

Employment in

EUROPE



Commission of the
European Communities



1992

Directorate-General for Employment,
Industrial Relations and Social Affairs

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Foreword

The fears expressed in last year's *Employment in Europe* Report have been confirmed — unemployment has continued to rise, and it is unlikely that any improvement will be seen until 1993.

While this is extremely disappointing, it is not entirely unexpected. Even in the long period of employment growth in the late 1980s, we were obliged to offer caution about the prospect of finding lasting solutions to unemployment.

Firstly, we pointed to the scale of the problem — to the 12 million recorded as unemployed, even at the low point of 1990, with a large hidden labour supply, especially of women, ready to join the labour market and compete with the unemployed if jobs became available.

Secondly, we recognised that, despite progress in understanding and managing our Western economies, we were still unable to control their tendency to cyclical fluctuations. We saw that the economic boom of the late 1980s was unlikely to go on forever — a possibility less well perceived by investors and entrepreneurs at the time.

As the 1990s have proceeded, the validity of these concerns has become increasingly evident. The world economic climate has deteriorated with a drop in consumer and business confidence, and a collapse in market values of assets.

As economic growth has declined, so has employment growth, although the effects on levels of employment and unemployment were not as severe as might have been expected. In effect, in recent years, only relatively low rates of economic growth

— 1–2% a year — were required in order to create jobs. This contrasted with the high productivity era of the 1960s and 1970s when growth in many parts of the Community needed to exceed 4% in order to add to employment.

This raises two fundamental issues:

What can be done to restore higher rates of economic growth so as to return employment to its upward path and bring unemployment back down again?

What can be done, in addition, to address the problems of inequalities both between different parts of the Community and between social groups — problems which are liable, on past experience, to worsen rather than improve in period of low growth?

As regards overall economic growth, we have to recognise the constraints imposed by the discipline of convergence towards economic and monetary union — progress cannot be achieved effortlessly and, if the right efforts are not made, there will be costs. On the other hand, monetary convergence and the expansion and convergence of employment levels do not inevitably pull in opposite directions if the Community can strengthen internal demand in ways which can both enhance economic competitiveness and increase employment opportunities.

The European Social Partners are well aware of this. In July they drew up a joint statement in favour of a renewed cooperative growth strategy for more employment. That statement demands widespread support. It is not a request for speculative, short-term stimuli — it is a

demand for collective Member State action to establish the monetary and budgetary basis of a forward-looking, expanding and equitable Community.

If re-establishing higher rates of economic growth is a challenge, then addressing inequalities is even more difficult. Regional cohesion is a central part of Community policy, designed to ensure that Community membership means a raising of the relative standards of the less developed regions by tackling the causes of their economic backwardness, including weaknesses in education and training. However, while there has been some progress in recent years in terms of convergence of economic performance, this is much less the case for the labour market — increased job opportunities have done little to reduce unemployment in many less developed regions as more people have joined the labour market.

The more general problem of social cohesion in the Community is equally difficult. Whether we employ the more conceptual terminology — cohesion, exclusion, inequality, marginalisation — or whether we speak in more down-to-earth terms about people who are poor and unemployed, the fact is that many social groups and many individuals are simply not sharing in the Community's steadily improving prosperity.

In the context of this Report, however, it is important to distinguish between problems which can be successfully addressed through the labour market, and those which cannot. Moreover, while the Community may have common aspirations, responsibilities for action lie largely with the Member States.

The Community should be able to tackle more of its social problems through the labour market. The Community has a low rate of active participation — around 60% — compared with the 70% or more in the US, Japan and, indeed, non-EC Europe, and our labour markets are not easily accessible.

The chapter of this year's Report on actions to help the long-term unemployed demonstrates how a series of barriers needs to be overcome by the unemployed. Barriers can take many forms — being in the wrong place, being of the wrong race or colour, lacking skills or qualifications, having family responsibilities or simply being unemployed.

Improving labour market access cannot, of itself, solve everything. Many people — including the young, the old and the sick — are not able to work in order to meet their needs, and need to rely on society or families for their support. Moreover, the removal of barriers to the labour market would not of itself remove all problems of poverty. The existence of large numbers of working poor is well known; for them the problem is not so much the lack of jobs — although levels of unemployment for those who live in ghetto areas can exceed 50% — but the lack of adequate incomes and the lack of hope of any foreseeable improvement.

These problems of exclusion and poverty are not unique to the Community, although they have come about in different ways in different countries. A particular issue concerns the role of immigration in relation to the labour market. For example, the US has relied over the years on various waves of immigrants to expand its workforce and population — most entering at the bottom end of the labour market, but generally hoping that, by the next

generation at least, their families would rise up the system.

The Member States of the Community have operated in a variety of ways but, for a long period, many relied on temporary immigration, on guest workers who did not necessarily expect to advance their position — although some did — but who could, at least, expect to send income, and even capital, back home prior to returning themselves.

Slow growth over two decades — notwithstanding the recovery in the late 1980s — has brought to the surface social tensions resulting from thwarted economic ambitions. The Community problem is less serious in absolute terms than the US since many of its migrants returned, but the issue is the same: some groups in society, notably but not always immigrants, find themselves either cut off from the mainstream economic life — the situation in many working-class housing estates — or able to obtain only the most menial work — the situation in many inner city areas.

Poverty is not limited to particular social groups, however. Many people, whether or not they belong to problem groups, have great difficulty making any kind of worthwhile life for themselves. Young single parents are obvious, but the problem is not confined to them — any couple seeking to raise a home and family with no financial inheritance and without marketable skills, faces a difficult time even in the more prosperous parts of the Community.

Disparities in wages and incomes have widened, not narrowed, as our economies have become wealthier. In some parts of the Community, sections of society have become not only relatively poorer, but absolutely poorer. For many people, the last two

decades have not been an occasion for rejoicing or for looking forward to the benefits of a stronger, more united Europe.

The notion has spread, in recent years, that there is some 'natural' distribution of income embodied in the economic system, and that the main task of government should be to minimise its interference and not upset the process of wealth creation. That is, ultimately, a recipe for disaster. Non-interference in the economic system tends to result in a distribution of income which is highly, and unacceptably, inequitable. Moves away from such a 'natural' order have been largely the result of positive government actions. The Community as a collectivity, or the Member States individually, will need, sooner or later, to address the issue of the distribution of wealth, income and opportunities among people. The recommendation on social protection and the draft opinion on equitable wages are a first, but only a first, step.

Poverty needs to be recognised not only as a problem for those who suffer it now, but as an economic loss to society as a whole and, ultimately, as a threat to its stability. In Europe we often pride ourselves on having a social system which distinguishes us from other, less-caring, parts of the developed world. The Social Charter is a manifestation of that belief. The reality of our position is not so self-evident. If the Community wants to maintain its status as a caring society, it urgently needs to address not only the obvious effects of unemployment, but also the many social problems which are associated with it.

Vasso Papandreou

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Summary

Employment in the Community increased by over 9 million in the period 1985 to 1990 and the level of employment held up well at the beginning of the recession. However, unemployment fell by much less over this period and is rising once again. It threatens to become a central problem for the Community in the 1990s.

From the early 1970s onwards, the average rate of unemployment in Member States rose progressively from the 2–3% which had been regarded as the norm, to 6% in 1980 and to a peak of just under 11% in 1985. Although the unemployment rate fell in the second half of the 1980s as economic recovery took place and as job creation reached historically high levels, it had still not been reduced below 8% by the end of the decade.

Since the middle of 1990, unemployment has been on the increase. It currently stands at around 9.5% and on present economic forecasts, will continue rising in the short term and will stabilise at just under 10% in 1993. By then, half of the countries in the Community are projected to have higher rates of unemployment than they had in 1985.

The medium-term prospects for reducing unemployment back to more acceptable levels are problematic. While some upturn in the rate of economic growth in the Community is foreseen from the second half of 1992, this seems

unlikely to be strong enough to reverse the trend in unemployment. For 1993 the outlook is uncertain.

This uncertainty arises from two main sources. Firstly, the prospects for sustained recovery of economic growth in the rest of the world — which would greatly ease problems in the Community — are unclear at the present time. Imbalances in trade performance between the US and Japan have been an obstacle to sustained growth in the world economy for at least the past decade. While fiscal and monetary policy is now being eased in both countries, the consequences are not unambiguously positive. For example, renewed expansion of the US economy would expand world trade, but it could also lead to a widening of the US trade deficit — and a counterpart increase in the Japanese trade surplus — so causing financing, and possible inflationary, problems which could threaten continued growth.

The development of the European Economic Area offers prospects for stronger economic and employment growth in Europe but, in the countries surrounding the Community to the East (in Central and Eastern Europe) and to the South (in North Africa and the Middle East) — which are natural trading partners — the outlook is very uncertain. While these countries represent enormous potential markets for Community producers, in the short term the massive problems they face mean

that these benefits are highly uncertain and will probably materialise only in the medium term.

The other main source of uncertainty is internal to the Community. The ability of Member States to achieve sustainable growth and acceptable rates of employment creation depends not only on external conditions being favourable, but equally, if not more importantly, on a number of internal problems being alleviated. On recent experience, the achievement of sustainable growth depends on progress being made in coordinating the economic policy of Member States (irrespective of whether full monetary unification is achieved) in order to ensure greater consistency in the fiscal and monetary policy pursued by national governments, raise the sustainable overall rate of non-inflationary growth, reduce the risk of widening internal imbalances bringing recovery to a premature end.

By the same token, economic and employment growth also depend on progress in narrowing divergences in economic performance between the different parts of the Community, and in strengthening the capacity of the weaker Member States and regions to generate self-sustaining development and create jobs. Some progress has been made in this respect in recent years, especially since the enlargement of the Community in 1986. However, the relative success of different regions and

countries in achieving employment-creating growth does not adequately match their relative need for jobs.

Growth in itself, even if attracted towards the areas most in need of job creation, is unlikely to be sufficient to resolve the problem of unemployment — or of social deprivation which tends to accompany it. On the evidence of the second half of the 1980s, several years of rising output combined with high rates of employment growth may occur without greatly improving the position of a significant minority of people. At the end of this recent five-year period of economic success, the proportion of the unemployed who had been out of work for a year or more in the Community had declined only slightly, disparities in income distribution seem to have widened rather than narrowed in a number of countries, and substantial numbers of people, women in particular, still found it difficult to find jobs with reasonable rates of pay and acceptable working conditions in many parts of the Community.

Economic and structural policies aimed at achieving balanced development in the Community are matched by a need for a range of specific measures aimed at reducing divergences in employment opportunities across the Community and at narrowing the divisions between those in secure, well-paid jobs and those on the fringes of the labour market. These measures encompass not only active labour market policies to help the unemployed find work or become more employable, but also tax and expenditure policies which affect the distribution of income and the provision of social and communal services.

Such policies are an essential part of efforts to improve economic and social cohesion within the Community — a key objective over the coming years. Failure to achieve an improvement between different areas and different social groups would seriously inhibit the development of the Community.

