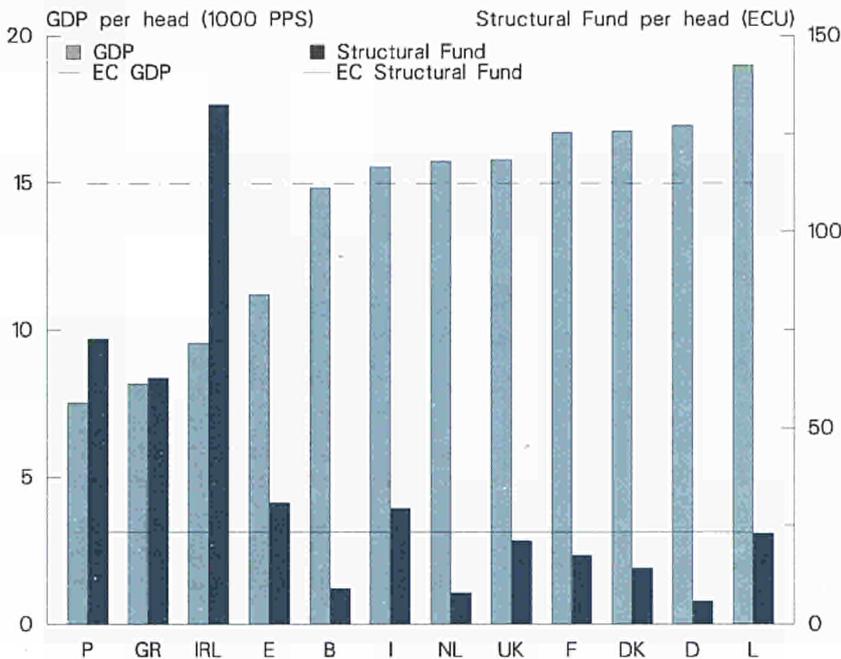
The Fund can also contribute up to 5% of its annual budget to the financing of:

- actions of an innovatory nature in the field of vocational training;
- accompanying measures needed for the implementation of the ESF regulation;
- measures aimed at staff within two or more Member States within the framework of the social dialogue;
- guidance and advice for the re-integration of the long-term unemployed.

It is primarily directed towards Objectives 3 and 4 of the Structural Funds across the whole Community. This means measures to combat long-term unemployment of people aged over 25 who have been without a job for more than 12 months and also helping people under 25, no matter how long they have been without work. As regards Objectives 1, 2 and 5b, the Fund assistance can be granted to persons who are unemployed, threatened with unemployment or employed in small and medium-sized enterprises.

Following the guidelines concerning European Social Fund intervention in respect of actions against long-term unemployment and in favour of the occupational integration of young people, preferential treatment is given to transnational operations, training in advanced technology, innovatory operations, training and recruitment incentives in the interest of modernisation, improved and more effective training structures, operations for categories of people encountering special difficulties on the labour market, and also actions in regions under Objectives 1, 2 or 5b which demonstrate a special effort to take account of the needs and prospects of the labour market.

108 Structural Fund Expenditure and Income per Head of Population in the Member States 1986/87



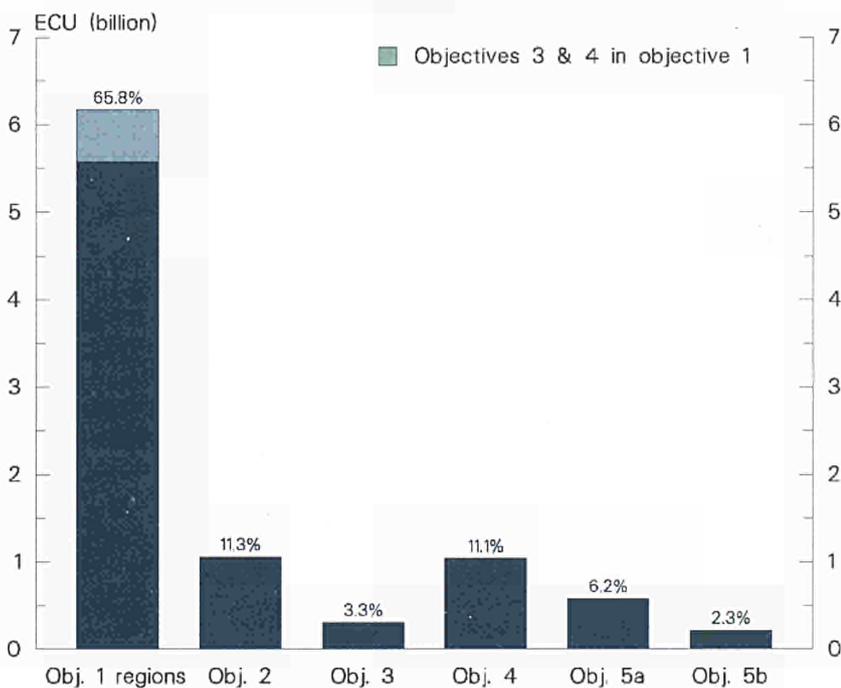
Community to offer financial support in a more cost-effective combination of grants and loans and to follow an integrated approach. A new possibility for providing global grants to finance a series of individual projects, or groups of projects, has also been introduced.

The introduction of three to five-year budgeting periods also represents a new approach in the distribution and planning of financial support for regional policies.

Five Priority Objectives

The nub of the operational reforms are the Five Priority Objectives which the funds now pursue. It is these five Objectives which provide the framework for the distribution of funds and the priorities for Community policy on regional development. They provide the goals to aim for and the criteria by which success is measured.

109 Distribution of the Structural Funds between Objectives for the Community 1989



Over the five years 1989-93 the Priority Objectives will receive a total of almost 60 billion ECUs, nearly two-thirds of which will be directed towards Objective 1 areas (Graph 109).

The Five Priority Objectives are:

- Objective 1 Areas

Promoting the development and structural adjustment of regions whose development is lagging behind. These regions are known as Objective 1 areas, or less favoured regions - LFRs. Over 60% of Structural Fund resources have been allocated for these regions and particularly for Objective 1 regions in Portugal, Ireland and Greece (Map 110). In total around

70 million people live in these regions.

- Objective 2 Areas

Strengthening the economies of regions, frontier regions or parts of regions seriously affected by industrial decline. These Objective 2 areas, in which over 53 million people live, are generally developed areas whose previously flourishing economies have been weakened by structural changes. They will receive nearly 12% of Structural Fund resources.

- Objective 3

Combatting long term unemployment.

- Objective 4

Helping young people into employment.

Objectives 3 and 4, outside of Objective 1 regions will receive just over 12% of total Structural Fund resources. With the actions undertaken inside Objective 1 regions, Objective 3 and 4 activities total almost 20% of Structural Fund resources.

- Objective 5

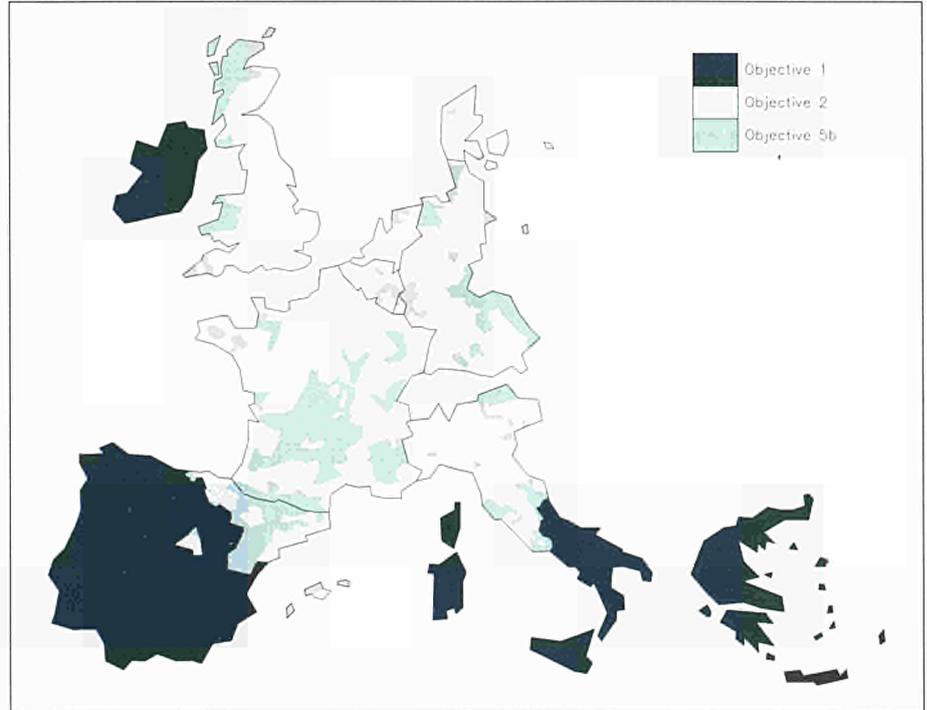
a) Speeding up the adjustment of agricultural areas.

b) Promoting the development of rural areas.

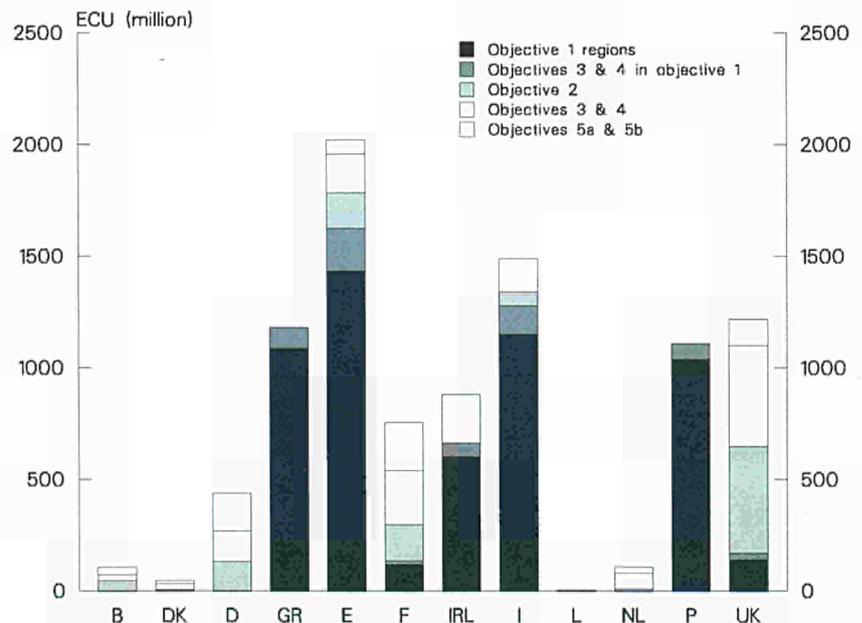
Objectives 5a and 5b will receive 10% of total Structural Fund resources.

The five Priority Objectives are to be achieved through a strategy of

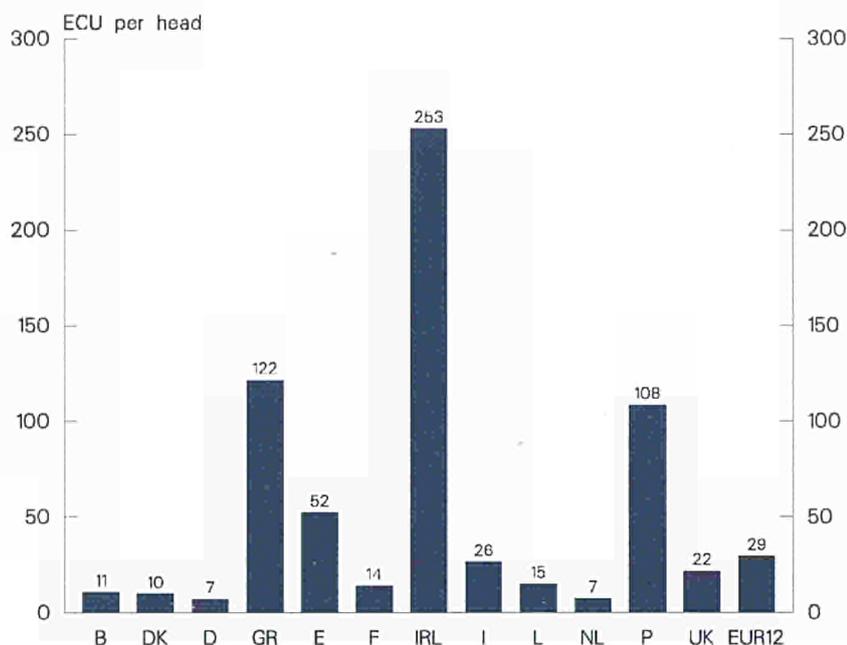
110 Regions of the Community receiving Assistance under Objectives 1, 2 and 5b