Success in reducing regional differences and in narrowing social divisions is likely to be the more difficult to achieve, however, if unemployment remains at high levels in the coming years. This is not only because unemployment is a major cause of such divisions, but also because it is likely to be associated with low economic growth and, therefore, with fewer financial resources for funding social and labour market programmes. Measures to combat unemployment, whether at the micro-economic or macro-economic level, are an important element of social policy and a key part of Community action to improve cohesion.

Policy at Community level in the recent past has focused on strengthening the conditions of growth — setting up the internal market and achieving monetary union. It is now important to focus increasingly on the problem of unemployment and its social repercussions as they affect different parts of the Community, and to encourage wide-ranging and open discussion of the policy options for addressing this problem.

This report can contribute to this discussion by presenting quantitative information on policy issues of central importance, particularly the main features of unemployment in the Community; the differences between Member States and regions in the scale of the problem and in those most affected; and the

changes which have occurred in recent years. This report also examines trends in working population and labour supply; the relative position of men and women in the labour market; and the development of the service sector, which will continue to be the main source of new jobs in different parts of the Community. All these themes have an important bearing on the issue of unemployment and the problem of providing sufficient employment opportunities in future years for all those who want to work.

Of no less potential importance are the developments taking place in the countries bordering the Community. The report examines the growth of working-age population in other parts of Europe, to the East as well as to the North, and in North Africa and the Middle East. It includes, in addition, a special section on Central and Eastern Europe reviewing the employment and unemployment developments since the process of political and economic reform began, and assessing the problems which the countries concerned face in achieving the transition to viable market economies which are capable of generating acceptable rates of real income and employment growth.

The main findings of the report are summarised below.

Trends in employment and unemployment

The rate of job creation in the Community has slowed dramatically since the middle of 1990 as the rate of economic growth has fallen. In 1991, the numbers in employment

remained stable, in contrast to the average growth of more than 1½% which was achieved between 1986 and 1990. As the rise in employment relative to population of working age (from 56% to 60%) during the period of high job creation came to an end, the proportion of the Community's potential work-force actually in employment was still well below that in other comparable parts of the world.

As employment has fallen, so unemployment has increased, starting first in the UK and Ireland in 1990, and spreading to most other parts of the Community in 1991. In 1992, on the basis of current economic developments, all countries in the Community, apart from Luxembourg, are expected to experience a rise in unemployment. What happens thereafter depends on the timing and pace of economic recovery — difficult to predict at present.

The rise in unemployment although significant, has been much less than might have been expected given the (apparent) fall in employment. Despite the continued growth of working-age population and the long-term upward trend in labour force participation among those of working age, especially women, unemployment rose by less in the second half of 1991 than employment declined. The rate of inactivity — ie the proportion of working-age population who are not officially counted as part of the labour force — therefore increased during this period. In other words, significant numbers of people — half a million or so — effectively disappeared from the work force when employment fell.

These people, a high proportion of them women, are likely to re-enter the labour market when employ-

ment growth resumes — as occurred in the period of high job creation before 1990. Unemployment is, therefore, likely to come down by much less than employment increases. The size of this hidden part of the labour force is a major reason why unemployment, as measured, has proved so difficult to reduce in the Community in recent years. Although recorded unemployment may be high in the Community, effective unemployment — as revealed by the high rate of inactivity compared with other developed parts of the world — is even higher.

The nature of unemployment in the Community

The scale of the unemployment problem differs markedly between different parts of the Community. In May 1992, the rate varied from 17–18% in Spain and Ireland — with a number of regions in these countries having much higher rates still — to under 5% in Portugal and the Western part of Germany and 2% in Luxembourg.

Except in the UK, the rate of unemployment of women remains significantly higher than the rate for men — in many Member States, at least twice as high — and the difference between the two rates tended to widen between 1984 and 1989.

Young people under 25 continue to be more affected by unemployment than older age groups. In April 1992, 18% of people under 25 were unemployed across the Community, with rates as high as 30% in Spain and Italy, although as low as 4% in the former West Germany. The rate of youth unemployment, however,

fell by more than the overall rate in the 1980s, partly as a result of the special measures targeted at the young unemployed in the early part of the decade in many Member States, partly because of the high rate of new job creation in the later years, and partly because fewer young people were coming of working age.

In 1990, even after five years of high employment growth, almost half the unemployed in the Community had been out of work for at least a year and around a third for at least two years. The proportions were even higher in many of the less developed regions in the South of Europe, in Italy and Spain, in particular — although also in Belgium — where, on average, some two-thirds of the unemployed had been out of work for a year or more. The relative numbers of long-term unemployed fell only marginally between 1985 and 1990 in the Community as a whole, although countries where employment growth was most rapid — the Netherlands, Spain, Portugal and the UK — showed a significant decline.

Overall in the Community, a substantial proportion of the long-term unemployed — 35% in 1990 — have never had a job, while many more — a further 19% in 1990 — were looking for employment after a period of inactivity. Under half of the long-term unemployed had, therefore, become unemployed after being in work. This phenomenon is particularly marked in the Southern Member States. In Italy, 78% of those unemployed for a year or more in 1990 had never previously been employed, while in Greece, the figure was 65%. In most countries in the North of the Community, in contrast, over 90%

of the long-term unemployed had at some time had work experience.

Trends in the Community's labour force

Concern has been expressed about demographic trends in the Community, with declining birth rates and growing numbers of people living into old age. A specific point of concern is that the working-age population, as well as ageing, could decline in future years, damaging the competitiveness of the Community's labour force and reducing productive potential. At the same time, reduced numbers of people of working age will need to support increasing numbers of people in retirement.

Similar trends are also observable in other developed countries. Indeed, over the past 30 years, the ageing effect has been more pronounced in Japan than in the Community. Moreover, over the next 20 years — the time-scale over which changes in working-age population are reasonably predictable since those coming of working age (over 15) have mostly already been born — the average age of the working-age population in both the US and Japan is set to increase by more than in the Community.

As demonstrated in Chapter 3, however, inferences about the growth and age structure of the work force in the Community cannot be drawn simply by estimating how the population of working-age is likely to change. Of greater importance are changes in rates of participation in the labour force of those in the working-age bracket.

Over the past 30 years, there have been marked changes in participation rates throughout the Community. In particular, increasing proportions of women of working-age have joined the labour force, while for men in both the younger and older age groups participation has tended to decline.

In the Community as a whole these trends have tended to offset each other so that the overall rate of labour force participation has not changed greatly. Across Member States, there is very little relationship between growth of working-age population and growth of the labour force. Several countries (eg Denmark) have had significant labour force growth with very little increase in working-age population.

Far from ageing over the past 30 years, as commonly supposed, the Community's work force seems to have become younger. Between 1960 and 1990, the proportion aged 50 and over declined from 27% to 21%, while the proportion in the prime age group of 25–49 rose from 51% to 62%. Indeed the age composition of the labour force in the Community is very similar to that in the rest of Western Europe and the US, although different from Japan, where a significantly higher proportion of the work force is in the older age groups.

However, while the average rate of participation of men in the work force in the Community is similar to that in other developed countries, the average rate for women is substantially lower. In 1990, only 43% of women aged 15 and over in the Community were recorded as being active members of the labour force as compared with 50% in Japan and around

55% in other Western European countries and the US. Although activity rates of women have risen over the past 30 years in the Community, they have done so by less than in other parts of Western Europe or the US.

The activity rates of women differ greatly between Member States. In the South — in Spain, Greece and Italy — rates averaged only around 35% in 1990, and in Ireland, only just over 30%, while in Denmark the rate was over 60%. The rise in participation of women in the labour force, however, has been common to all Member States since 1970, with little sign in any country — apart possibly from Denmark — that rates have peaked.

As well as activity rates in the Community being lower than in other developed parts of the world, unemployment also tends to be higher, so that an even lower proportion of working-age population is actually in employment (around 50% of those aged 15 and over, as compared with around 60% or more in other parts of Europe, the US and Japan). In many of the less developed parts of the Community, underemployment is acute, the "utilised" labour force — or employment — rate being 45% or less in 1990. Many of the unemployed in these parts are young people of under 25. Despite the trend decline in the numbers of young people coming of working age, therefore, a high proportion of these young people still remain without employment.

The implication is that a very much smaller proportion of people in employment in the Community — around 40–50% less — have to provide economic support for the

population as a whole than is the case in most other developed parts of the world. This has major implications for the Community's ability to match the level of income per head in these countries.

The ageing of the Community's population which is projected to occur over the next 20 years is likely to be particularly pronounced in the Northern Member States. In all cases, the relative numbers of those in the 25–49 age group are forecast to decline between 1990 and 2010. In the South of the Community, on the other hand, the numbers in this 'prime age' group are set to increase. Nevertheless, in relative terms, it is in the Southern countries where the numbers of young people coming of working age are projected to decline by most.

The slowdown in the growth of the Community's working-age population projected for the next 20 years does not, however, mean that the labour force will necessarily increase more slowly. If the upward trend in the rate of participation of women in the labour force continues over the next 20 years at a similar rate to that in the 1980s, the labour force could expand by between 12% and 17% between 1990 and 2010 (depending on the growth of working-age population). This would mean between 19 and 28 million people joining the work force — significantly more than the number of additional jobs created over the past 20 years.

On the other hand, if the activity rates increase less, then the Community's labour force could show little change over the period to 2010. Whether this becomes a cause for concern will depend, however, on the rate of economic growth and the associated change in demand for labour. If high economic growth

were to occur, then labour shortages might be a possibility. On past evidence, however, if the demand for labour were to increase strongly, activity rates would be unlikely to remain low.

Although the average age of the working-age population will increase over the next 20 years, the average age of the labour force is unlikely to increase much, if at all, because the relative decline in numbers of young people joining the work force is likely to be offset by the increased participation of women in the 25–49 age group. The proportion of the labour force which is of prime working age — i.e. 25–49 — is, therefore, projected to be higher in 2010 in the Community than in 1990.

The growth of the working-age population is likely to be lower in other developed parts of Europe than in the Community over the next 20 years. Growth is also projected to be relatively low in Central and Eastern Europe as well as in the former Soviet Union. In the countries to the South of the Community, in North Africa and the Middle East, however, working-age population is set to increase dramatically, by around 3% a year, which implies almost a doubling of numbers between 1990 and 2010, with a particularly rapid growth of those aged between 15 and 24. This is likely to have profound social and political consequences in the region unless there is a marked acceleration in the pace of economic development.

While the rapid prospective growth in labour supply in these countries does not pose a competitive threat to the Community, it does represent a major challenge in terms of how the countries to the South, as well as to the East,

can be helped to overcome development problems.

Employment growth in services

The number of people employed in services in the Community increased by 12 million over the 1980s, offsetting the decline of jobs in agriculture and industry but not by enough to prevent unemployment from increasing. Chapter 4 examines a number of issues related to the growth of services — in particular, the scope for further employment creation in services, the differential growth of employment across the Community and the differences in the location of the different kinds of service activity.

The proportion of the work force in the Community employed in services, at just over 60%, is similar to that in other parts of Western Europe, and more than in Japan. However, it is significantly less than in the US where the figure is over 70%. The proportion varies markedly between Member States, broadly reflecting their level of economic development and income per head, with a number of countries in the North of the Community — Belgium, the UK and the Netherlands — having similarly high figures to the US.

The importance of part-time working in services means that comparisons of numbers employed can give a misleading indication of the volume of employment in the sector in terms of hours worked. If differences in the relative numbers of part-time workers are allowed for, the variation in the proportion of employment in services between Member States is significantly narrowed.

The importance of services in the Community has increased markedly and almost continuously over the past 20 years, a growth which is also apparent in other developed countries. The experience of the US, in particular, suggests that the scope for further expansion of employment is far from exhausted. The relative importance of different kinds of service activity has, however, changed over time and is likely to continue to do so.

During the 1980s, there was some tendency for employment in services to grow by more in the Southern countries of the Community, where the share was relatively low, than in the North. There was no tendency over this period, however, for countries with an above average decline in employment in agriculture and industry to show an above average expansion of jobs in services — if anything, the reverse was the case.

The division of employment in services between broad sectors is similar in the Community to that in other developed countries. Moreover, there has been a fairly uniform tendency since 1970 for the numbers employed in finance, insurance and business services to increase by most, and for employment in transport and communications to decline by most in relative terms.

Non-market services, comprising education, health and other social services as well as public administration, accounted for over a third of employment in services in the Community in 1989, while another 25% or so were employed in the distributive trades. Finance and insurance, one of the fastest growing sectors, was responsible for under 10% of employment in services.

There is little variation in the relative importance of basic services — distribution, transport, hotels and catering — between Member States. However, the other, more dynamic, sectors do vary significantly in importance across the Community. For example, in the UK, finance and insurance accounted for over 10% of total employment in the economy as a whole in 1989 as compared with under 3% in Italy and Spain. Indeed, over half of all employment in the finance and insurance sector in the Community in 1989 was located in the UK.

In the case of other market services, which also cover a number of rapidly growing activities, employment ranged from 17–18% of the total in the Netherlands and Belgium to under 5% in Portugal while, for non-market services, the proportions ranged from 30% in Denmark to less than 14% in Luxembourg.

Variations in employment between services activities are even more pronounced at the regional level. For distribution, hotels and catering — basic services for which population is a key determinant — employment is relatively uniform across the Community, except in tourist areas. For transport and communications, employment also tends to vary with the density of population, although also with the scale of economic activity. For finance and insurance, employment, as would be expected, is high in financial centres and, with only a few exceptions, relatively low elsewhere.

For other market services, the variation in regional shares of employment reflects the influence of population and income per head, employment being high relative to population in the more prosperous

parts of Northern Member States and low in the less developed parts of the South. The same factors also influence employment in health-care and education which exhibits a similar pattern of variation.

Employment in public administration varies significantly between regions in relation to both total employment and population, although there seems to be some tendency for it to be relatively high in areas where unemployment is a problem, as well as in capital cities. On balance, employment in this sector relative to population does not seem to rise in proportion to income per head.

Of the total addition to service sector employment over the 1980s, other market services were responsible for 35% of the additional jobs created (in full-time equivalent terms) non-market services for 30%, and finance and insurance for only 13%. In the South, in Spain and Portugal, hotels and catering were the main areas of employment growth. In most Northern countries, other market services were the main area of job creation. In finance and insurance, by far the highest growth of employment was in the UK and Luxembourg, reinforcing their dominance of this sector.

There is little evidence that the expansion of service employment which occurred in the 1980s was to any significant extent the result of increased specialisation within the Community economy causing a shift of jobs out of other sectors. The group of activities which are most liable to have been the source of such a shift of employment — various business services — account for only a small proportion of service employment. Moreover, although they expanded rapidly

over the 1980s, it is implausible that more than a small proportion of the additional jobs created effectively involved the transfer of employment from other sectors.

While there is some concern that there will be less scope for employment growth in the coming years in a number of sectors which experienced a high rate of job creation in the 1980s — banking in particular — there is only limited evidence of any recent slowdown in the rate of increase. The prospect of increased automation combined with rationalisation as competition intensifies has to be set against the growth and widening of demand for services which is evident.

Employment developments in Central and Eastern Europe

The economic and employment situation in the countries to the East of the Community in Central and Eastern Europe is likely to have important consequences for the Community. While political and economic reform in the former centrally-planned countries is proceeding rapidly, it is being accompanied (as described in Chapter 5) by a substantial fall in output, considerable loss of jobs and rapidly rising unemployment.

Governments in the region are attempting to strike a balance between pressing ahead with reforms and avoiding too much unemployment. They are having to contend with the consequences of the breakdown of the COMECON system of managed trade which has severely affected export industries and their ability to buy essential imports, while at the same time

having to impose restrictive monetary and fiscal policies to curb inflation and excessive rises in internal and external deficits.

In the five Central and Eastern European countries from which data have been collected — Bulgaria, Czechoslovakia, Hungary, Poland and Romania — GDP fell by around 20% or more between 1989 and 1991, with all countries apart from Poland experiencing a larger fall in 1991 than in 1990. The main decline has been in industry, although production in agriculture has also fallen.

The fall in output has been concentrated in state enterprises, which remain predominantly responsible for industrial production. In none of the countries has the growth of the private sector compensated for more than a small part of this loss of output.

As output has declined, employment seems also to have fallen significantly, although the precise scale of the fall remains uncertain because of problems of collecting reliable figures on the numbers working in the private sector. The major loss of jobs has been in manufacturing, where employment in 1991 alone declined by 7–10% in each of the countries.

The loss of jobs in industry, as well as in agriculture, does not seem to have been compensated by any significant growth of employment in services, although official figures almost certainly understate the growth of employment in services in the private sector.

The participation of men in the labour market, as recorded by the official figures, declined throughout the region between 1989 and 1991 — reflecting increased employment

in the informal economy as well as in working abroad — while the participation of women rose in Poland and Romania and fell in the other three countries. Nevertheless, the rate of participation of women in the labour market in most parts of the region remains higher than in the Community, although once the figures are put onto a comparable basis the difference is much less than is sometimes claimed.

As employment has fallen, so recorded unemployment has risen sharply. According to the numbers registered, which in some cases significantly understate the true position, unemployment had risen from virtually zero at the beginning of 1990 to 12% in Poland and Bulgaria by March 1992, 8% in Hungary and 6½% in Czechoslovakia. Except in Czechoslovakia, there is little sign of the rise in unemployment slowing.

Unemployment has particularly affected the unskilled and the young, the latter because of the very low rate of new job creation. In many parts of the region, just as in the Community, the unemployment rate for those under 25 is at least double the rate for those over 25. Because of the lack of new job opportunities, long-term unemployment is also beginning to emerge as a problem.

Unemployment is particularly high in agricultural areas and those with high concentrations of heavy or basic industries, while the regions where capital cities are located — where services are most important — tend to have the lowest rates.

Inflation increased substantially in all countries with the removal of price controls, but is now declining in most countries. Although all governments attempted to protect real

wages from the worst effects of this increase, all accepted the need for some fall in real wages to curb excess demand. Nevertheless, the fall in real wages has generally been much greater than planned.

Those suffering the biggest falls in real income are, in the main, those who have lost their jobs or in retirement. Despite the development and/or extensions of social security systems to cover the unemployed and those on low wages (through minimum wage legislation), tightening financial constraints have meant that levels of benefit (and of the minimum wage) have generally been reduced and eligibility restricted. This, however, has not prevented the emergence of acute financing problems as unemployment has increased and government income has declined.

The same financing problems have also affected the scale of funding for active labour market measures, which have been able to assist only a small proportion of the unemployed.

The general expectation is that employment will continue to decline and unemployment will continue to increase during 1992, especially if the process of privatisation accelerates, thereby intensifying competition and encouraging reductions in overmanning in the interests of securing greater productive efficiency. There are, however, some favourable signs with inflation coming down significantly in some countries and exports to the West being expanded.

Men and women in the labour market

Although rates of participation of women in the labour market in

the Community increased significantly over the past two decades, and while 60% of the additional jobs created between 1985 and 1990 went to women, women still account for under 40% of employment. Moreover, as shown in Chapter 6, as compared with men, women have a narrower range of job opportunities open to them and are predominantly in lower paid jobs.

Rates of activity vary significantly between men and women for most age groups. While male participation in the labour market tends to increase in all Member States up to the mid-20s and then to remain stable up to the mid-50s, in most countries female participation tends to decline from the mid-20s and then either continues to decline or increases again from the mid-30s. These two predominant patterns for women seem to reflect the influence of family responsibilities which come from both having children and simply being married.

Women who want to work, therefore, unlike most men, have to reconcile these responsibilities with the pursuit of a career. Apart from in Denmark, there are substantial differences throughout the Community in the activity rates of married and single women. In a number of Northern Member States — the UK, Netherlands and Ireland, especially — this difference is partly explained by the need to look after children in a situation where the provision of childcare facilities is limited.

In Southern Member States, however — as well as in Denmark and Belgium — activity rates for women with and without children are very similar and the explanation of low levels of female participation has to be sought elsewhere (for example,

in labour market regulations or social attitudes to women, particularly married women, being in paid employment).

Educational attainment seems to be an important determinant of labour force participation, for men but more especially for women. Women with higher levels of education, therefore, tend to be much more likely to be in paid employment or actively seeking work than those with lower levels of education.

In the light of this, it is relevant to note that the proportion of women in higher education increased significantly between the mid-1970s and 1989/90 in most Member States where it was at a low level, so that women now make up around half of all higher education students in most countries. The main exceptions are Germany, where the proportion of women is only around 40%, and the Netherlands and Ireland, where there has, however, been an upward trend.

Within the labour market, there are significant differences between the jobs filled by women and those filled by men. 75% of all women in work are employed in services, as opposed to only 51% of men. Moreover, the number of women working in services has grown consistently over the past 20 years at around twice the rate for men, so that just under half of all jobs in the sector are now performed by women as against 40% in 1970. In both agriculture and industry, on the other hand, the share of jobs taken by women has shown little change over this period.

In services, the proportion of jobs taken by women tends to be higher, the higher the level of par-

ticipation of women in the labour force of the Member State concerned. In the Benelux countries, where participation rates are low, women's share of employment in services is equally low despite the relatively high importance of services. In Denmark and the UK, which have the highest rates of female activity, women account for the largest share of services employment. The steady growth of services and the increase in participation of women in the labour force are, therefore, closely linked.

Women's employment is also concentrated in a more limited number of industries and trades than men's. In 1990, one third of women in employment in the six Member States for which data are available (and which together accounted for 72% of total employment in the Community) worked in just three trades — health services, retailing and education. Indeed, over half worked in only six trades, all in the service sector. In contrast, the most important six trades employing men accounted for under 40% of male employment, while the "top" ten were responsible for just over half of men's jobs — five industries and five service trades.