111 Distribution of Structural Funds by Objective between Member States 1989-1993



112 Structural Fund Expenditure per Head of Population in the Member States 1989



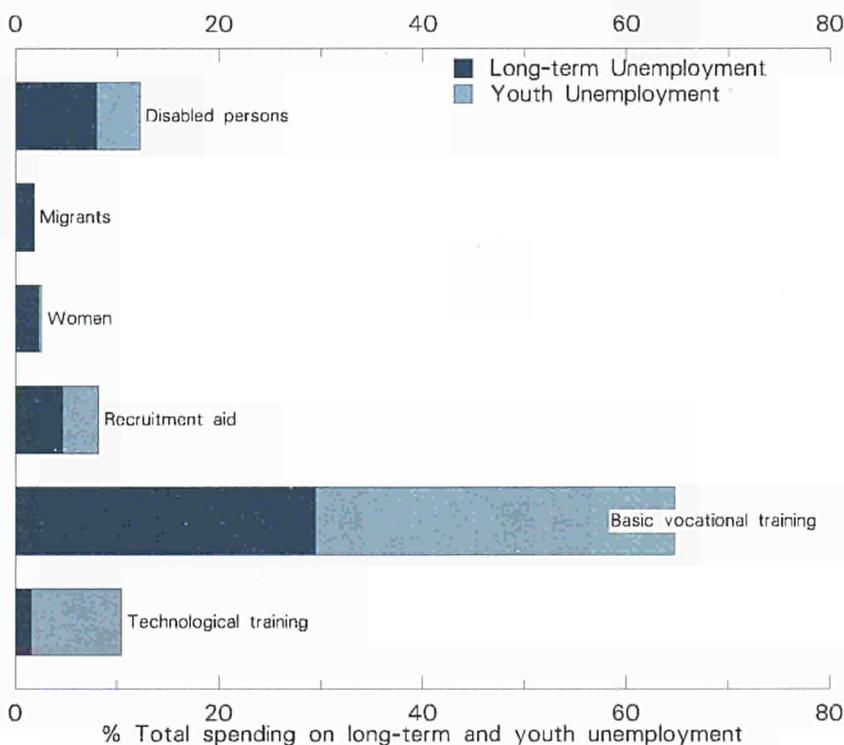
partnership and programming. Better planning and co-ordination will be the key to the success of the Structural Fund reforms.

While Spain and Italy are the largest recipients of money from the Funds (Graph 111), in terms of expenditure per head, Ireland, Greece and Portugal were the largest beneficiaries in 1989 (Graph 112) and are planned to remain so over the period up to 1993. As before the reform, expenditure per head varies inversely with income per head of Member States.

Partnerships and Community Support Frameworks

Partnership between the Community, national, regional and local authorities is reflected in how decisions are made on the allocation of funds as well as how those decisions are implemented. The new planning procedures follow a three-stage process.

113 Community Support Framework Example - France (Objectives 3 and 4)



First, acting on behalf of the regions concerned, Member States submit regional development plans and their plans for operations to combat long-term unemployment and to facilitate the occupational integration of young people to the Commission. Then, on the basis of these plans and discussion with Member States, the Commission draws up an outline of what support is to be earmarked for the regions or groups of people concerned. This document, called the "Community Support Framework", outlines the priorities for Community assistance, the forms of assistance and the overall cost.

The Community Support Framework, the linchpin of the new partnership, is the overall policy do-

cument within which specific policies for regional and local development and for training and employment objectives, and their implementation, are described. Thus the overall Community regional development objectives are met at the same time as Member States' own regional priorities. This new partnership approach has required some radical re-thinking by Member States and Commission alike.

Community Support Frameworks (CSF) are also part of the strategy for improved planning aimed at producing, not only better coordination between the different funds, but also more effective coordination between the different administrations involved and better use of the Community's other structural resources:

- the re-adaptation aids, loans, interest subsidies and guarantees provided by the European Coal And Steel Community (ECSC) (Box);
- loans and guarantees from the European Investment Bank, the New Community Instrument and EURATOM;
- Community resources allocated to other re-structuring actions;
- Community resources allocated to research;

The CSF provides the blueprint for spending on regional incentives and actions to promote training and employment for periods of 3-5 years and sets out the main priorities for joint action. It is within this framework that individual programmes are agreed and implemented. The purpose of the CSF is to ensure that the increase in funds has a genuine impact in the regions concerned and on the priority employment prob-

lems, and that they result in at least an equivalent increase in the total volume of official or similar structural aids in the Member State. A CSF may cover the whole of a Member State or one region and may be aimed at alleviating the specific unemployment problems defined under Objectives 3 and 4 as well as at correcting structural problems (Graph 113).

Each CSF must include:

- A statement of the priorities for action in relation to:
 - a) the principle of consistency with the economic and social policies of the Member State and/or region concerned;
- An outline of the forms of assistance.
- An indicative financing plan for the different forms of assistance. The plan must take account of expected available

- b) the economic prospects of the Member State and/or region concerned;
- c) the expected knock-on effects;
- d) consistency with other Community policies (internal market, environment, competition, research, regional policy, agricultural policy, social policy, etc).

The European Coal and Steel Community

The European Coal and Steel Community (ECSC) provides readaptation aid to workers in the coal and steel sectors who, following a permanent discontinuation, curtailment or change of their companies' activities:

- are redeployed (either internally or externally),
- follow a retraining programme,
- take early retirement,
- undergo a period of unemployment.

In the coal sector, this aid is further extended to workers made redundant following the introduction of new production techniques or equipment.

Readaptation aid is normally payable for periods of up to 18 months and covers a maximum average of 3 thousand ECU per worker, subject to a special contribution by the Member State. In recent years, special budgets allowed for the doubling of this amount in the case of early retirement, vocational training and redeployment.

Moreover, the ECSC finances the creation of new activities in the coal and steel regions through loans at reduced interest rates. It also contributes to the construction of social housing for workers in the coal and steel sectors.

ECSC resources are made up largely of the levy which is imposed on coal and steel production. In 1990, the ECSC budget stands at 435 million ECU. Some 63% of this budget is devoted to readaptation aids.

Case Study: the Mezzogiorno

The Mezzogiorno, in Italy, has faced problems of economic development for many years. It is rich in natural beauty, beaches, historic, archaeological and architectural monuments, but turning these into economic resources has proved difficult.

In 1958 the per capita income of the Community's richest regions was several times that of Calabria in the Mezzogiorno. Thirty years later the situation has improved but problems remain. In 1988, unemployment was 23.5% (the national average was 11.3%) and per capita GDP was under two-thirds of the Community average.

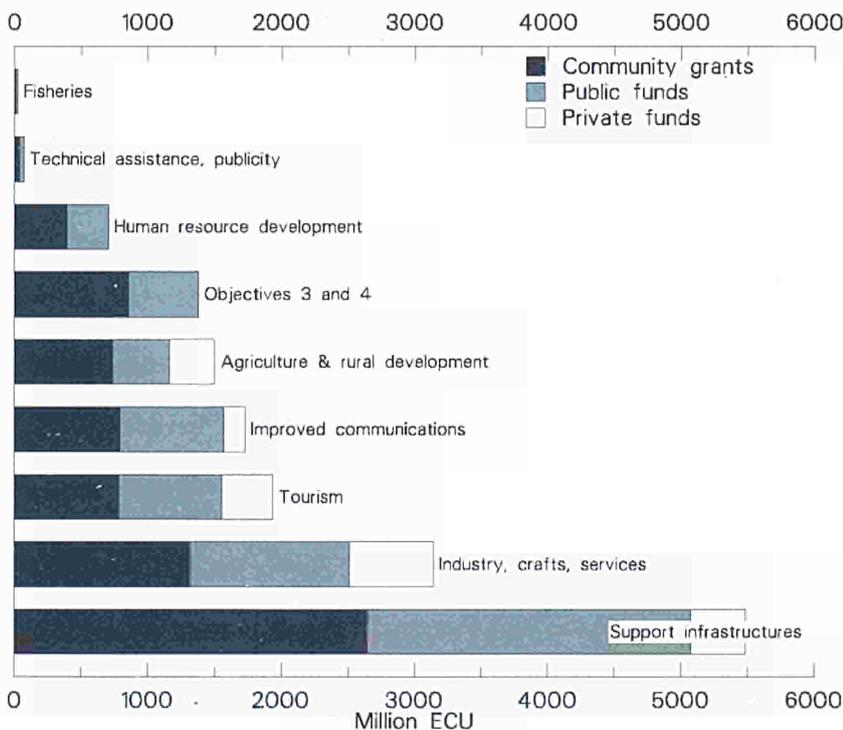
Thirty years ago a major problem was infrastructure. Large scale public investment since then has considerably improved principal road, rail and air links but this has not been sufficient.

While physical communications have improved, other infrastructure problems remain, notably in terms of water supply and telecommunications - lack of which inhibits industrial development. General industrial infrastructures, such as industrial parks and services, are lacking. There is also a lack of local enterprise culture, partly a legacy of extended social security support.

Equally important, however, are the weaknesses as regards the development of human resources. Educational institutions are continuing to produce young people with qualifications which do not match present-day labour market needs. There is a particular lack of technical training and education. Partly in consequence, the Mezzogiorno had nearly 800 thousand unemployed young people under 25 in 1988.

To combat these problems, the Community Support Framework encompasses investment in training along with investment to support local industrial development (Graph 114).

114 Community Support Framework Example - Mezzogiorno (Aims and Sources of Finance)



Case Study two: North-East England

The second type of regional problem is that of decline in a once powerful economic area. North-east England is one such region. Its development as a major industrial area in the late 19th century was based on coal, iron ore and minerals. Later it flourished with the growth of iron and steel, heavy engineering, oil and chemical industries.

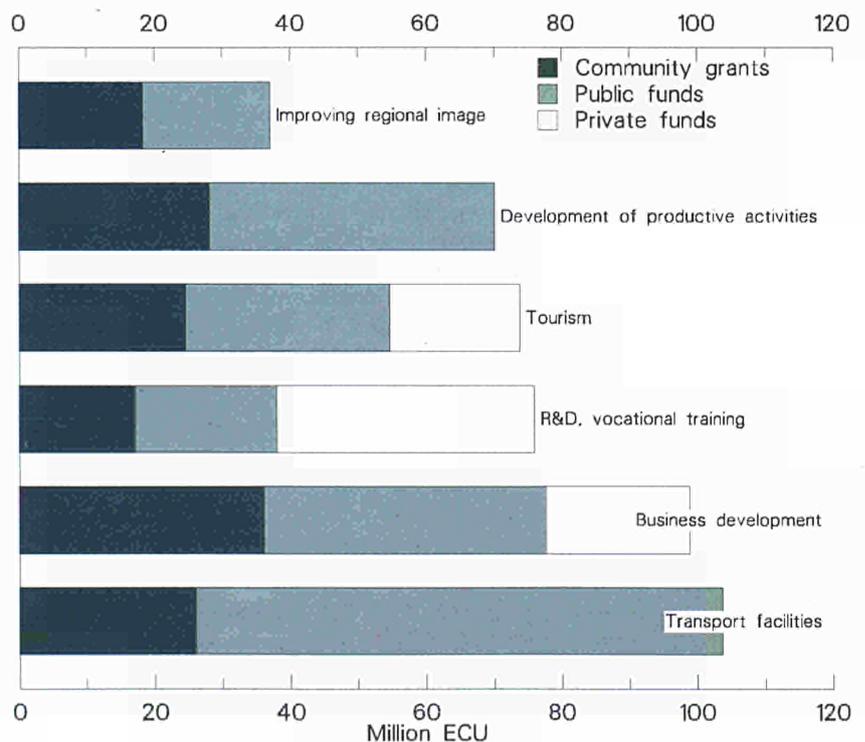
The massive development of these industries created a narrow and vulnerable dependency, the effects of which have been felt as these industries have gone into decline. Since 1970 over 200,000 jobs have been lost in the North-east and for many years it has experienced unemployment levels well above the national average.

In 1988, it was 13.2%, nearly twice the national average. But this hid blackspots of unemployment in some areas as high as 18.8%. In 1977-84 the GDP per capita fell from 5.3% below the national average to 12.6% below.

In addition to the declining industrial landscape, the North-east has many rural areas dependent on agriculture and extractive industries. Problems have arisen in these areas as a result of declining employment opportunities from out-migration, unbalanced social structure, lack of most services and remoteness. It is an area which typifies the problems of the Community's poorer industrialised regions.

The basic objectives of UK regional policy for the North-east are the creation and modernisation of infrastructure, encouragement of productive investment and local enterprise, creating a skilled workforce, urban regeneration and improvement of the environment. The Community Support Framework reflects these aims (Graph 115).