The concentration of women's employment in particular sectors seems to have increased rather than diminished over the 1980s, while that of men remained virtually unchanged.

Over the Community as a whole, 28% of women in employment worked part-time in 1990 as compared with only 4% of men. In the UK and the Netherlands 43% and 59% respectively of women in employment were employed on a part-time basis; together, these

two Member States accounted for 42% of women part-time workers in the Community in 1990. In other parts of the Community, especially in the South, part-time working among women is much less important — under 10% in Italy, Spain and Greece — and, moreover, has shown little tendency to increase.

The importance of part-time working varies comparatively little between regions within countries, which suggests that it has more to do with national rather than local characteristics of the labour market.

Temporary employment is also more important for women than for men in the Community, with 12% of women as opposed to 8% of men being employed on fixed-term contracts. In addition, 73% of all family workers in the Community in 1990 were women. Although the numbers have tended to fall significantly over time in all Member States, family workers still represent around 5% of total female employment (as against only 1% for men), although only in Greece (27%) and Spain (11%) is the proportion much greater than the average.

By contrast, proportionately fewer women than men are self-employed or employers in the Community. Only 25% of the self-employed were women in 1990 — only 10% of all women in employment — as compared with 20% of all men. Even in services, women account for only 30% of total self-employment.

Although the evidence on relative pay levels of men and women is unsatisfactory, there is a clear indication that women tend to work in significantly lower paid

jobs than men. In manufacturing, the average earnings of women manual workers were between 75% and 85% of those of men in most Member States in 1990. Within individual manufacturing sectors, there has been only a small tendency for the gap in pay between men and women to narrow since the mid-1970s.

The average earnings of non-manual women in employment are even further below those of men in most Member States. In manufacturing as a whole, in no country in 1990 was the average pay of women non-manual workers over 68% of that of men. In services, differences are slightly narrower, with women in retailing earning on average 65–70% of the pay of men in most countries, in insurance 70–75% and in banking 75–80%, although in some cases the difference is much wider. As for manual workers, there is no evidence of a uniform tendency for the pay gap between men and women to close between 1985 and 1990.

Unemployment compensation schemes

The systems in operation in the Community for providing income support to the unemployed differ widely between Member States (as described in Chapter 7). Broadly, schemes can be divided into those based on an insurance principle — which relate benefits to earnings when in work — and those based on welfare principles, providing a minimum level of income. Most systems involve various combinations of the two, with earnings-related benefits applying for only a limited period of time. As long-term unem-

ployment has increased, there has been a growing tendency to link the length of this period to the length of time contributions have been paid, as well as to reduce the rate of benefit.

There is little sign of any long-term convergence between the different schemes in force. Indeed, the individual features of the various national schemes seem to have become more pronounced in the 1980s.

The proportion of the unemployed entitled to receive unemployment compensation (the beneficiary rate) varies from 6% in Greece to 86% in Denmark, and in most Member States changed little over the 1980s, although there were marked reductions in Germany, the UK and the Netherlands. In most countries also, a much smaller proportion of the women unemployed receive benefit at any one time than men, partly because of having less continuous spells of employment.

The proportion of the unemployed eligible for assistance tends to increase with age under insurance based schemes and to be largely invariant under welfare schemes, although the proportion of long-term unemployed covered, who are often older workers, is usually less under the former type of system.

The rates of benefit received also vary widely across the Community. In most countries, the rate when a person first becomes unemployed is between 50% and 70% of previous earnings, although much less in the UK and Ireland where welfare principles dominate. As the period of unemployment increases, so rates tend to be reduced, in some cases

substantially, and to become dependent on individual circumstances.

The overall cost of unemployment compensation systems in terms of public expenditure differs, of course, according to the level of unemployment. However, some countries (Denmark, the Netherlands and Belgium) spend 2-3 times more in relation to the numbers unemployed than others (France, Germany and the UK) and considerably more than the least generous countries (Greece and Italy — although alternative ways of supporting the unemployed exist in the latter). In most Member States, the proportion of GDP spent on each unemployed person rose between 1985 and 1990, although it declined in the Netherlands, Luxembourg, Ireland and, most markedly, in the UK.

The effect of the various support systems on the rate of unemployment, on incentives to work and on the functioning of the labour market generally are ambiguous and hard to discern empirically. While high levels of benefit may encourage people to remain unemployed longer, they may also help to stabilise purchasing power in the economy, reduce divisions in society, assist in maintaining good industrial relations and increase the willingness of workers to be mobile or flexible.

Public expenditure on income support for the unemployed tends in most Member States to be significantly higher than the amount spent on active labour market measures, such as training or job creation. Spending on the latter averaged less than 1% of GDP in the Community in 1990. In general, expenditure on active

measures varies inversely with the level of unemployment, largely because priority is given to income support when the numbers out of work increase.

Actions to combat long-term unemployment

Long-term unemployment remains a serious problem in many parts of the Community despite considerable policy efforts to reduce it. Registered long-term unemployment is, moreover, only the most visible dimension of a wider problem of chronic underemployment and insecure jobs at low rates of pay. In effect, many people are effectively excluded from the primary labour market, making it impossible for them to derive a level of income from employment sufficient to meet personal and family needs on a lasting basis.

According to a recent comprehensive evaluation study carried out under the ERGO programme, and summarised in Chapter 8, long-term unemployment is the result of an array of factors — the way labour markets work, the social structures and divisions in society, inadequate levels of education or training and, most of all, the overall shortages of jobs in many parts of the Community. Until these issues are fully addressed, and obstacles overcome, long-term unemployment will remain a serious problem.

Labour market measures have an important role to play in opening up routes into employment for those who are unable to find work without assistance. Nevertheless, the effects of such specific short-term measures or actions, however

extensive in scale and scope, are inevitably limited and the policy objectives assigned to labour market measures need to reflect this. Measures should be judged, for example, on their ability to ensure that the maximum number of people can be helped to keep in touch with the labour market, and to compete effectively within it, rather than on their effectiveness in reducing the overall level of unemployment.

Helping people in difficulties into, or back into, a pattern of routine activity can be a struggle for all concerned, even though the success stories emerging from many programmes and projects serve to motivate and encourage promoters and participants alike. Being long-term unemployed is highly demoralising — even if the experience is shared with others in the same predicament, this serves to alleviate the stigma rather than raise morale.

Individual counselling for the long-term unemployed is thus a *sine qua non* of any effective action since the first objectives are to re-establish the confidence of the person concerned, and to assess their capacity and potential. Flexibility is a key element in the design of programmes and projects — enabling actions to be adapted to the needs of both participants and the local labour market.

Experience and evaluations can improve the effectiveness of measures to assist the long-term unemployed. This can both reduce the scale of the problem, and raise the overall productive capacity of the Community's workforce. Such measures cannot on their own, however, provide an adequate response to an economic and social problem which is so deeply rooted.

Part I Employment Prospects

Chapter 1 Employment in the Community : Trends and Prospects

Chapter 2 Short-term Economic and Employment Outlook

**Chapter 3 The Community Labour Force : Recent Growth and Future
Prospects**

Chapter 1 Employment in the Community : Trends and Prospects

After several years of strong growth and rising employment, the sharp upturn in unemployment since 1990 has come as a shock.

Since around the middle of 1990 the rate of job creation in the Community has slowed as the overall rate of economic growth has declined, depressing employment relative to working-age population and causing unemployment to increase (Graph 1). While the average rate of unemployment in 1991 was only slightly higher than in 1990, the trend during the year was consistently upwards (Graph 2). By May 1992, the rate for the Community as a whole had risen to 9.5%.

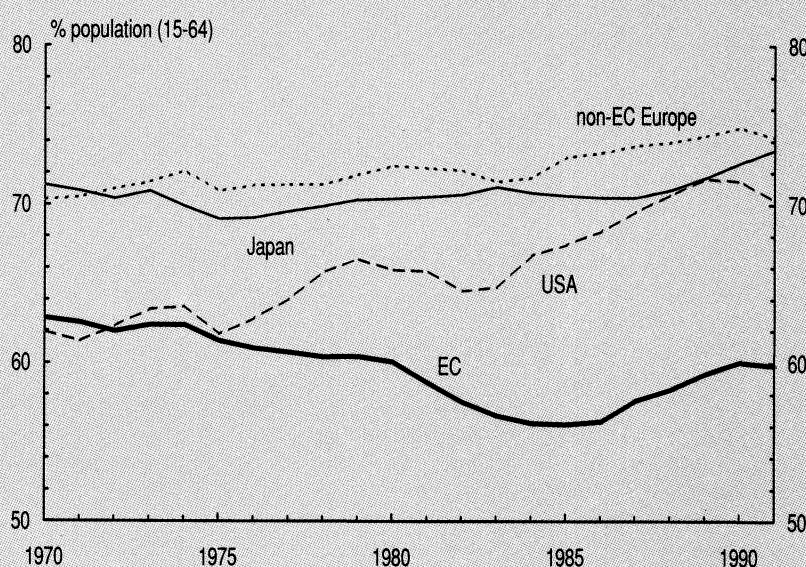
This trend is in line with developments elsewhere. Indeed, other parts of Western Europe and the US have experienced even larger falls in employment and rises in unemployment over this period. Only Japan — where economic growth has also slowed, but remains significant — has succeeded in maintaining employment growth at a rate sufficient to prevent unemployment from rising.

This reversal of fortunes follows a period in the second half of the 1980s which was notable for unusually high job creation in the

Community, which resulted in a significant increase in the numbers in employment relative to the population of working age, and which led to a reduction in unemployment.

Between 1985 and 1990, employment rose from 57% of the population of working age (15–64) to 60%. This was a higher rate of increase than in other parts of Western Europe or Japan over

1 Share of working-age population in employment in the Community and elsewhere, 1970-1991



Analysing short-term changes in employment and unemployment

While it is possible to monitor changes in unemployment across the Community from month to month on a reasonably consistent basis, and with only a short delay, it is much more difficult to follow short-term movements in employment, and therefore in the relationship between employment and unemployment.

Indeed, the only official sources of information which can be used for examining comparative changes in employment over the recent past are national ones. Data for a number of countries are available on a quarterly basis from OECD. Unfortunately, only six Member States are among these countries, although, since these include the five largest Community countries (together with Portugal), the data encompass some 87% of the total numbers in employment in the Community.

It should be emphasised, however, that these national figures are not derived on a common basis and have to be treated with caution. Nevertheless, both the annual average figures derived from the national quarterly data, and more especially the year-to-year changes implied, are broadly consistent with the results of the Community Labour Force Survey — the main source used elsewhere in this report.

Since the latter source reflects the position during a particular week of the year and collects data from private households rather than enterprises or administrative records, some differences are to be expected and it is encouraging that, in general, as far as employment is concerned, they are relatively small.

There are, however, a few instances where the differences are significant. The most important concerns Germany in 1990, where the LFS shows a much larger increase in employment during the year than the national source (just under 6% as opposed to just under 3%).