115 Community Support Framework Example - North East England. (Aims and Sources of Finance)



The Evidence on Regional Growth

The feasibility of correcting regional disadvantage has always provoked differing views - from those who believe that peripheral regions have fundamental location disadvantages to those who believe that any failure to correct imbalance is due to inappropriate policies.

Traditionally, it has been argued that manufacturing production will tend to gravitate towards the richer, geographically central regions of the Community. Producers in the more central regions are seen to enjoy advantages resulting from their proximity to the main concentrations of population and to industrial suppliers and customers, whereas producers on the periphery have higher transportation costs, wait longer for supplies, and have more limited markets to draw upon and to supply. Because manufacturing production generates much of the income which is regenerated into services, it also encourages the development of service activities in the central regions.

Evidence from other parts of the world suggest that this 'a priori' reasoning may be flawed. In the US, coastal areas are the ones with the strongest growth and many of the Southern States have emerged from economic backwardness at the expense of the older industrial urban areas. Equally the apparent location disadvantages of the newly industrialising countries in South East Asia, or indeed of Japan before them, have not prevented them from succeeding in world markets.

Moreover, the tendency for consumers and companies alike to spend more on high unit value, sophisticated products, like cars, electrical goods or electronic equipment, as incomes rise means that transport costs become less important relative to other costs. Improvements in telecommunications and the increased mobility of capital also affect where enterprises decide to locate.

These changes and more detailed concerns - the skills of the local labour force, their educational attainment, and the ease with which they can be trained; the physical infrastructure and ease of access or communication; research and education facilities available; the dynamism of the local or regional authorities - all play a bigger role nowadays in location decisions.

Given that regional measures have existed in most Member States for many years, and given the scale of expenditure on such measures, what has been their effect in terms of reducing regional disparities? Until recently, the evidence was not encouraging. Despite all the efforts and expenditures there had been a widening of regional disparities in the 1970s and early 1980s with regard to both GDP per head and the rate of unemployment.

However, the more recent evidence is more encouraging. At Europe's periphery, growth rates over the 1980s were higher than at its centre. In the 1980s, the UK, Italy, Spain and Portugal achieved annual average rates of growth which were just over 0.5% higher than growth in the Federal Republic, France and the Benelux countries. Moreover in both Spain and Portugal, manufacturing output and employment expanded faster over this period than in the rest of the Community. At the same time, population growth was also higher in the peripheral countries, so that the gap in terms of income per head was not significantly closed (Map 104).

There are also increasing numbers of tangible examples of peripheral areas which have clearly turned their economies round from decline to growth. Notable examples include many parts of Scotland, especially the Strathclyde region and cities such as Dundee, the Abruzzi area of Italy, the South-West of France, parts of Spain and so on.

However, one factor whose benefit is often over-stated with regard to North-South or centre-periphery comparisons is the level of wages. The competitive advantage of low wages at its periphery is generally offset by low rates of productivity (see Chapter 4). Thus, low wages cannot be relied upon to ensure regional progress. Rather, the evidence suggest that improved living standards and better employment prospects in the regions flow primarily from high levels of investment and productivity in both capital and labour.

resources, the 'additionality' requirement and the need effectively to combine grants and loans.

- Information on technical assistance or studies required for the implementation of the measures proposed.
- Procedures for implementing the CSF and for monitoring and assessment procedures.

Programming

Prior to the reforms and the introduction of the CSF, the Structural Funds financed several thousand individual projects. Now the approach is to develop programmes which identify actual priorities for regional and employment actions and provide a structure for making decisions about the type and level of funding. Programming is intended to encourage:

- decentralisation of the management of Community assistance;
- predictability of Community assistance, which will help stimulate investment;
- improved assessment of Community assistance;
- better administration of applications for assistance.

The term "Integrated Approach" is used to describe:

- a programme which involves financing by more than one fund, or at least one fund and one financial instrument;
- measures financed by different funds or financial instruments which are mutually reinforcing

Reaching out to Rural Areas

At Community and national level, various sources of finance have been available which may have an impact on rural development, but without being embodied in any explicit strategy. Since the 1980s, however, policy has turned towards encouraging integrated development in certain rural regions - for example, in la Lozere in France, the Western Isles of Scotland and south-east Belgium. The Integrated Mediterranean Programmes also contain strategies for rural development. Most recently the Community has developed a new policy initiative following its report 'The Future of Rural Society'. This programme has the immediate effect of co-ordinating the Commission's own programmes and activities which have a relevance for the development of rural areas, and includes a number of other specific priorities affecting both the farming and the non-farming rural populations.

For the farming population, the emphasis will be on focussing assistance on the most needy farmers (small farmers in regions where other forms of economic development are thought unlikely to be successful, such as hill farmers), a significant investment in forestry, and the encouragement of product quality so as to enable premium prices to be obtained. For the non-farming community four priorities have been selected for assistance: the development of human resources, encouragement for rural business, measures to make the countryside more modern and attractive, and maintenance of the rural heritage.

The development of rural areas is the particular focus for Objective 5b in the reform of the Structural Funds, but most of the less developed regions referred to in Objective 1 are also rural in character. Rural development cannot be dissociated from an overall policy of structural adjustment just as regional development programmes cannot simply focus on the development of large conurbations where economic activity is concentrated.

The development potential of rural regions can often be encouraged by local initiatives. Strategic thinking at the local level and support to identify problems and implement solutions will greatly assist the effectiveness of such action.

A number of practical steps have been suggested by the Commission to stimulate local strategic thinking and planning:

- stepping up training/information/awareness campaigns for the political, economic and social authorities of the regions concerned, for example, through seminars, information brochures on Community initiatives in the rural environment, and the financing of preparatory studies;
- creating a network of rural development agencies or agents to take on a mobilizing and co-ordinating role;
- producing a practical guide for rural development promoters, indicating sources of information, funds and access to Community funds.

Together these are intended to build local development capacity in rural areas to enable them to both strengthen their existing economic activities and to diversify.

and which effectively coordinate all the parties involved;

- A process whereby national, regional, or local administrative structures exist or are established to implement an integrated programme.

In addition to the Integrated Mediterranean Programmes, another example of such programmes is PEDIP, a programme for the modernisation of Portuguese industry, started in 1988 and due to run for five years at a total cost of 1 billion ECU.

The Commission is keen to encourage the integrated approach, and following the reform, a large number of programmes throughout the Community have been set up based on this approach. However, some regions are better equipped and better organised to mount an integrated programme than others.

Monitoring and Evaluation

Concern to ensure that Community money is correctly spent has led on to concern to ensure that it is effectively spent. With new systems of multi-annual budgeting and programming, it will be possible to monitor the CSF each year in order to review what is happening in the regions and to amend it, if necessary.

Evaluation strategies include the following:

- assessment, usually qualitative, of the contribution of policy towards the solution of the structural employment and regional problems;
- appropriateness of the package of regional and employment policy instruments in the light of either changed economic circumstances or the contentions of economic theory;
- measurement of the range of benefits accruing from the package of regional and employment policy measures;
- measurement of both the costs and the benefits of the policy and the cost effectiveness of individual policy instruments.

Some Member States apply some method of evaluation, while others do little to examine the outcomes and results of regional initiatives.

Clear guidelines for evaluating the major sources of a region's structural problems and employment difficulties, and for assessing the performance of the measures implemented are currently being formulated. Although the Community's reformed structural policies are underway, much still needs to be done in order to monitor and measure the success of these policies.

Chapter 11 Priority to Fighting Long-Term Unemployment

Long-term unemployment remains high, despite the decline in overall unemployment. It requires concerted national and Community action to tackle the problem.

Introduction

Long-term unemployment has been a major policy issue since 1983/84 when the Commission produced its first policy Communication on the subject, and when the Council of Ministers drew up its first Resolution.

At that time unemployment had just reached 10%, of whom 45% had been unemployed for more than one year. Unemployment, and long-term unemployment, continued to rise in the following years, peaking in 1985. While unemployment has since fallen, the proportion of long-term unemployed has not. Moreover, the average duration of unemployment among the long-term unemployed has risen, as indicated by the increase in the proportion of those unemployed for over two years (Graph 116).

In addition to the financial and social costs for those directly affected - the fall in living standards, the strain on family and other personal relationships, depression, loss of motivation and feelings of inadequacy and powerlessness - there are costs for government budgets - unemployment payments and other forms of income support, social services provision and foregone tax

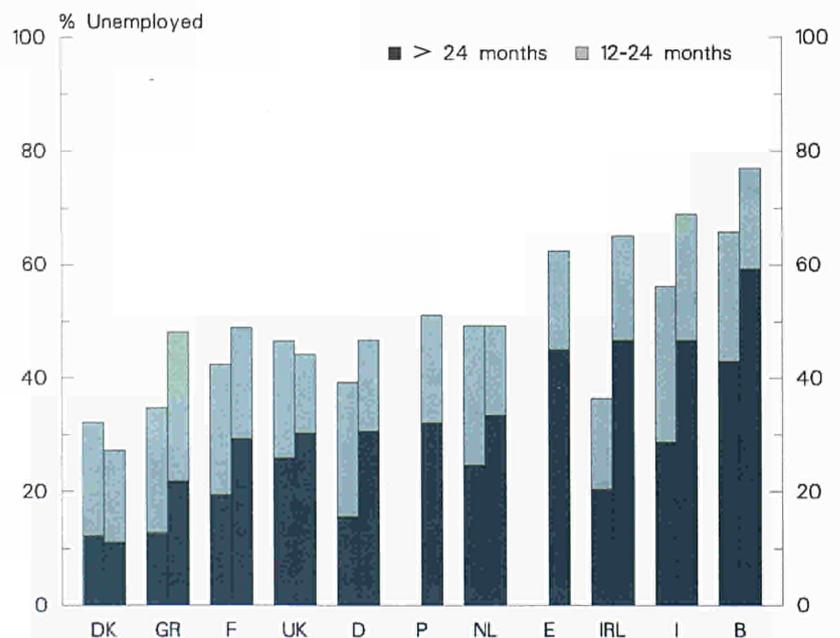
revenue - and costs for the economy as a whole in terms of lost output and income.

Ever since the problem of long-term unemployment was accorded full recognition, a variety of national policy initiatives and actions have been taken and Community support from the European Social Fund has been increased substantially. Political commitment is not lacking

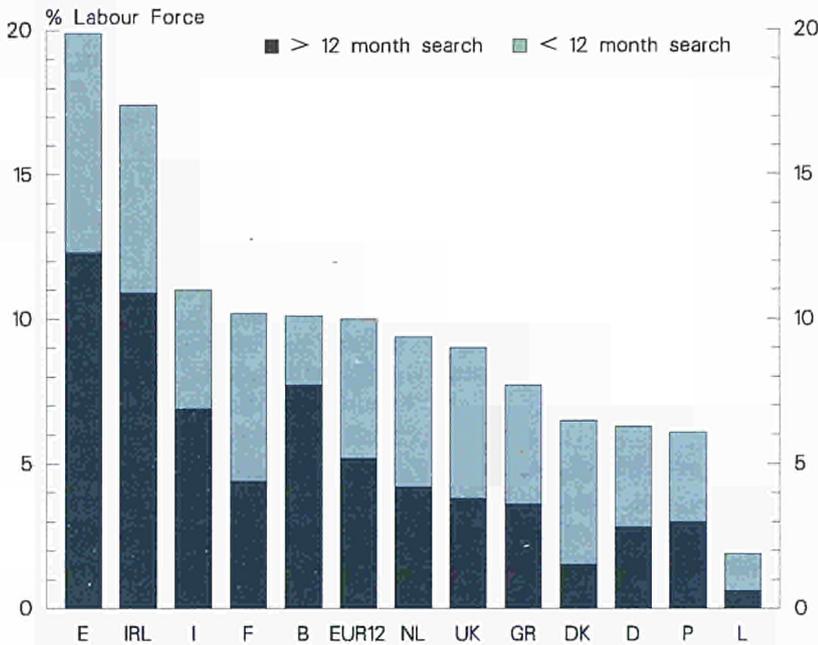
either - a number of Community level policy statements by governments and the two sides of industry have been issued, the latest in May 1990 (Box p. 160-161). Concrete evidence of the effectiveness of results is nevertheless frustratingly limited.