The situation with regard to unemployment data is more complicated. In contrast to the monthly statistics published by Eurostat — which are based on LFS results and which are, so far as possible, harmonised — national statistics are compiled and defined in different ways in different countries. (Only in Spain and Portugal are the figures based on quarterly LFS results; in Germany and France, they are based on the numbers registering as unemployed, in the UK, on those drawing unemployment related benefits and in Italy, on a combination of sources.)

In terms of levels of unemployment, apart from Spain and Portugal, there are significant differences between the two sources for most countries, with the national figures being much higher than the harmonised Eurostat data for Germany, France and Italy, and the reverse being the case in most years for the UK.

More importantly for the present analysis, there are also differences between the two sources in terms of changes over time. For Italy, in particular, the two series show a markedly different pattern of change over much of the period 1986 to 1991, while for Spain and the UK, the movements shown in 1991 are also significantly different.

Although it is usually preferable to use data from the same source when analysing developments, in this case, the Eurostat statistics on unemployment, rather than the national source data, have been related to the short-term movements in the national employment data because of the greater comparability within the Eurostat series. Both series are seasonally adjusted to allow for normal fluctuations over the year, such as, for example, the influx of young people into the work force at the end of the school year or employment in seasonal activities.

this period and only slightly less than in the US — in marked contrast to the experience of the previous ten years, when the employment record of the Community was considerably worse than in other comparable parts of the world.

Similarly, unemployment had declined from a peak of around 11% in 1985 to just over 8% in 1990. Although that was less than might have been expected given the growth of employment, it was nevertheless a larger fall than occurred in non-EC Western Europe, the US or Japan.

Unemployment developments in Member States

The recent growth of unemployment in the Community as a whole has been very unevenly distributed between Member States. Just as the UK led the way in reducing unemployment in the mid-1980s, so too it was the first to experience an upturn in unemployment. It alone showed any significant rise in unemployment in the second half of 1990 and experienced the largest rise in unemployment during 1991. Between December 1990 and December 1991, the unemployment rate in the UK increased from 7.8% to 10.3%, the only other country showing a comparable rise being Ireland, where unemployment rose by 2 percentage points over this period.

Nevertheless, rising unemployment gradually appeared in other parts of the Community during 1991, with only three countries — Germany, the Netherlands and Portugal — not experiencing an increase between the beginning and end of the

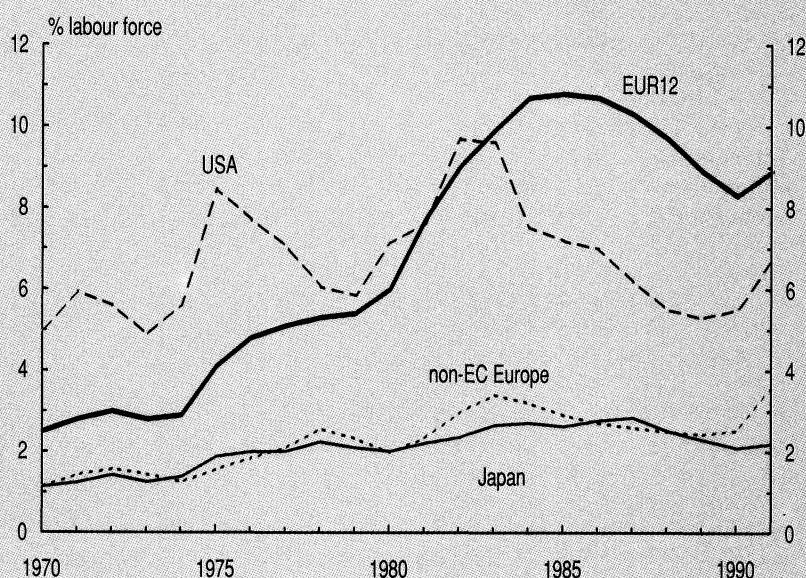
year. In the first five months of 1992, the numbers out of work rose in all Member States, with the exception of Spain and the Netherlands.

Economic growth and employment, 1986 to 1991

The recovery in economic growth in the Community from the mid-1980s onwards led to increased employment growth in most countries. For the four Member States — Germany, France, Italy and the UK — for which it is possible to compare quarterly changes in GDP and employment, employment rose by around 0.3–0.4% a quarter in the period 1987 to 1990, some 0.5–1% less, on average, than the growth rate of GDP, reflecting the growth of labour productivity.

While there is a broad tendency over the period 1986 to 1991 for employment to rise at a higher rate the faster the rate of GDP growth, the relationship is not a uniform one. As is well known, employment tends to respond to changes in the growth of output only with a lag, which economists have tended to estimate at around six months or so. Neither the lag nor the scale of the response, however, is necessarily constant over time, but is influenced by a range of factors, many of them intangible such as business confidence and expectations about future developments. If, for example, employers expect a given increase in output growth to continue in future quarters they are more likely to expand their work force quickly than if it is expected to be short-lived. Similarly, if output growth declines, then they might delay reducing employment until

2 Unemployment rates in the Community and elsewhere, 1970-1991



Employment developments in the new German Länder

The employment and unemployment figures for the Community do not, because of difficulties of comparability, include the new German Länder — the former East Germany — where a lack of employment opportunities and high unemployment are major problems.

In January 1991, six months after monetary unification, the rate of registered unemployment stood at 8.6%. By the end of the year, it had risen to 11.8%. Most of this increase, however, occurred in the middle of the year, in July, when a number of short-time working schemes, which effectively kept a significant number of workers off the unemployment register, came to an end. Between June and July of 1991, the number of people who worked for less than 50% of normal hours, declined by 19% from 1 119 000 to 912 000. At the same time, the rate of unemployment rose from 9.5% to 12.1%.

Much the same phenomenon occurred at the turn of the year, between December 1991 and January 1992, when the total number of short-term workers was reduced by around a half, from over a million to just over 500 000. Registered unemployment, therefore, rose from just under 12% to 17%. From then to April 1992, it fell to 15.5%.

Although unemployment in the new Länder is higher than in most other parts of the Community, it would be even higher were it not for short-term working arrangements, special job creation programmes, training and retraining schemes and early retirement arrangements.

In April 1992, just under 500 000, around 6% of the labour force, were working short-term, around half of these for less than 50% of normal working hours. At the same time, another 500 000 or so were being trained or retrained — more than double the number of only a year previously — while over 400 000 were employed under job creation programmes — around five times as many as a year earlier. In addition, around 780 000 people had taken early retirement. The number of people on these various schemes, therefore, amounted to around 20% of the work force at this time.

At the same time as unemployment has increased, the notified number of job vacancies has remained stubbornly low. In April 1992, it stood at around 33 000, under 3% of the total number of unemployed.

they are convinced that the change is not transitory.

On analogous arguments it would be expected that employment would fluctuate by less than output. This is confirmed by the quarterly movements in the two series between 1986 and 1991, which shows that temporary changes in the rate of GDP growth are not accompanied by changes in employment growth. To allow for both the lagged response of employment to changes in output and to smooth the fluctuations in the latter, quarterly changes in employment for these four countries have been related to average GDP growth over the preceding four quarters (i.e. the quarterly change in employment in the first quarter of 1986 is related to the average change in GDP between the second quarter of 1985 and the first quarter of 1986, the employment change in the second quarter to the average GDP change over the four quarters ending the second quarter 1986, and so on).

The movements in employment and the 4-quarter moving average of GDP, so calculated, show a very similar pattern (Graph 3). The quarterly rate of increase in employment rose to around ½% from the first quarter of 1987 to the first quarter of 1988 as GDP growth increased from ½% a quarter to over 1% a quarter and then remained relatively stable at around 0.3–0.5% up to the first quarter of 1990 as the rate of GDP growth gradually came down to 0.8% a quarter. From the beginning of 1990, however, employment declined sharply to zero change in the first quarter of 1991 and to negative changes thereafter, seemingly in anticipation of the protracted fall in GDP growth.

On the basis of this experience, it might well be that any recovery in

GDP growth would need to be well-established — or at least considered by employers to be so — before there is likely to be a significant response in terms of employment growth.

Employment and unemployment, 1986 to 1991

Between the beginning of 1986 and the second quarter of 1990, in the six Member States for which data are available, employment increased fairly consistently by 300–500 000 a quarter — i.e. at an annual rate of around 1–1.5%. This was associated with a gradual fall in the numbers unemployed from the beginning of 1987, which was particularly marked in 1989 when the increase in employment was most pronounced (Graph 4).

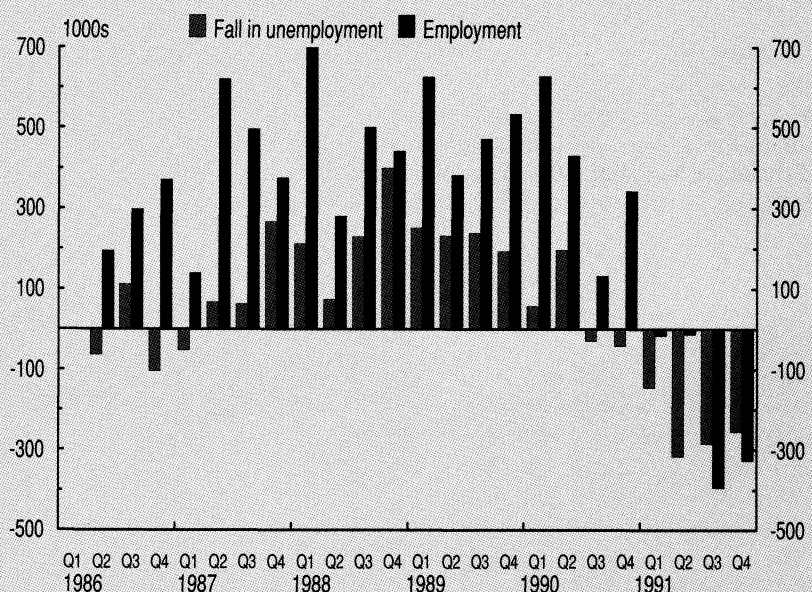
While unemployment fell each quarter from the second quarter of 1987 to the end of 1990, the extent of the fall was consistently less than the increase in the numbers of people in work — on average some 300 000 a quarter less. Some difference in the two is only to be expected given the growth of working-age population — and, therefore, the increase in numbers entering the labour market — in these six countries over this period. This growth, moreover, varied to some degree over the period because of variations in the scale of inward migration. It was particularly high in 1989 and 1990 because of the influx of people looking for work into the former Federal Republic (to which the employment and unemployment figures relate) from the former East Germany.

Since, however, growth of working-age population averaged only around 0.4% a year over this period, adding

3 GDP (4-quarter moving average) and employment in Germany, France, Italy and UK, 1986-1991



4 Quarterly change in employment and unemployment in 6 Member States, 1986-1991



some 175 000 a quarter to the labour force, it explains only part of the gap between the rise in employment and the fall in unemployment. The remainder — an average of around 125 000 a quarter — is by definition attributable to an increase in participation, i.e., to people who were previously regarded as being inactive joining the workforce.