However, the increased financial resources that have been made available from national and Com-

116 Share of Long-Term and very Long-Term Unemployed in Total Unemployment in the Member States 1983, 1988



117 Unemployment by Duration of Search in the Member States 1988



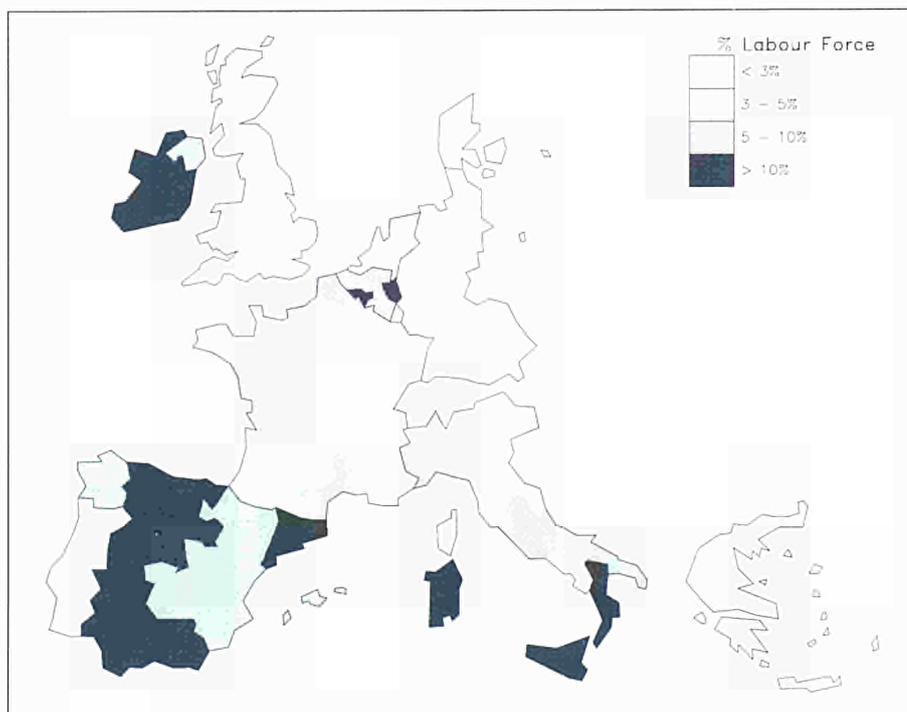
munity sources, coupled to the more innovative approaches now being pursued on the ground - some of which are described below - should have an effect in the more favourable labour market climate that now exists.

The Basic Facts

As employment within the Community has increased strongly over the past 4 years, unemployment has decreased, but much more slowly, falling from 10.4% in 1987, to 10.0% in 1988 and 9.0% in 1989. In April 1990 it had fallen to 8.5% of the Community's labour force, or around 12.5 million people.

The reduction in unemployment has been slow because the majority of the newly created employment has been taken up by new entrants to the labour market and not by the unemployed (Chapter 1). According to the Community's Labour Force Survey, whilst employment rose by 4.8 million between 1985 and 1988, unemployment fell by only 0.5 million. During this period the proportion of the unemployed who had been out of work for more than one year remained stable at just over 50%. Long-term unemployment, defined in these terms, thus affected 5% of the Community's labour force, or over 7 million people, in 1988.

118 Long-Term Unemployment Rates 1988



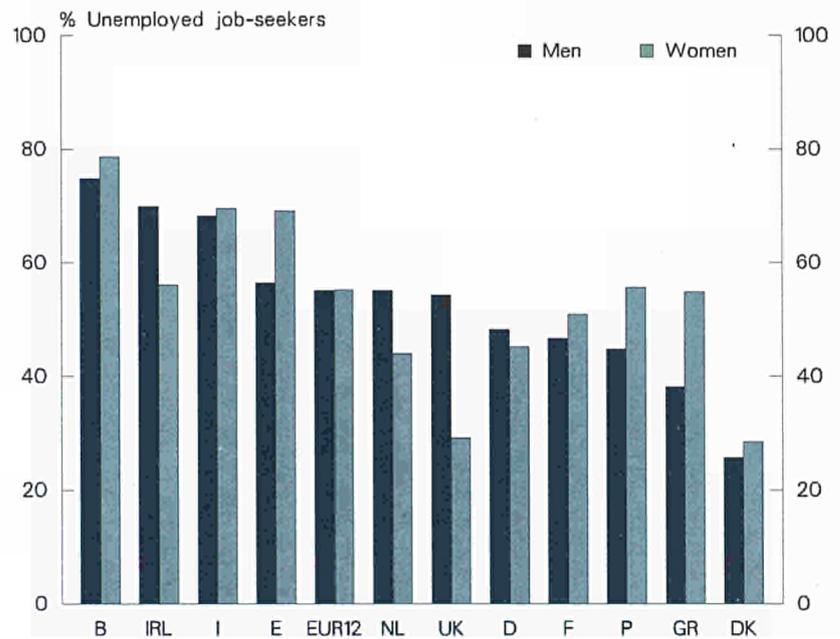
The problem of long-term unemployment is particularly acute in Spain and Ireland where, in 1988, the number of long-term unemployed amounted to around 11% of the labour force (Graph 117). The problem is also serious in Southern Italy and in parts of Belgium, where long-term unemployment also exceeded 10% in 1988 (Map 118). By contrast, long-term unemployment was a relatively minor problem, af-

fecting less than 3% of the labour force, in Denmark, the South of the FRG, the North of Italy, the Southern part of the UK and the North of Portugal (where unpaid or low paid family working is particularly important).

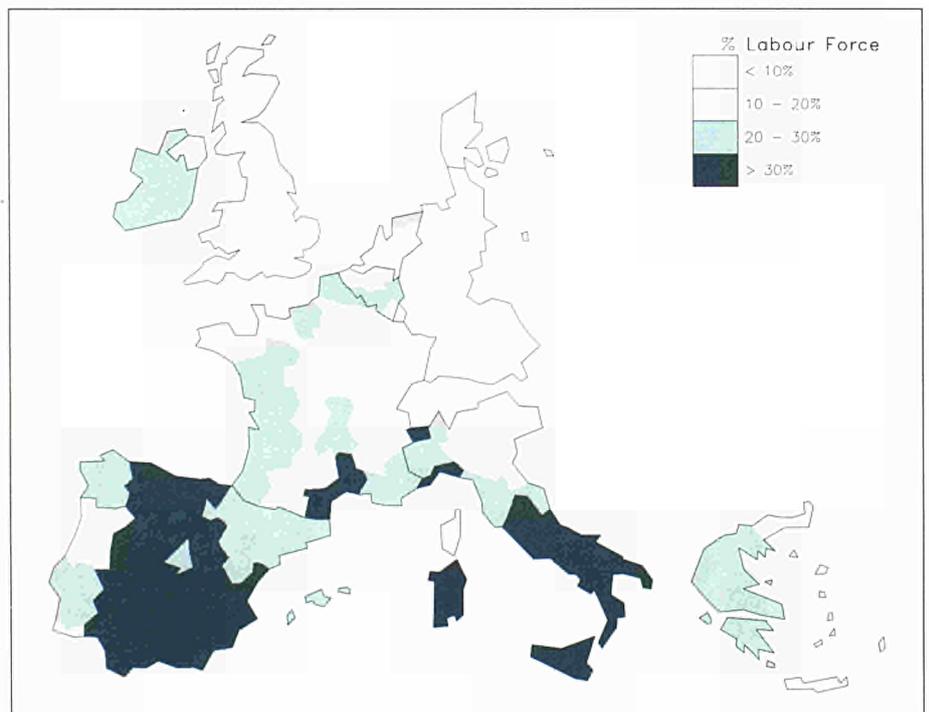
Long-term unemployment affects men and women to a similar extent across the Community. In most Member States, the proportion of the total unemployed who have been out of work for more than a year is about the same for women as for men (Graph 119). In Belgium and Italy, this proportion was around 70% or more in 1988 for both sexes. There are, however, a few notable differences. In Spain, Portugal and Greece, a significantly higher proportion of unemployed women than unemployed men had been out of work for over a year. In the UK, by contrast, the reverse was the case, less than 30% of unemployed women being long-term unemployed as opposed to almost 55% of men.

In the Southern Member States, unemployment of young people is particularly high (Map 120). This section of the labour force, which should be the most adaptable and receptive to retraining, is especially affected by long-term unemployment. In Italy, young people under 25 made up over half of the long-term unemployed in 1988, in the case of both men and women, and the proportion was only slightly less in Portugal, Spain and Greece at around 40-45% (Graph 121). In Italy and Spain, over 20% of the labour force in the under 25 age-group had been out of work for more than a year (Graph 122). Moreover, in these two countries, 45-50% of those who had been out of work for more than two years were less than 25 years old.

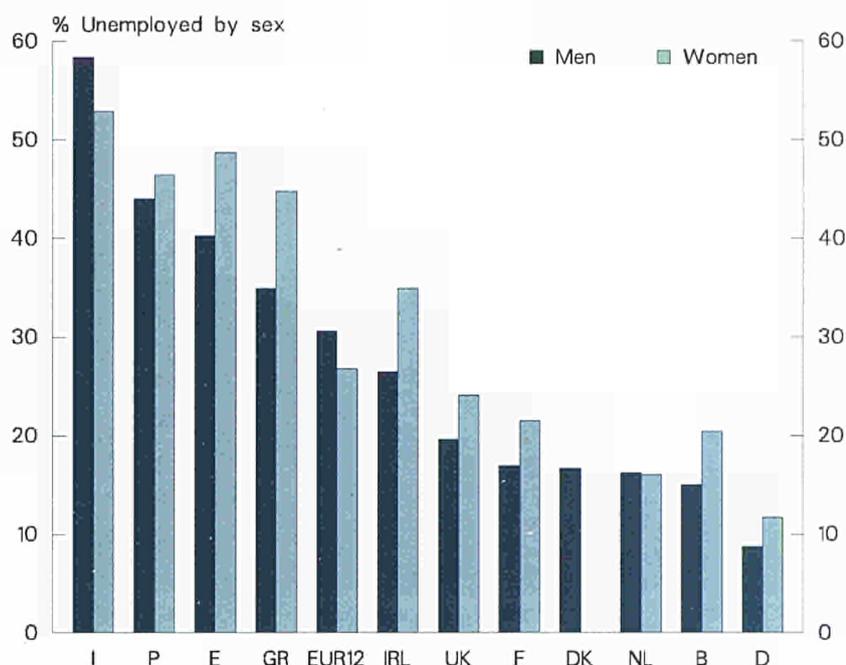
119 Long-Term Unemployed as a Share of all Unemployed in the Member States 1988



120 Unemployment Rates of Young People 1988



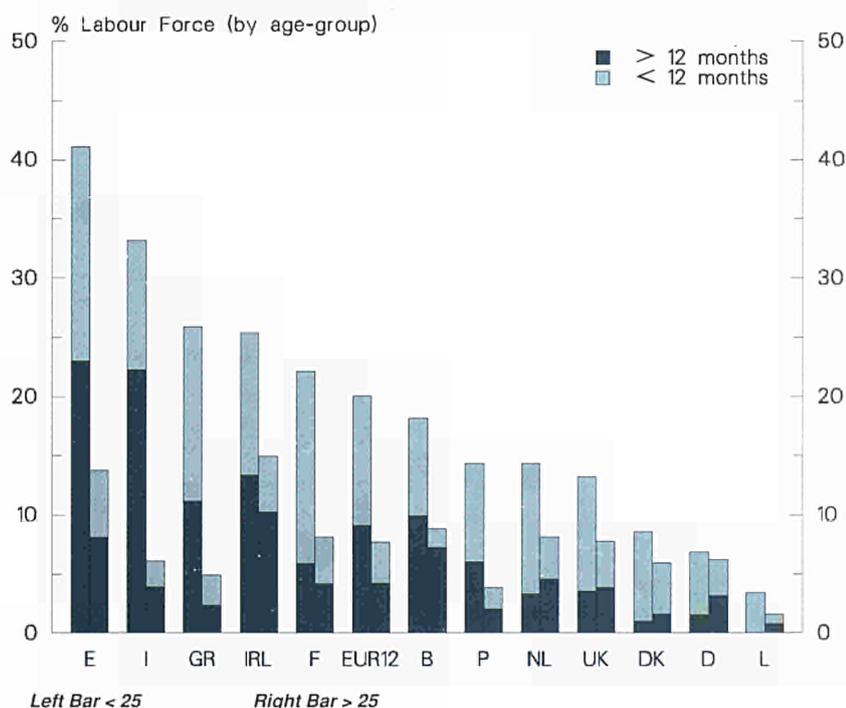
121 Share of under 25 Year-olds in Long-Term Unemployed Men and Women in the Member States 1988



In the more developed countries in the North of the Community, only around 10-20% of the long-term unemployed were young people of under 25 (Graph 121). In most of these countries, the exceptions being France and Belgium, the rate of long-term unemployment among the young was less than the rate for those older than 25 (Graph 122). This contrasts with the countries in the South, as well as Ireland, where the rate for the young was greater than that for older members of the labour force.

Although, in the Community as a whole, a slightly higher proportion of unemployed men than unemployed women were under 25 in 1988, only in Denmark (where no women at all under the age of 25 were recorded as being unemployed for more than a year) were there significantly more young men than young women among the long-term unemployed (Graph 121).

122 Long-Term Share of Unemployment Rate for over and under 25 Age-Groups in the Member States 1988



The problem of long-term unemployment seems to have become more entrenched during the 1980s, in the sense that the proportion of the unemployed out of work for more than a year increased over this period, at least up to 1988. The proportion of the unemployed who had been looking for work for more than a year went up from 37% in 1979 to just under 47% in 1983 and to 53% in 1988 (these figures exclude Spain and Portugal for which no data are available before 1986). Particularly disturbing is the fact that, between 1983 and 1988, those who had been looking for work for more than two years increased from 23% to 35% (Graph 123).

Between 1985 and 1988, when employment rose significantly in the Community, there was a marked fall in unemployment among men (by over 850 thousand in total).

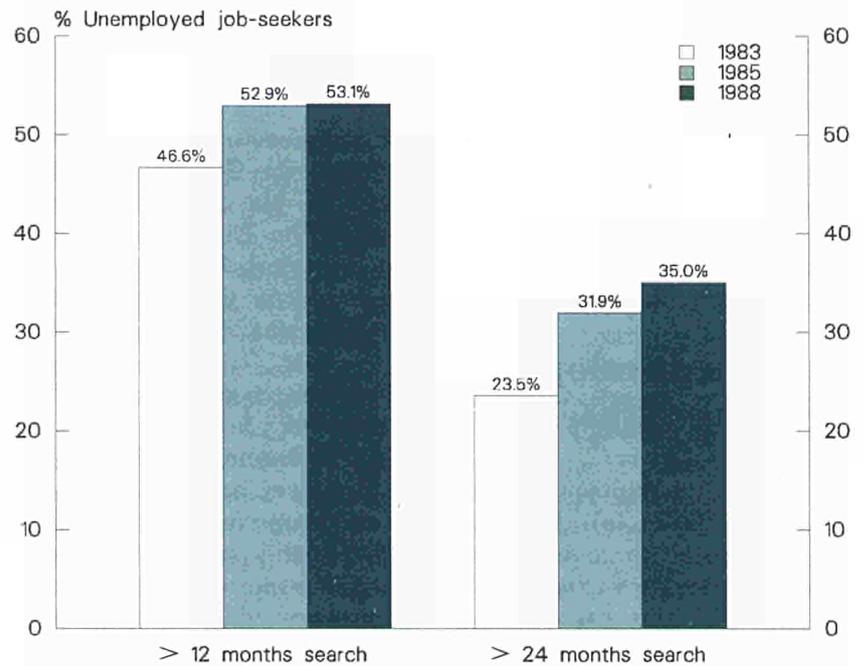
However, whereas the number of men who had been out of work for between one and two years fell by 380 thousand, the number unemployed for more than two years went up slightly (Graph 124). For women, the situation has deteriorated, unemployment rising by 420 thousand over the same period. Although there was a reduction of 95 thousand in the number of women out of work for between one and two years, the number of those out of work for more than two years increased by almost 400 thousand (Graph 124).

While high levels of long-term unemployment are generally found where there are high levels of unemployment, there are differences between Member States (Graph 117). These are due to a variety of factors - the structure of the labour force, the flexibility of the local labour market, the duration and amount of unemployment payment, the quality of vocational guidance and training, the ease of mobility, etc. In general, however, the longer a person stays without work the less likely they are to get a job.

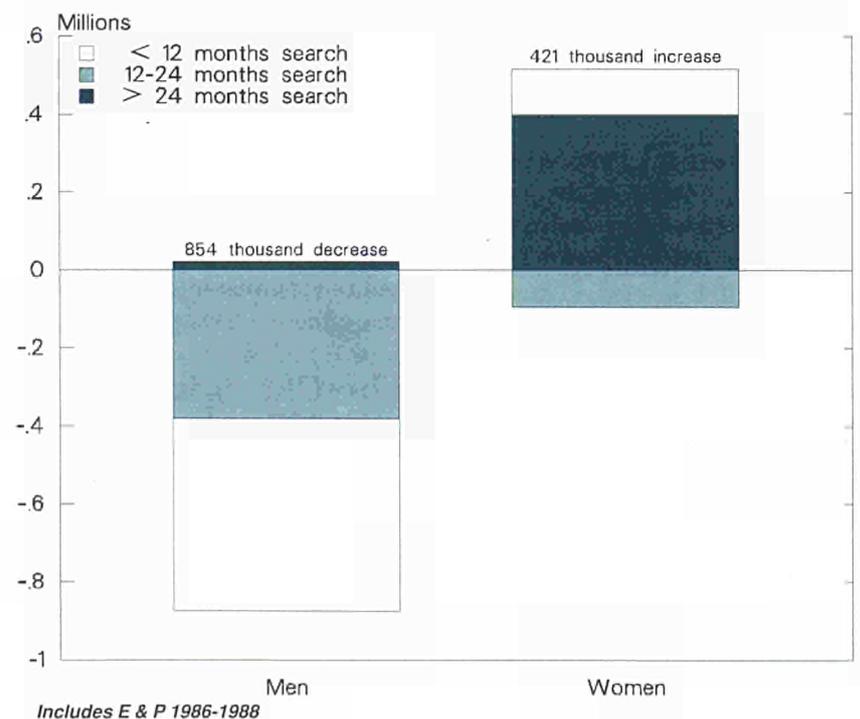
People with an accumulation of social and personal handicaps have the most difficulty finding work, or getting back into work. As a result, long-term unemployment is highly concentrated, both geographically and socially. Geographically, it exists in backward or declining regions, urban and rural areas undergoing a crisis, and poverty blackspots (Map 118). Socially, it mainly affects those with poor educational achievements and low or no skills, with a particular impact on migrant workers, unskilled women, people with disabilities and young people in difficulty.

Although people under 25 years of age are twice as likely as those over

123 Contribution of Long-Term unemployment to Total Unemployment in the Community (EUR10) 1983, 1985, 1988



124 Change in numbers of Unemployed Job Seekers by Duration of Search in the Community 1985-88



25 to find themselves without a job, they do not stay unemployed for as long as the over 25s. Moreover, significantly fewer young people will be entering the labour market over the next few years and they are thus less likely to experience difficulty than young people in the recent past in obtaining employment. Long-term unemployment then becomes increasingly a problem of older workers who are unable to compete for the new types of job that post-industrial societies are developing.

Measures developed by Member States

As long-term unemployment rose during the 1980s, all Member States introduced large-scale programmes to provide various forms of support. The aim was two-fold. Firstly, it was to prevent unemployment or, if people had become unemployed, to prevent them staying unemployed for a long time by providing retraining, assistance with mobility, and so on, at an early stage. Secondly, it was to reduce the existing 'stock' of long-term unemployed by means of various measures:

- training measures aimed at updating the skills of long-term unemployed workers using both classwork and on-the-job training;
- information and guidance about career and job options;
- subsidies to encourage the recruitment of the long-term unemployed by the private sector;
- special job creation programmes, often involving work of a social or environmental na-

ture and often operated directly by local or municipal authorities;

- financial aid and advice for setting up in business or in self-employment.

These measures are documented through the Commission's MISEP system - the Mutual Information System on Employment Policies, which reports on national policies each quarter year (Box p. 159 and *Employment in Europe 1989*).

However, a need for more intensive Community level co-operation was seen. In December 1987 the Council of Ministers for Social Affairs asked the Commission to increase its efforts in this area and to 'promote positive experiences which could be incorporated into national programmes to help long-term unemployed workers'. As a consequence, the Community set up the ERGO Programme - the European Community Action Programme for the Long-Term Unemployed. This programme has two main aims. The first is to raise awareness of the problems and solutions by providing information about programmes, projects, actions or practices in countries at national, regional or local level in an accessible and interesting form. The second is to develop evaluation methodologies and techniques in order to identify cost-effective good practice.

The Changing Emphasis in National Measures

It is difficult to quantify the scale of the Member States' efforts, given the diversity of special employment measures. There have been fre-

quent changes in the scale, nature and targeting of employment programmes, and national information is often presented in different ways. Moreover, no comprehensive database exists regarding independent, locally initiated projects.

An attempt at quantification was made, however, by the Commission's Statistical Office in 1986-87. At that time it was estimated that up to four million people were participating in public job creation and training programmes, or had been hired under recruitment subsidy arrangements. Of these 4 million, approximately one million were in schemes specifically targeted towards the long-term unemployed.

Since then, there have been some significant changes in the form of public support. In the North of the Community, in particular, there has been a shift away from measures to create jobs for the long-term unemployed - public works programmes, enterprise creation and wage subsidies - towards training and other measures designed to fit the long-term unemployed into existing job vacancies. This change has been partly due to the high costs of job creation schemes but it has also been a reflection of the increasing demand for labour. In the South of the Community, however, the policy emphasis has changed much less and reliance is still placed on employment creation schemes.

Particular emphasis is being put on measures to avoid the unemployed becoming long-term unemployed. Personal counselling has been developed at the onset of unemployment, backed up by sustained contact to ensure that people are informed about the job opportunities and training possibilities.

The object is to prevent people staying unemployed as a result of discouragement, demotivation or ignorance of opportunities.

Measures to improve the abilities of the long-term unemployed - through vocational training or improvement in job application skills - are helpful in overcoming the observed tendency of employers to discriminate against the long-term unemployed. But they seem only to be really effective in local labour markets where employment is growing or where there are skill shortages that the retrained unemployed can fill.

These trends are not universal, however. In France and Denmark, for example, large-scale off-the-job training programmes continue to be an important part of the policy package.

The other major policy development of the late 1980s was the increasing degree of contact between public agencies and the long-term unemployed, with a greater emphasis on counselling. To some extent, interviews and counselling sessions have been used to motivate the long-term unemployed and to monitor or control their seriousness regarding job search. Counselling and advice is now seen to be a key factor, not just in helping the individual, but also in making programmes more cost-effective through better targeting of the expenditure.

The use of innovative placement measures such as job clubs offers low-cost support to traditional measures and one which can be used with less potential interference with the operation of the labour market. But they tend to work best for those who are the most 'job-ready' (Box p. 126).

All of this is making the task of helping the long-term unemployed more practical and purposeful. However, the new approach is much more demanding on the government employment services, particularly with clients who are in need of considerable help.

One of the challenges of the 1990s will be to develop more sensitive forms of occupational counselling which recognise the social problems faced by many long-term unemployed people, and their need to enjoy the same freedom of choice in the labour market as others.

A second challenge will be to redress the tendency to measure success merely by reductions in the number of people on the unemployment register. A third challenge will be to ensure that national support reaches more of the locally developed projects (Box p. 162) many of which have had limited or no access to public funds.

Evaluating National Measures

Despite the scale of expenditure by Member States on programmes to help the long-term unemployed, evaluation techniques are underdeveloped and little is known about the effectiveness of different programmes. Indeed, many of the most important changes in programmes and measures seem to have been driven as much by government budget restrictions as by information about efficiency. The move away from traditional public works programmes, enterprise creation and wage subsidies that has been observed in some Member States has been motivated in part by improved labour market conditions. But it has also been influenced by the high budget costs of the schemes.

The lack of general developed evaluation criteria and techniques reflects a lack of clarity about objectives, which may, in part, explain the relatively poor success rate of many programmes. One difficulty is that programmes very often have multiple objectives - which are not clearly specified or weighted - and this may be exacerbated by the degree of discretion available to local project managers. It is not a question of the Member States failing to develop highly sophisticated cost-benefit techniques. In some Member States, even the most elementary monitoring of performance - such as how many people drop out of schemes, what participants do when they leave, what the course actually provides - may be lacking.

Partial evaluation, or re-evaluation, may be used in order to modify or update schemes. For example, many job creation schemes have been adapted to avoid displacement - the risk of creating jobs for the unemployed at the expense of other groups. Thus job creation schemes may specify that only work which would not otherwise be done can be eligible - as in the UK's Community Programme, the German ABM scheme or the Belgian Troisième Circuit de Travail. That solves one problem but, on the other hand, there is then less likelihood that the experience gained will be relevant for getting into permanent paid employment. Similarly, when it was recognised that special work programmes tend to 'cream off' the most able of the long-term unemployed who would probably get jobs anyway, schemes have been adapted so as to target more precisely - the Dutch WVM scheme, for example, has been cut back and restricted to such groups as women and ethnic minority youth. Important as it is to adapt schemes in the

light of experience, it begs the question of the overall effectiveness of alternative schemes.