This increase in participation is a feature which has been examined in previous issues of *Employment in Europe*. The implied quarterly changes in participation are the result of both longer term trends in activity rates — in particular, the upward trend in activity among women which, in the 1980s, more than offset the downward trend in activity among men (see Chapter 3 of this report) — and short-term movements. The latter in part reflect the difficulties of identifying active population, in part the inadequacies of the data on short-term changes in unemployment.

Thus, in the first place, the evidence suggests that a significant proportion of the people who are recorded as being inactive at any one moment in time — i.e. neither in employment nor actively seeking work — are effectively in that position only because of a shortage of suitable employment opportunities. If jobs become available, then they are likely to be drawn into the labour force.

Secondly, the monthly statistics on unemployment, although harmonised and made consistent with the annual LFS data once the results become available, are nevertheless derived mainly from administrative records in the case of most of the countries. They therefore in part reflect registration procedures and may omit a variable number of people who are actually

unemployed on the accepted international definition. This applies particularly to changes from month to month, or quarter to quarter, although for the latter part of 1991 (since the 1992 LFS results are still being processed) it also applies to the absolute numbers.

Growth of working-age population combined with a trend increase in activity rates means that in general, employment has to rise by a certain amount for unemployment to be reduced. Because of the variability of effective labour force participation in the short-term, however, this amount itself is liable to vary over time. In the first quarter of 1988, for example, employment increased by over 700 000 while unemployment fell by only around 60 000 — an implied increase in the labour force of almost 650 000. On the other hand, in the fourth quarter of 1988, a rise of 440 000 in employment was associated with a fall of over 310 000 in the numbers unemployed, while in the second quarter of 1989, unemployment declined by 330 000 when employment rose by only slightly more, 380 000, implying a rise in the work force of only some 50 000.

In 1991, however, the general relationship between employment and unemployment seems to have changed. In the second half of the year, when the numbers in employment declined significantly, unemployment rose by less than the amount of this reduction. This is contrary to what would have been expected. The continued growth of working-age population, coupled with the upward trend in activity rates, ought to have resulted in unemployment rising by much more than employment fell. The explanation seems to be that a sizable proportion of those who lost their jobs in this period, and/or who could

not find work, failed to be recorded in the unemployment figures, either because they did not (or were not eligible to) register or because they were deterred from actively seeking employment.

The implication is that the effective number unemployed during this period — as perhaps in the first half of 1992 when the fall in employment seems to have continued — was significantly higher — possibly 5–600 000 or more higher on the evidence of earlier years — than the official figures suggest. The further implication is that, when employment growth begins to recover, these ostensibly inactive people could emerge once more as part of the workforce as they take up some of the new jobs which are created. Any increase in employment which can be achieved is, therefore, unlikely to reduce unemployment by anything like an equivalent amount. This phenomenon is part of the reason why unemployment in the Community has proved in recent years so difficult to reduce, even at times when there is a large expansion of employment.

The wide-ranging social changes which have occurred over the past two decades in most parts of the Community, coupled with changes in attitudes to or possibilities for women with regard to work, and a general shift of activity from agriculture (where many young people and women effectively worked as unpaid employees within the family) to other sectors, have helped to expand the potential workforce and to create an increased demand for employment among people of working age. Unfortunately, these developments have not been accompanied by a comparable long-term increase in the rate of

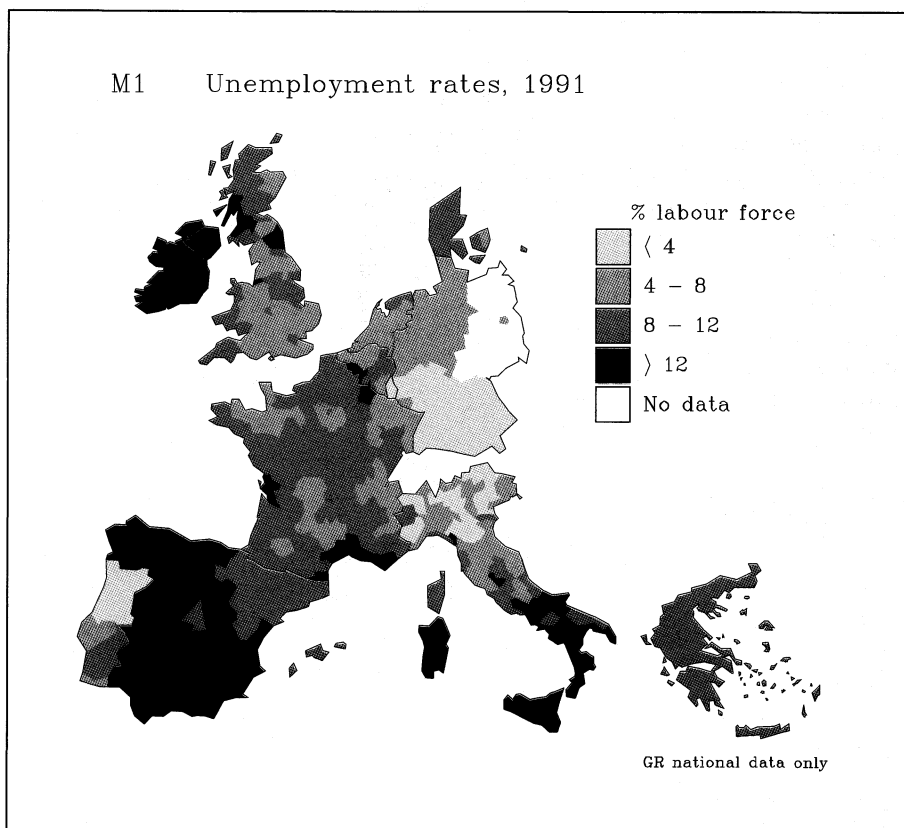
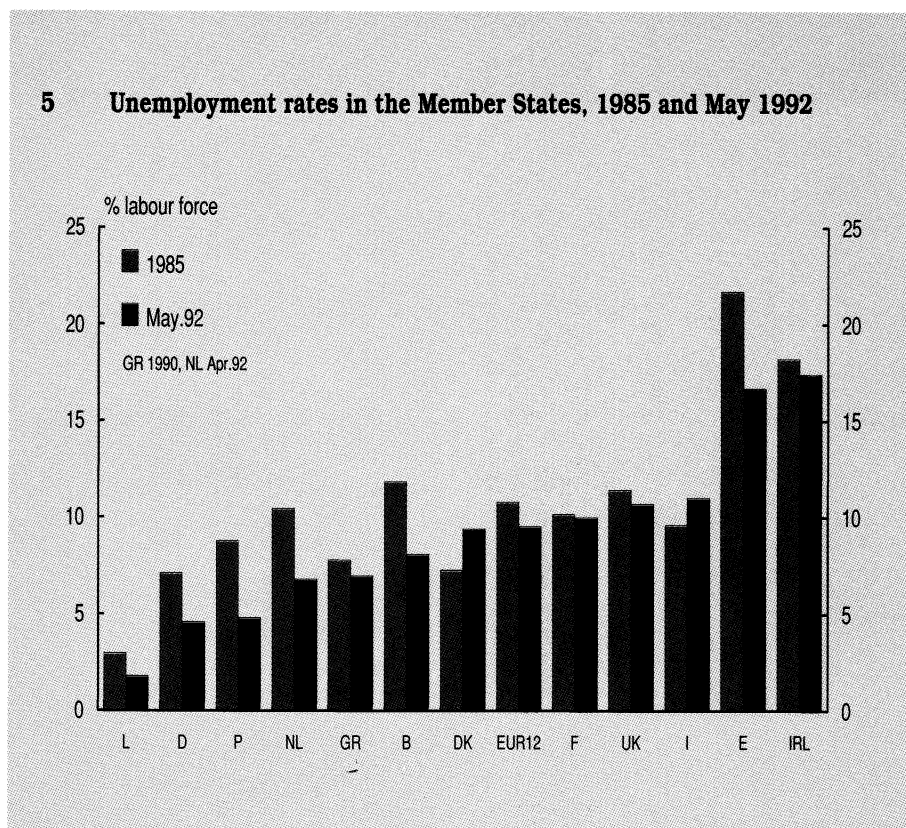
job creation. As a result, substantial numbers of the people who have been both encouraged and given the opportunity to look for work have not been able to find employment. These have added to both recorded and unrecorded unemployment (or to hidden labour supply to use the terminology employed in *Employment in Europe 1991* – Chapter 4).

The characteristics of unemployment in the Community

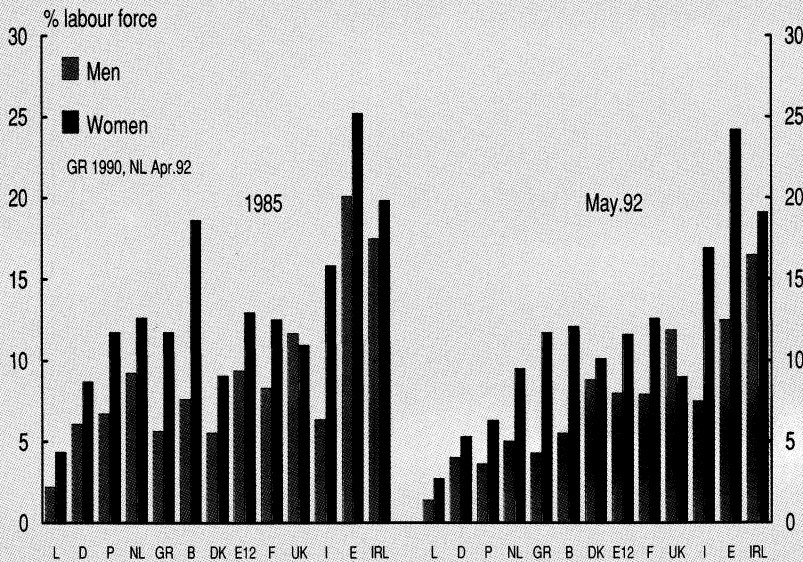
The nature of unemployment differs significantly between one part of the Community and another and has also tended to change over time. The aim here is to set out as clearly as possible the characteristics of the unemployment problem as it affects different Member States and regions and the way in which it has altered over the past five or six years.

While the data available at the Community level do not enable all the features of the unemployed which are relevant for policy formulation to be discerned — they do not, for example, cover educational attainment or skill levels — they nevertheless provide an invaluable insight into the kinds of people most affected.