Part of the ERGO programme's brief is to undertake a systematic methodological review of typical Member State programmes. Its aim is to identify project strengths and weaknesses with respect to a range of criteria which it will disseminate through manuals of good practice. In particular it seeks to see whether benefits can be achieved more cost

effectively, whether programmes are suitably targeted and whether best practice can be transplanted.

Much of this work is still in progress, but an initial evaluation of counselling, advice and guidance provision in six Member States has made it possible to identify some key factors determining success. In particular, it has shown how good targeting can improve results. Projects which select and attract the right individuals achieve better re-

sults than those which have a policy of open access.

Counselling needs to be undertaken appropriately - too much can be both a waste of time and an unnecessary interference. Counselling needs to be given by the right person, with the right degree of privacy, and at the time when it is needed. Pro-active counselling can be a useful device for sifting and targeting effectively, but it is not generally needed on an on-going basis. Poor targeting leads to disappointment of participants and a reduction in cost effectiveness since some resources are wasted on the wrong people. At the same time, people who could have benefitted may be left out.

ERGO

ERGO is an information gathering and disseminating structure, not a funding organisation for new projects, which obtains its know-how and experience through a network of national correspondents (one or two per Member State). Their job is to relay information on unemployment projects or programmes and to represent ERGO in the Member States. ERGO also has Associate Members in non-Community countries, including USA, Canada, Sweden and Austria, who provide complementary information on experience in very different situations and help organise cooperative action.

Other public and private bodies also participate in ERGO including local authorities, training organisations, charities, organisations representing the unemployed, researchers and research centres.

ERGO offers a glossy quarterly newsletter, access to its database of projects, information on exchanges, conferences and seminars, publications and access to a special helpline on long-term unemployment. It seeks to broaden its information base as much as possible and representatives participate as much as possible in national meetings and events.

Projects and measures are incorporated into a database, which already contains details of over 2,000 different projects. Part of the process involves identifying good practices and promoting their dissemination via publications, audio-visual aids, use of the media, seminars and study visits.

The ERGO programme is also developing evaluation methods so that a common, Community-wide methodology can be formulated.

The programme is planned to run for two periods of three years. Two consultancy organisations manage ERGO and they work closely with the Commission and with national authorities responsible for employment, training and social security.



Community Financial Support for the Fight Against Long-Term Unemployment

The growing importance of Member States' programmes and projects to assist the long-term unemployed have been reflected in the priorities of the Community's Structural Funds. The overall objectives of Community Structural Policy, following the latest major reform to promote economic and social cohesion, are presented in Chapter 10. While the Structural Policy objectives are wide ranging, the particular problem of long-term unemployment has been highlighted as one of the priority issues to be tackled with Community funds.

The reduction of long-term unemployment is a target of two of the Structural Policy Objectives, both of which are financed by the European Social Fund. Objective 3 focuses directly on assisting the long-term unemployed. Objective 4 concen-

trates on helping young people into employment, including significant numbers of these who are long-term unemployed. Further, within the funds allocated to less favoured regions under Objective 1, monies are specifically targeted towards Objective 3 and Objective 4 programmes. In total, Objective 3 and 4 activities consume nearly 20% of total Structural Fund resources.

Under Objective 3 support is provided throughout the Community for vocational training measures, accompanied where necessary by vocational guidance measures and/or recruitment aids for employment in newly created stable jobs and for self-employed activities.

Priorities under Objective 3 and 4

The Commission has established priorities in the various Community Support Frameworks for the Member States for Objectives 3 and 4 on the basis of priorities established in the regulations (particularly Regulation (EEC) No. 4255/88 of 19 December 1988) and in the guidelines (89/C34/04 of 24 February 1989). These correspond with measures proposed by the Member States in plans submitted to the Commission.

According to the guidelines concerning European Social Fund interventions, under Objective 3 - "to enable unemployed workers to move from their present situation to a high level of qualifications appropriate to the needs of the labour market, and linked with periods of work experience" - the European Social Fund should give priority to operations designed to achieve these aims, in particular:

- the development of operations combining several types of intervention in order that training should be a real factor in promoting occupational and social integration;
- making the most of local employment development potential;
- recruitment incentives for newly created jobs of a stable nature and for the creation of self-employed activities;
- training and occupational integration of women wishing to return to the labour market after a long break.
- innovatory operations involving, in particular, exchanges of experience, transfers of methodologies or technologies and setting up Community training links;
- training and assistance for employment for the purposes of modernisation, especially in sectors sensitive to the completion of the Internal Market or in small businesses (including co-operatives and associations);
- measures aimed at improving, and making more efficient, training structures;
- operations for categories of persons with particular difficulties on the labour market (disabled people in an unsheltered economic environment, women in occupations where they are largely under-represented or wishing to re-enter the labour market after a long break, migrants within three years of their arrival and migrants who wish to return to their country of origin).

The guidelines further specify that preference should be given to the following operations under Objective 3 (and also under Objective 4 which is concerned with youth employment);

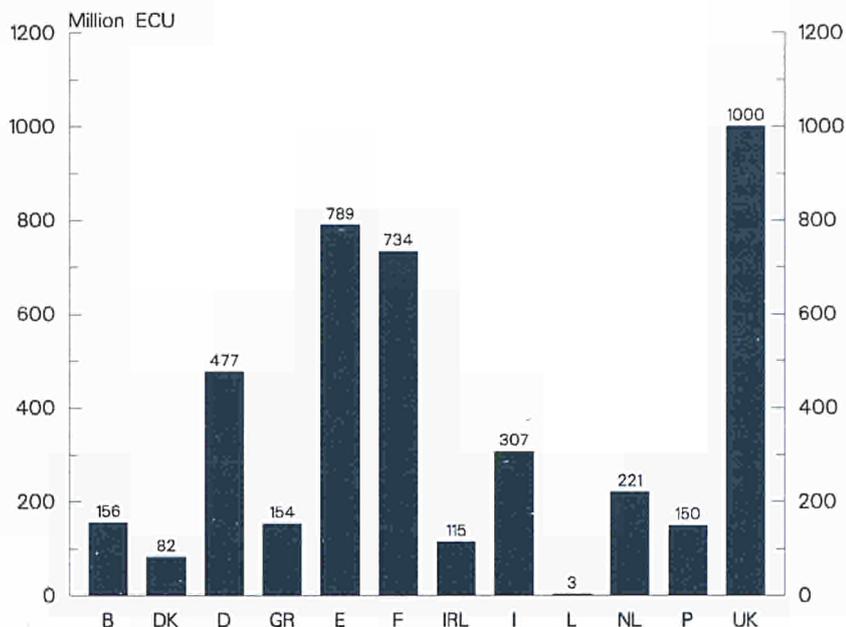
- operations designed to take account of the needs and prospects of the labour market;
- transnational operations carried out jointly by training bodies from two or more Member States (or recognised at Community level) including exchanges concerning training programmes, involving teachers or trainees and having a multiplier effect at Community level;
- training in advanced technology (especially those carried out in conjunction with Community research and development programmes, those involving exchanges of experience and developing co-operation between firms and research institutes in the Member States);

Under Council Regulation (EEC) No. 4255/88 of 19 December 1988, the European Social Fund also contributes up to 5% of its annual allocation to financing various operations, including guidance and advice for the reintegration of the long-term unemployed.

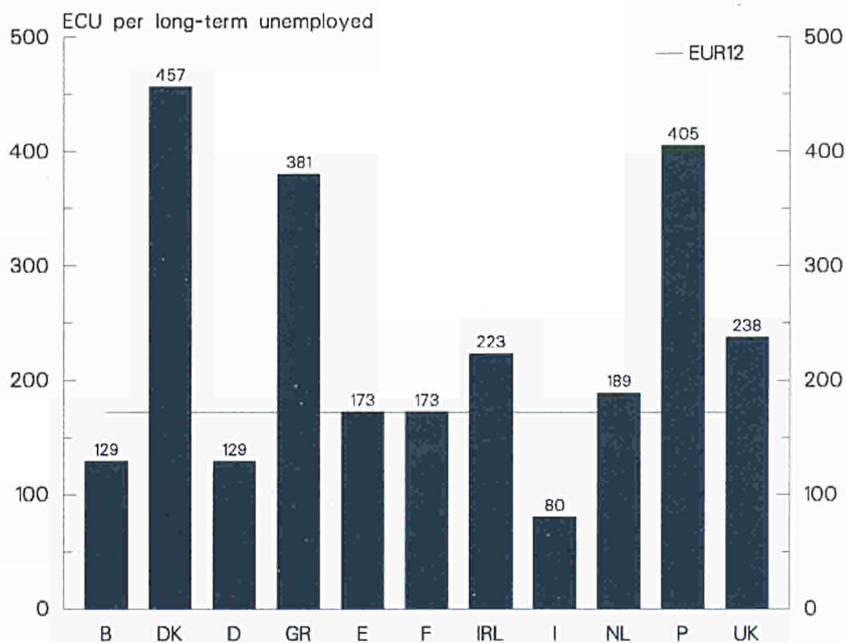
Financial Resources

An overall amount of 7450 million ECU has been budgeted for the period 1989-93 for expenditure on Objectives 3 and 4. Of this, 4128 million ECU has been allocated under Community Support Frame-

125 Community Expenditure on Long-Term Unemployment in the Member States (Objective 3) 1989-93



126 Community Expenditure on Long-Term Unemployment in the Member States per Long-Term Unemployed Annual Average 1989-93



works established for the period 1990-92. (This includes 136 million ECU reserved for special experimental measures under Article 1.2 of Regulation 4255.) Including spending on Objective 3 carried out within Objective 1 regions (around 1100 million ECU) some 4200 million ECU has been budgeted to alleviate the problem of long-term unemployment in the five years 1989-93. Almost 6900 million ECU has been budgeted in total to tackle youth unemployment over the same period.

60% of total Community spending under Objective 3 is due to go to three Member States, the UK, Spain and France (Graph 125), reflecting the large numbers of long-term unemployed people over 25 in these countries. In terms of expenditure per long-term unemployed person, the amount allocated to these countries is not significantly different from the Community average (Graph 126).

As well as financing operations, the Structural Funds reform makes provision for analysis and assessment of intervention. In this context, surveys can be made at the initiative of the promoters of programmes, the Member States and the Commission.

Method of Intervention

Interventions from the restructured Funds are based on a number of general principles:

- complementarity: Community action should reinforce action proposed or already being taken by national authorities;
- partnership: measures should be devised as part of a dialogue

and with close co-operation at every stage of the project's implementation (proposal, financing, assessment and follow-up) between the Commission, the Member States in question and the relevant authorities appointed at regional or local level;

- concentration of resources and various types of action on clear objectives with a view to reaching the necessary thresholds, thereby making it possible to have a significant impact and increase the effectiveness of the operations;
- multi-annual planning, follow-up and continuous assessment of measures.

The restructured Funds are intended to provide greater coherence in Community intervention. This involves combining efforts (additionality, multi-annual planning) in order to draw the maximum benefit from the existing instruments and in order to bring relevant additional responses to the problem of social exclusion.

Financial Interventions to Encourage the Employment of the Long-Term Unemployed

Although there are obvious risks in encouraging the recruitment of the long-term unemployed by effectively reducing their costs to employers, such measures have been used with some success, especially when combined with other support and assistance to both employers and the long-term unemployed.

Measures to Induce Permanent Employment in Italy and Spain

In Italy and Spain there has been concern about how to induce permanent rather than temporary hiring of the unemployed. Subsidies for recruitment to a fixed term contract run the risk that those taken on will be laid off at the end. In Italy penalties have been introduced into the training/work contracts system for employers not taking trainees into permanent employment. In the south of the country incentives have been introduced for firms which convert trainees' contracts to permanent ones.

In Spain it appears that recruitment subsidies targeted on unemployed youth have encouraged a shift from permanent to temporary contracts. The proportion of the workforce on temporary contracts rose from 18.8% in 1987 to 24.6% in 1988. The Spanish Ministry of Labour and Social Security has therefore introduced new incentives to conclude permanent contracts with several categories of employees - including first-time job seekers aged 25-30.

The effect has been to give payroll subsidies (in the form of a waiver of social security contributions) which will last as long as particular workers remain on the payroll. This is costly and gives rise to arbitrary differences in wage costs, which depend on the age structure of the workforce. In effect, what has happened is an attempt to create more job opportunities for unemployed youth by reducing the cost of hiring them, but without reducing their wage rates.

The Irish Experience of Wage Subsidies.

The Irish Employment Incentive Scheme, introduced in 1987, is a wage subsidy to promote hiring of long-term unemployed. In 1988 it offered a grant of £30 (IRL) per week for those who had been unemployed for at least 13 weeks, or for registered disabled people, or £60 (IRL) over a period of 24 weeks for long-term unemployed people.

Before receiving a subsidy for any week, employers must show that employment increased by one for the whole period of the subsidy, and that the subsidised employee stayed for the whole period. In fact 23% of hirings lead to no subsidy claim - 10% of employees do not claim and 13% are refused.

While 85% of subsidised employees under the Irish scheme were still in post by the end of the subsidy period, and 54% remained so eight months later, dead-weight substitution was estimated at 70%. Only 9% of employees went into jobs that would not otherwise have existed and 21% were hired in preference to non-subsidised workers. Market displacement was estimated at 4% of jobs promoted by the scheme.

The study also showed how targeting the long-term unemployed, particularly for the most difficult to place groups, could substantially raise the costs of such schemes. When asked how large the differential would need to be between the subsidy for the two target groups to induce them to hire more long-term unemployed over 25, employers replied that it would have to be more than doubled.

Other Community support for the long-term unemployed

Although the Structural Funds, are the major source of Community financial support in the fight against long-term unemployment, a range of other Community programmes include actions to tackle unemployment and long-term unemployment. These include:

Poverty Programme

This is a programme for national authorities, the Commission and project leaders which involves the co-financing of selected projects to combat poverty. It also ensures the exchange and evaluation of information between Member States and Community institutions.

Education of Migrant Workers and Children Programme

Since 1988 15 pilot schemes have been running in primary and secondary schools with migrant children. The aim is to improve the integration of migrant children at all levels of the education system.

Helios Programme

Helios responds to the needs and aspirations of disabled people and promotes their social and economic integration and their independent living. The programme includes grant aid to model projects dealing with mobility and transport, access to public buildings and houses adapted to the needs of disabled people.

In addition to the funding programmes, various other Community programmes undertake research and provide information on social and labour market problems, including the problems of long-term unemployment:

ERGO

As well as documenting and evaluating programmes and projects, as described above, ERGO also produces a series of publications designed to increase awareness and promote positive action.

LEDA Programme

The Local Development Action Programme (LEDA) promotes local employment growth and runs pilot projects in high unemployment areas such as declining industrial, rural, large urban and mixed rural/urban regions. Local development strategies commonly include activities targeted on the long-term unemployed.

The Mutual Information System on Employment Policies (MISEP)

MISEP gathers and analyses information from Member States on national employment policies and measures in the labour market field, including measures to help the long-term unemployed. It publishes a quarterly bulletin.

The European Information Network on Local Employment Initiatives (ELISE)

ELISE provides information on local economic development initiatives throughout the Community, as well as encouraging interaction between partners, regions and countries. Its monthly publications and computerized documentation centre include reports on actions to help the long-term unemployed.

Long Term Unemployment - Keeping up the Political Pressure

The most recent opportunity for the Community to discuss the problem of long-term unemployment was at the meeting of the Standing Committee on Employment on 8 May 1990. The Committee constitutes the 12 Ministers of Labour from the Member States or their representatives, the leaders of national Trade Union and Employer Confederations and representatives of European Federations of the Social Partners.

The debate took place on the basis of a working paper and discussion note prepared by the Commission Services. In accordance with standard practice, conclusions were prepared by the President of the meeting, Mr. Bertie Ahern, the Irish Minister of Labour, after consulting the Committee. The conclusions were as follows:

1. The Committee noted that the stronger economic growth and increased employment in recent years have contributed towards an improvement in the unemployment situation. Nevertheless, this improvement is insufficient - the rate of unemployment in the Community is still over 8%.
2. The improvement in employment has done little to reverse the trend towards longer periods of unemployment. Nor has it lessened the concentration on certain categories. Indeed, the reduction in the number of unemployed is having little or no impact on the share of long-term unemployed in total unemployment. Despite improvements in some Member States, more than 7 million people in the Community have been unemployed for more than a year.
3. Long-term unemployment is highly concentrated in urban black-spots which experience multiple economic and social deprivation, economically backward or declining regions or deprived rural areas. Long-term unemployment is also concentrated on disadvantaged groups including young people with low levels of educational qualification, older people with out-of-date qualifications, migrant workers, unskilled women and those who are illiterate.
4. The Committee noted that the development and use of programmes specifically designed to speed up the integration of the long-term unemployed into the labour force has helped to prevent a worsening of the situation, and should provide a basis for further progress.
5. The Committee considered that the policies to be used to combat long-term unemployment should aim at the following objectives:
 - a) ensuring the continuation of the growth of output and employment which is the basis of progress in combating unemployment, in particular by the implementation in all Member States of the co-operative strategy for growth and employment
 - b) the active involvement of all concerned with the problem of long-term unemployment: the Social Partners, local and regional authorities and community bodies. Such involvement could cover joint public and private initiatives
 - c) taking account of the occupational needs of small and medium sized enterprises
 - d) the early identification of those in the education and training system who are at risk of experiencing periods of long-term unemployment
 - e) the prevention of long-term unemployment through appropriate information, counselling, aptitude testing and training
 - f) the continuation and further development of specific programmes to help the re-integration of the long-term unemployed. In this context particular emphasis should be placed on education and training programmes to help the long-term

unemployed acquire the necessary skills as well as on individualised counselling to help them find a way back into work, *inter alia*, improving their motivation

- g) an integrated approach to unemployment blackspots which recognises their multiple problems.

National training and employment services should, as appropriate, equip themselves with the necessary expertise and capacity to contribute to achieve objectives b) to g).

6. In this context, the following should, where appropriate, be strengthened:
 - a) training and retraining combining theory and work experience in the enterprise
 - b) information on employment and training opportunities and vocational guidance
 - c) incentives to recruit long-term unemployed
 - d) incentives for employment creation and self-employment
 - e) work of benefit to the community
 - f) preventive measures at all stages (education, training, etc.)
 - g) improvement in statistical analysis and the capacity for sectoral and occupational forecasting
 - h) the capacity of all interested parties to cope with labour market difficulties, in particular through the implementation of the directive on collective dismissals. In this context, the Committee noted that the Commission's programme of work includes a proposal to adapt this directive.
7. The Committee recognised that there continues to be a need for actions at Community level, in addition to those undertaken by national governments and by regional and local authorities. It noted the importance of the Community's efforts to combat long-term unemployment through the Structural Funds, and in particular the European Social Fund under Objective 3. It stressed the importance of coordinating interventions under the Structural Funds and the need to maximise the benefits from their use to help the long-term unemployed.
8. The Committee noted in this context that the Commission has undertaken a series of actions to identify, analyze and exchange positive experiences (including the ERGO programme for the long-term unemployed and the LEDA programme on the development of local employment activities) in tackling the problems of long-term unemployment throughout the Community. These activities, and in particular the exchange of experiences between all relevant institutions, services and practitioners, should be intensified where they have been successful. The Committee emphasised the need to transfer entirely or in part such experiences between Member States in pursuit *inter alia* of the objectives in paragraph 5. Adequate funding will be required for this important task.
9. The Committee recognised the important role of enterprises in the fight against long-term unemployment. The transfer of successful experiences mentioned in paragraph 8 should include, in particular, experiences involving enterprises.
10. The Committee expressed the view that further progress in the fight against long-term unemployment would depend on widening and reinforcing the concrete and practical efforts undertaken throughout the Community, by national governments, regional and local authorities and at Community level. It looked forward to the adoption by the Council of a Resolution on this subject, setting out future actions and initiatives.

Locally Based LTU Projects

Apart from the nationally sponsored schemes to help the long-term unemployed, many thousands of local projects have been set up across the Community by a variety of action groups. Some of these projects draw on national funding for part of their activity - notably vocational training - but many do not. Most local projects target on people in the greatest difficulty, and often give a wide range of social support as well as specific help for getting a job. Two examples are given below.

Terra Nostra Cooperative, Calabria, Italy

This cooperative was started in 1978 by 40 long-term unemployed people in a mountain village in the Mezzogiorno, where the unemployment rate is around 20%. Under the guidance of the village mayor they are running a hotel and cattle breeding farm. The aim is to provide employment, restore a derelict hotel and re-use abandoned farmland in the region.

Start-up capital came from central government (70%) and local government (30%). The project also makes use of the Programma Industrial do Mezzogiorno, a national programme of industry for this region.

So far, the co-op has restored derelict buildings and built new ones to constitute the farm and hotel. The hotel also serves as a workplace restaurant for employees of the local electricity company and provides a school meals service. In the start-up phase, 25 people were taken on for a training programme in hotel work or cattle farming skills and 16 completed the course. The co-op is now an established enterprise employing 20 people, 16 full-time and four part-time.

The co-op also provides social facilities to the village community and has established valuable capital assets. It expects to expand in the future and there has been indirect employment creation through the building work done for the co-op. It attracts visitors with spending power to the area. The cost of creating each additional job has been estimated some 9000 ECU.

Neue Arbeit Saar, Saarbrücken, FRG

Founded by the Protestant Church in 1977, this project offers training, counselling and a reintegration work programme for older unemployed people. It was one of the first employment initiatives in the FRG and has influenced the development of similar initiatives. There are now 300 participants and 70-80 staff.

The project provides vocational training and advice on the labour market and on social problems. It is funded by the Social Fund (35%), Saarland regional authority (30%), three local authorities (25%), central government (5%) and income from sale of produce (5%). The projected budget for 1990 is 15.5 million DM.

It is intended for older or difficult-to-place unemployed people. Those aged over 50 and with health problems are regarded as a particularly disadvantaged group. It also caters for people with no social security entitlement, and homeless people. It gives particular attention to the training of women.

The project has four elements: counselling, non-profit workshops, off-site work of 'social utility' and training. The workshops began first and now specialise in car repairs, woodwork, gardening and construction. A sort of 'work-fare' programme involving work of social utility - such as housing refurbishment and ecological forestry - is particularly oriented towards the long-term unemployed.

It is estimated that 29% of participants in the 'work-fare' programme find other employment after their year's placement. Nearly all those in the training section find work. The project also has environmental benefits through its forestry work and refurbishment.

The rules of the 'work-fare' programme ensures that it does not take work away from private firms, because all the work done must be in the public sector. Local authorities are not allowed to cut staff by using 'work-fare' participants. Competition between the workshop and the private sector is small given that the workshop only accounts for 5% of project income or 226 thousand DM a year.

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Sources and Methodology

The principal source of the historical data regarding the European Community used in this Report is the Statistical Office of the European Communities (Eurostat) and particularly the Labour Force Survey (LFS) for which the 1988 results have just become available. Some additional material has been supplied by other Commission services. The section in Chapter 1 on Central and Eastern Europe makes extensive use of United Nations and International Labour Organisation estimates and projections.

Sources used for the individual maps and graphs are set out below. The short-term forecasts have been prepared by the Directorate-General for Economic and Financial Affairs on the same basis as those presented in the Annual Economic Report.

It is the Commission's intention that the data used in the preparation of '*Employment in Europe*' be made available in electronic form.

Sources of Graphs and Maps

Eurostat

Community Labour Force Survey (LFS) and derived data: Graphs 1,2,6-18,29,77-79,81-84,86,88,92,116,117,119,121-124

Social Statistics (SOCI), Population statistics and projections: Graphs 19-21,80,95,96

National Accounts ESA: Graphs 62-65,108

Regional Statistics (REGIO): Maps 3-5,104-106,118,120

Commission services

DGII - Economic and Financial Affairs: Graphs 12,33-39,40-46,47-61,91

DGV - Employment, Industrial Relations and Social Affairs: Graphs 22,23,87,89, Map 85

DGXI - Environment, Nuclear Safety and Civil Protection: Graphs 66-76

DGXIII - Telecommunications, Information Industries and Innovation: Graph 94

DGXVI - Regional Policy: Graphs 107-109,111-115,125,126, Map 110

Other Sources

European Centre for the Development of Vocational Training (CEDEFOP): Graphs 97-99

International Labour Organisation: Graphs 21,24-31,93

United Nations: Graphs 1,2,32

Wissenschaftszentrum Berlin: Graphs 101-103

UK Engineering Council: Graph 100

Other Material

Statistics and other quantitative estimates other than the above which have been used in certain chapters have generally been drawn from studies undertaken on behalf of the Commission. The following are the most important sources used:

Chapter 1: Table 1 is produced from the following sources: Eurostat: National estimates of population and employment and Unemployment rates for comparison between Member States. 1989 results are provisional. 1965 data: OECD Labour Force Statistics 1968-88.

Chapter 3: This chapter has drawn on the information collected through SYSDM and, most specially on the results of a study carried out jointly by the Directorates-General for Economic and Financial Affairs (DGII) and for Employment, Industrial Relations and Social Affairs (DGV).