The scale of the unemployment problem varies markedly across the Community. In May 1992, the rate of unemployment was over 17% in Ireland and over 16% in Spain, but less than 5% in Germany (excluding the new Länder) and Portugal and 2% in Luxembourg (Graph 5). Within countries, the variation is even more pronounced with some regions of Southern Spain, the South of Italy and Ireland having



6 Unemployment rates of men and women in the Member States, 1985 and May 1992



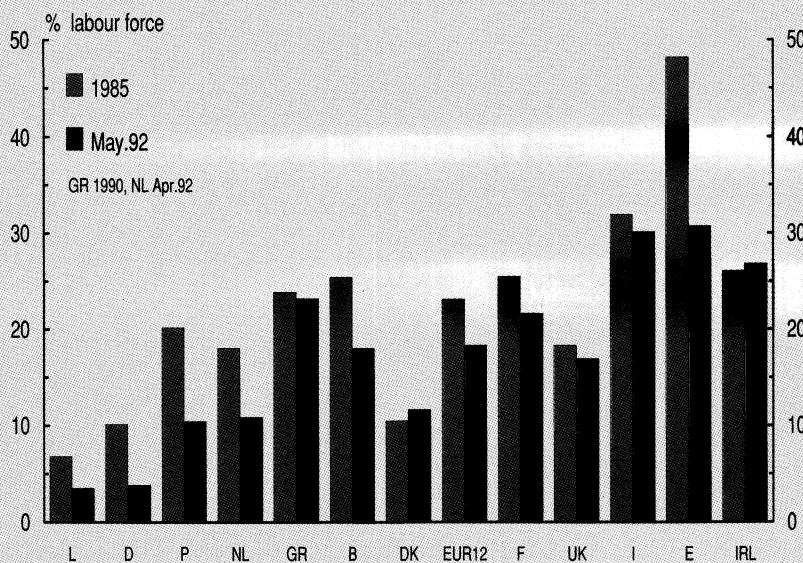
rates of 20% or more and some areas in these regions having even higher rates (Map 1).

The movement in unemployment since the peak of 1985 has also been substantially different between Member States and regions. Whereas the unemployment rate fell significantly between 1985 and 1990 in Portugal, Spain, Belgium and the UK (by around 4–5%), it remained virtually unchanged in Italy, Greece and France throughout the period, and actually rose in Denmark.

Unemployment of men and women

Over the Community as a whole, there are approximately the same number of women unemployed as men (around 6.5 million of each in May 1992). However, because there are many fewer women than men in the labour force, the rate of unemployment for women is significantly higher than for men. In May 1992, the average rate of unemployment for women in the Community was over 11%, while the rate for men was 8%. In all Member States except the UK, the rate for women exceeded that for men and, in the majority of countries, the rate was around twice as high or more (Graph 6).

7 Unemployment rates of young people aged under 25 in the Member States, 1985 and May 1992



Moreover, the gap between the unemployment rates for men and women has if anything widened since 1985. Whereas in 1985, the rate for women was on average some 37% (or 3½ percentage points) higher than that for men, in May 1992 the difference was over 45% (still a 3½ percentage point difference). Within individual Member States, female unemployment has been consistently higher than male unemployment for many years — at

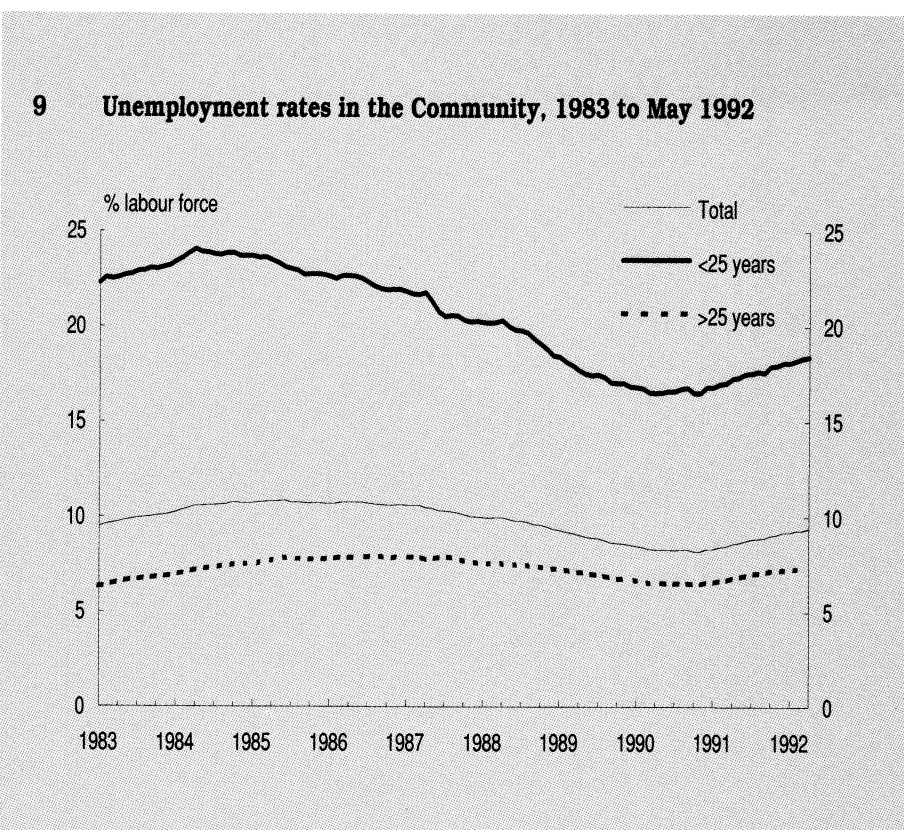
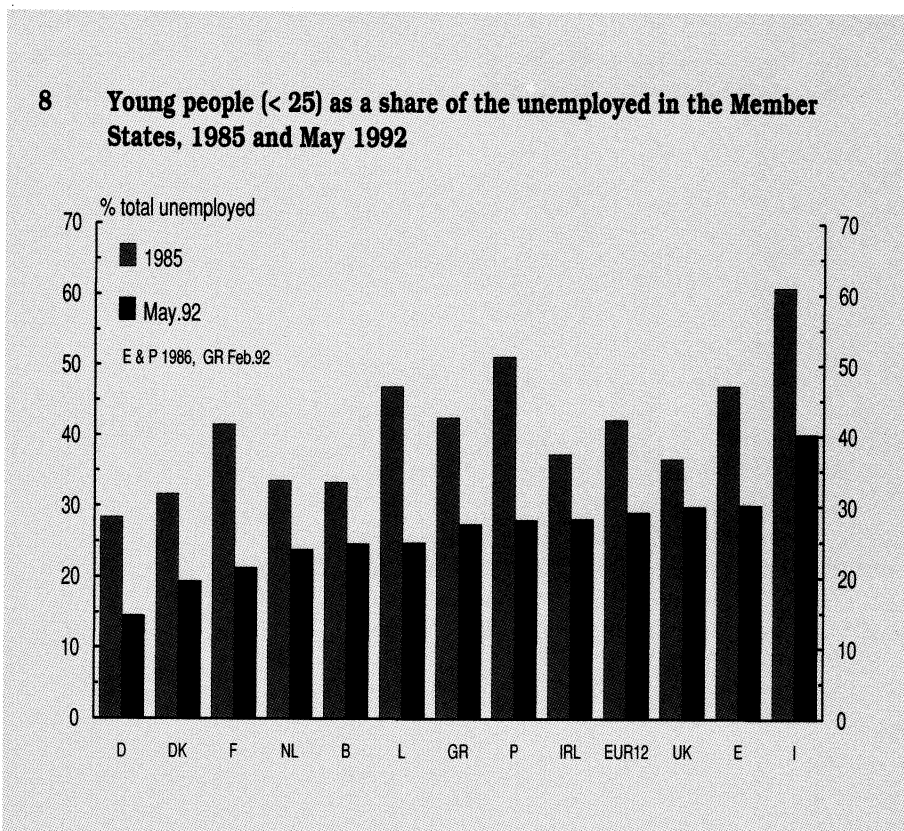
least since the late-1970s in most cases.

Nevertheless, the gap between men and women has varied somewhat over the recent past. In particular, while the unemployment rate for men (along with the total) peaked in 1985 and thereafter fell at a fairly consistent rate as employment began to grow, the rate for women did not start falling until 1987. This was not because more jobs were created for men than women over this period — indeed the reverse was the case — but because the rate of job creation, although rapid, initially failed to match the significant increase in the numbers of women entering the labour market.

As employment growth slowed from 1990 on, the increase in unemployment for men was greater than for women so that the difference between the two rates has narrowed again. This, however, is not so much due to more women than men losing their jobs, but to the fact that much of the rise in unemployment occurred in the UK where unemployment for women is much lower than for men. A greater proportion of men than women than is normally the case were therefore recorded as becoming unemployed.

Unemployment of young people

The rate of unemployment among young people under 25 is much higher than for older age groups throughout the Community. On average, over 18% of under 25 year olds were unemployed in May 1992 — more than double the rate for those aged 25 and over (Graph 7). This means that around 30% of those unemployed were under 25 (Graph 8). Apart from Germany, relatively high youth unemploy-



ment is a feature of all Member States, but particularly of Spain and Italy, where the unemployment rate is around 30% — in Italy some three times higher than the average rate.

In Germany alone in the Community the unemployment rate for young people is less than among the rest of the population. This results entirely from young women having a lower rate than older women, whereas for men the reverse is the case. It is also a recent phenomenon. In the early 1980s, youth unemployment in Germany was around twice the average rate just as in most other countries. From 1983 onwards, however, it declined progressively both in absolute terms and more particularly relative to the rate for older age groups — especially in 1986 — until in 1989 it fell below the average rate.

In the other Member States, there was also a tendency in the 1980s for youth unemployment to decline by more than the rate for the rest of the population, following a period when those under 25 had been particularly affected by the rise in unemployment (Graph 9). As GDP and employment growth slowed at the end of the 1970s and unemployment increased, the rate of joblessness among young people rose sharply, so that in the early 1980s, over 45% of all the unemployed in the Community were under 25.

Partly through special measures in Member States targeted at the young, especially school-leavers, this figure was reduced to just over 40% by the end of 1983. During the period of high employment growth from 1985 to 1990, the proportion declined further to 34%. This, however, was also a period when fewer

young people were coming of working age and entering the labour market for the first time. Between 1985 and 1990, the population aged 15–24 in the Community fell by just under 5%. Thus even if the rate of creation of jobs for young people had only remained constant over this period, their rate of unemployment could have been expected to fall by some 4–5 percentage points on this account alone.

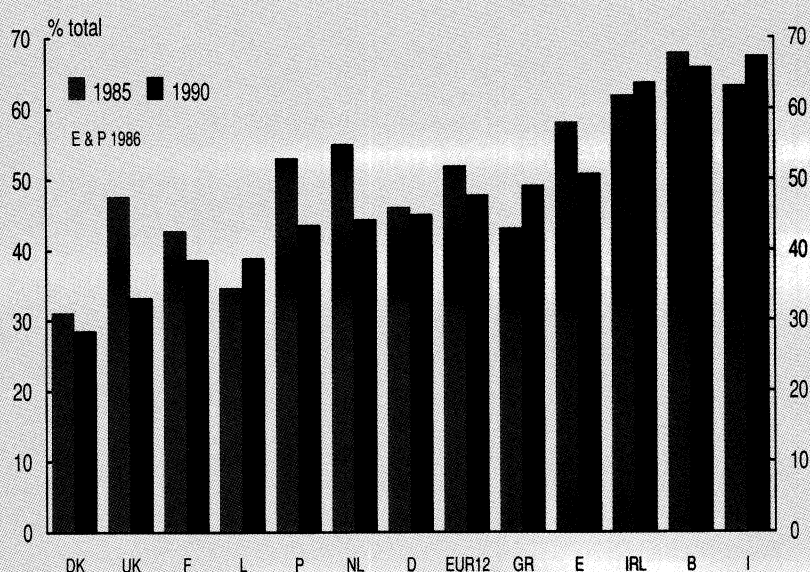
The relative fall in the rate of youth unemployment over this period is also attributable to the high rate of creation of new jobs and the increased willingness of employers to take on young people at a time of sustained economic growth. Nevertheless, although the difference in rates narrowed, youth unemployment remained significantly higher than for other age groups throughout the rest of the Community. Moreover, since the rate of employment growth began to slow down, the difference has stopped narrowing and started to widen again as the rate of new job creation and, more especially, employment openings for young people have been sharply reduced in many parts of the Community.