The study - entitled "The Member States and the sectoral impact of the Internal Market in industry" was prepared by a group of national experts using a common methodology. The study was carried out at the 3-digit level of the NACE. A detailed presentation of this study will be published shortly in a joint edition of "Social Europe" and "European Economy".

Chapter 5: "1992 - The Environmental Dimension", Task Force Report on the Environment and the Internal Market, Commission of the European Communities, 1989

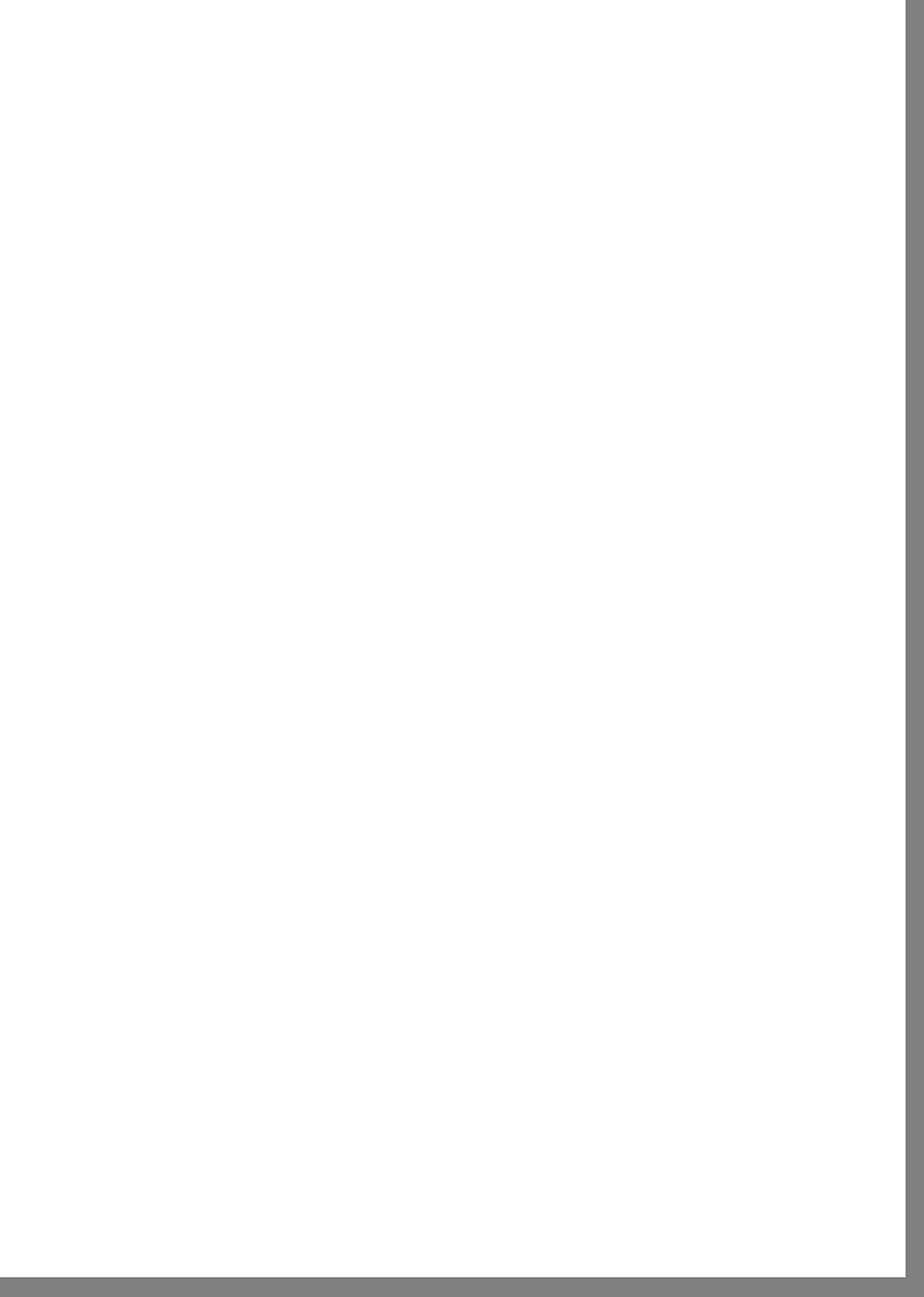
Chapter 6: "Infrastructures and Women's Employment", Commission of the European Communities. "Gender, Transport and Employment - The Impact of Travel Constraints", Avebury, Aldershot, 1989. "Who cares for Europe's Children?", Commission of the European Communities, Luxembourg, 1989.

Chapter 7: "Managing Change" series of seminars organised for the Commission of the European Communities (see p. 107).

Chapter 9: Mutual Information System on Employment Policies in Europe (MISEP)

Chapter 10: Purchasing Power Standards as referred to in Graph 104, are a measure of GDP reflecting the real purchasing power of a currency on the national territory. They aim to provide a reliable indication of the volume and structure of goods and services intended for a particular final use, and permit comparisons in real terms of GDP and its components between Community countries. See "Purchasing Power Parities and GDP in real terms. Results 1985", Eurostat 1985, and "National Accounts ESA. Aggregates", Eurostat annually.





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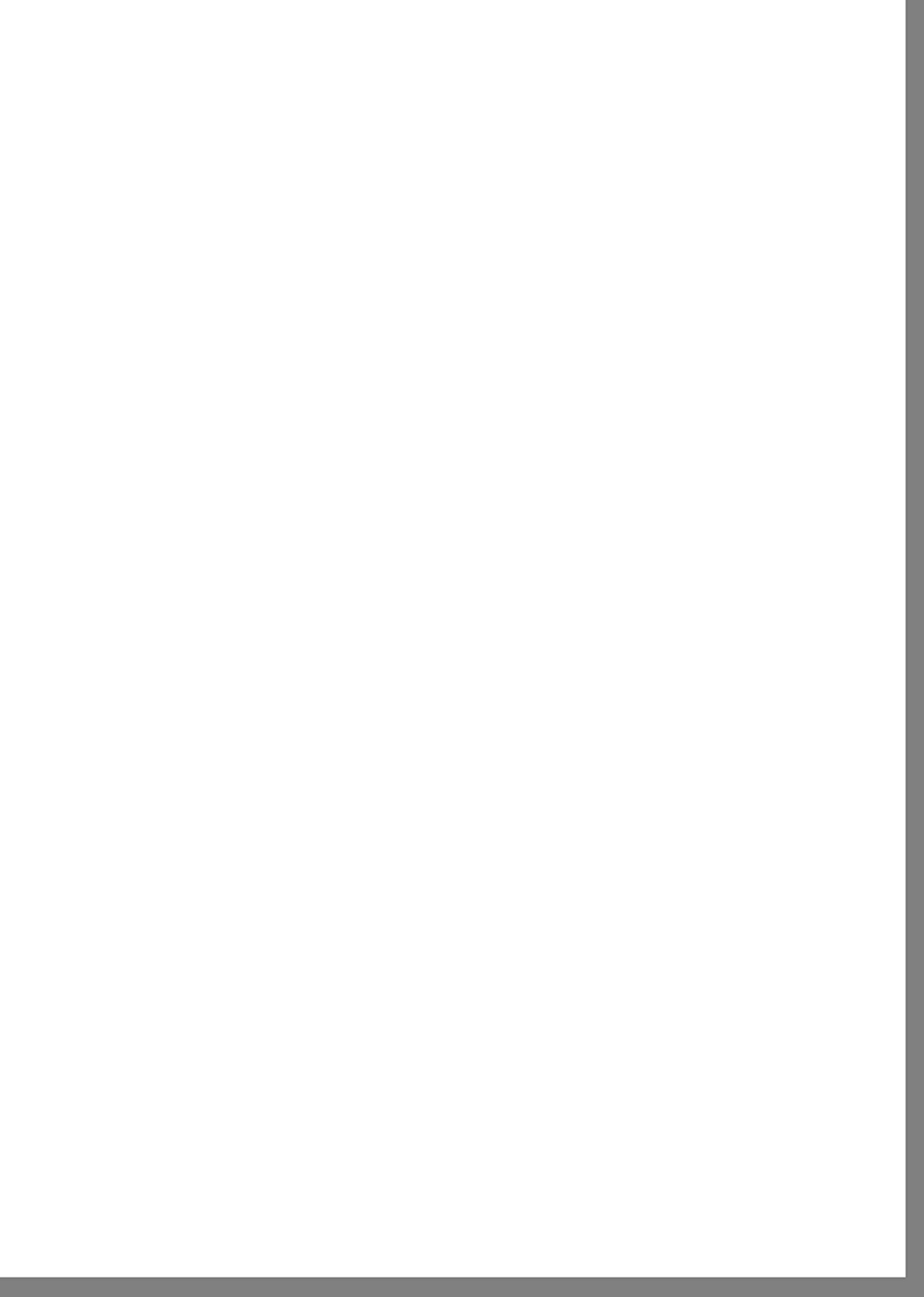
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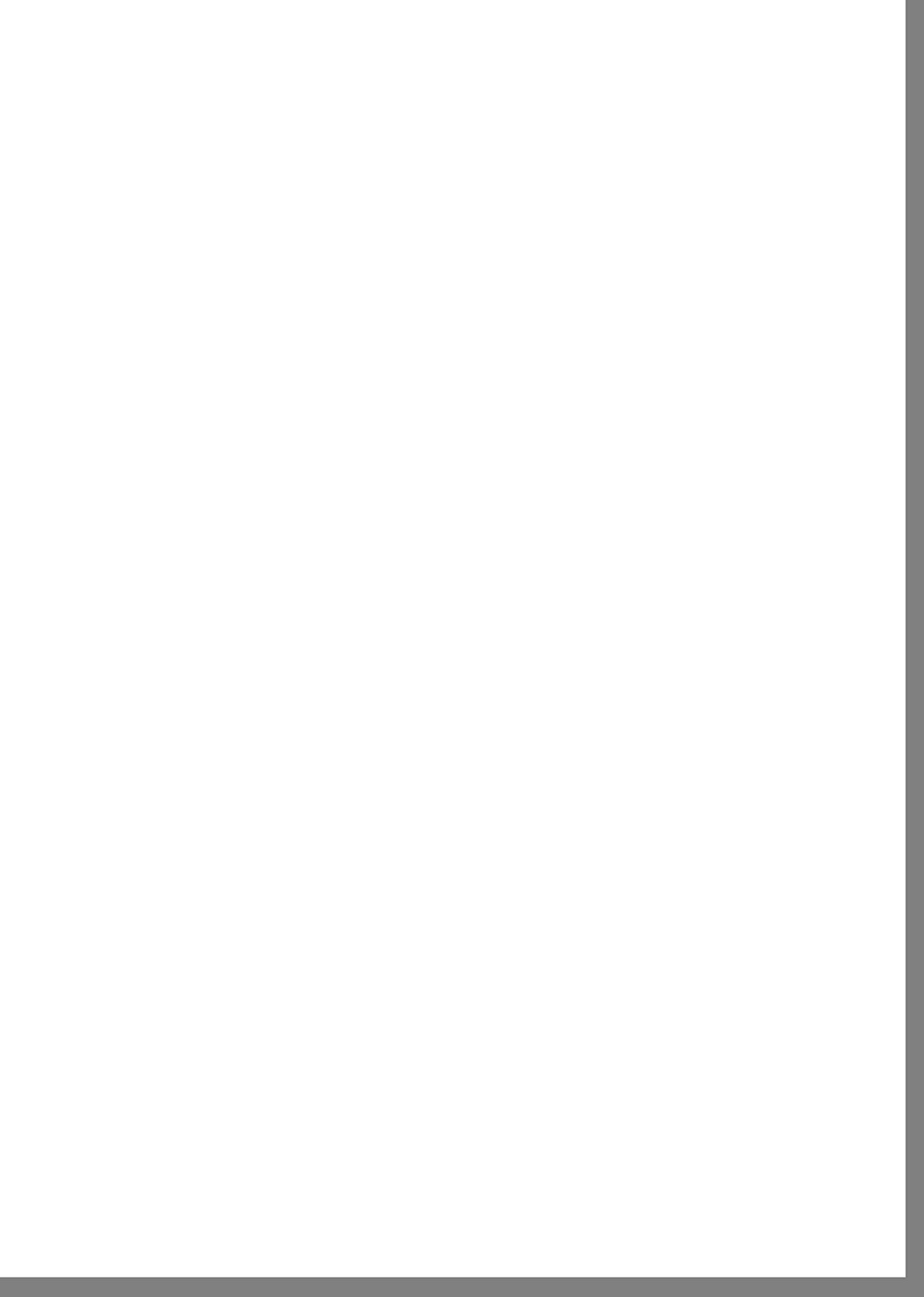
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