There is also a tendency in Member States other than Germany for the differences between unemployment rates for young men and women to reflect the differences for the workforce as a whole. The main exceptions are Ireland and the UK, where youth unemployment among women is lower than for men.

Long-term unemployment

Almost half of all those unemployed in the Community in 1990 had been out of work for one year

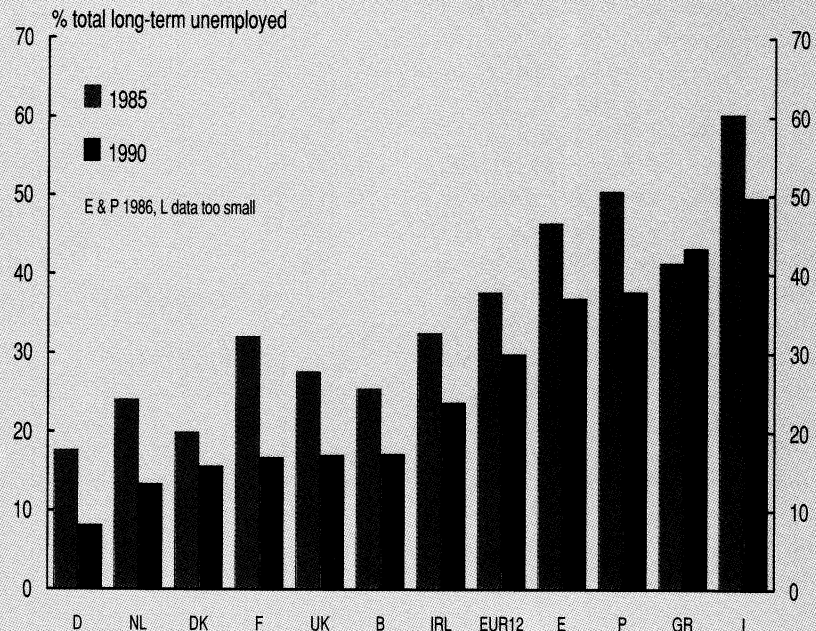
10 Share of the unemployed who have been unemployed for longer than 1 year in the Member States, 1985 and 1990



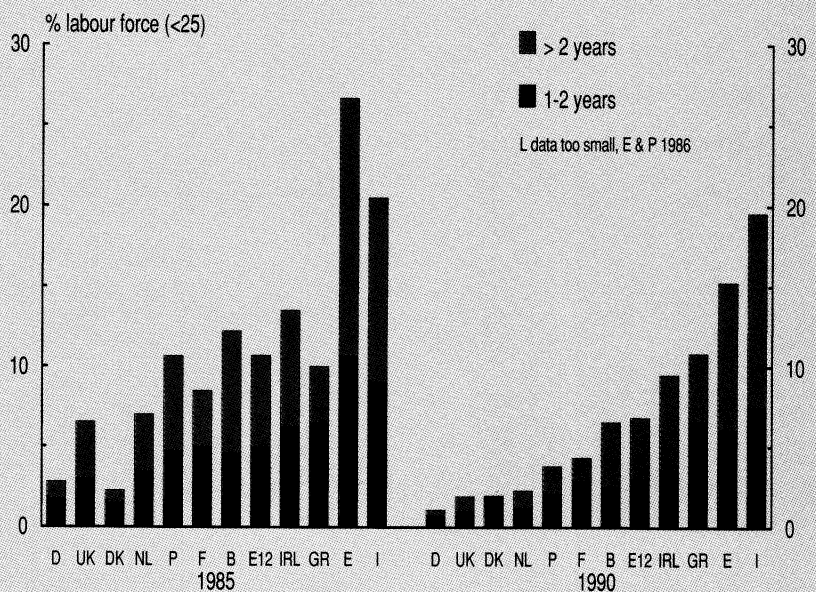
or longer and around a third for at least two years (Graph 10). Some 4% of the labour force had, therefore, been unemployed for at least a year and over 2.5% for at least two years. The incidence of long-term unemployment varies significantly, however, between Member States. In general, it is more prevalent in the less developed parts of the Community. In both Italy and Ireland, around two-thirds of the unemployed had been unemployed for a year or longer (giving long-term unemployment rates of 7% and 9% respectively), while in Spain and Greece, the figure was around 50% (representing a long-term rate of 8% in the former case). The only real exception to this general tendency is Belgium where 70% of the unemployed had been out of work for a year or more in 1990 and 55% for at least two years.

Over the Community as a whole, there was only a small reduction in the relative importance of long-term unemployment during the period of high job creation from 1985 to 1990. The proportion of the unemployed out of work for a year or more fell only slightly — from just over 50% to just under 50% — despite the substantial growth of employment over this period. Nevertheless, the countries which experienced the largest increase in the numbers in employment (although not necessarily of the volume of employment measured in terms of full-time equivalents) — the Netherlands, Spain, Portugal and the UK — also experienced the biggest fall in long-term unemployment. By contrast, in those countries where there was only a small rise in employment — Italy, Greece, Ireland and Belgium — the importance of long-term unemployment either increased or fell only slightly.

11 Young people (< 25) as a share of long-term unemployed in the Member States, 1985 and 1990



12 Long-term and very long-term unemployment rates of young people in the Member States, 1985 and 1990



Although young people under 25 account for a large share of long-term unemployment — 30% of the long-term unemployed in 1990 were under 25 years old — their share is proportionately lower than for older age groups (Graph 11). In 1990, people over 25 accounted for 70% of long-term unemployment — as opposed to 62% of the numbers who had been unemployed for less than a year. Indeed, in the Northern Member States, there is a general tendency for the incidence of long-term unemployment to increase with age — the older the person, the more likely they are to be out of work for a long time.

For the Southern countries, however, the incidence of long-term unemployment is less for those aged 50 and over than for those between 25 and 49. This may reflect the fact that in these countries a greater proportion of older

people tend to leave the labour force if they cannot find a job than is the case in other parts of the Community.

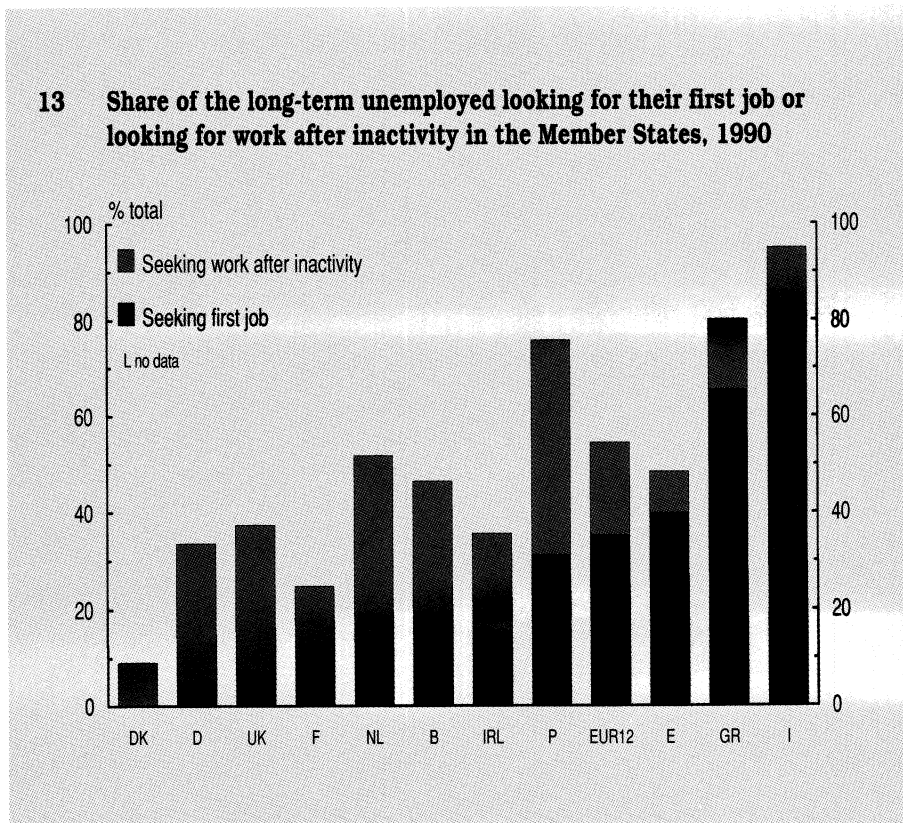
However, it is also the case in both the Southern and Northern Member States that long-term unemployment is more prevalent among the 25–49 age group than among those younger. The exception is Italy, where the young unemployed are marginally more likely to be out of work for a long time than is the case for older age groups. In 1990, those under 25 accounted for half of all those who had been out of work for at least a year. Some 70% of the young unemployed in Italy had, therefore, been unemployed for a year or more — much higher than anywhere else in the Community — giving a long-term unemployment rate for those under 25 of almost 20% (Graph 12).

Partly because of the large representation of young people, a significant proportion of the long-term unemployed have never been in employment and are looking for their first job. In 1990, 35% of all those who had been out of work for a year or more in the Community had never worked (41% in the case of women), while a further 19% (23% in the case of women) were looking for work after a period of inactivity (i.e. when they were not actively seeking a job) (Graph 13). Under half of the long-term unemployed had, therefore, become unemployed after losing or leaving a job (in the case of women, the figure was under 35%).

There are, however, marked differences in this between countries. In Italy, the great majority of the long-term unemployed have never worked at all. In 1990, 78% of those who had been out of work for a year or more were looking for their first job, while a further 17% had previously been inactive. Only around 5% had, therefore, become unemployed after losing a job. Similarly in Greece, 65% of the long-term unemployed had never worked, while 15% had previously been inactive, and in Portugal the figures were 31% and 45% respectively. In Germany, on the other hand, only 5% of the long-term unemployed had never worked — although 28% had previously been inactive. In France and the UK the proportion of the long-term unemployed who were first-time job-seekers who were below 10%. In Denmark none at all were recorded.

These major differences clearly reflect the fact that the nature of long-term unemployment is different in the two groups of countries — broadly between the North and the South of the Community.

13 Share of the long-term unemployed looking for their first job or looking for work after inactivity in the Member States, 1990



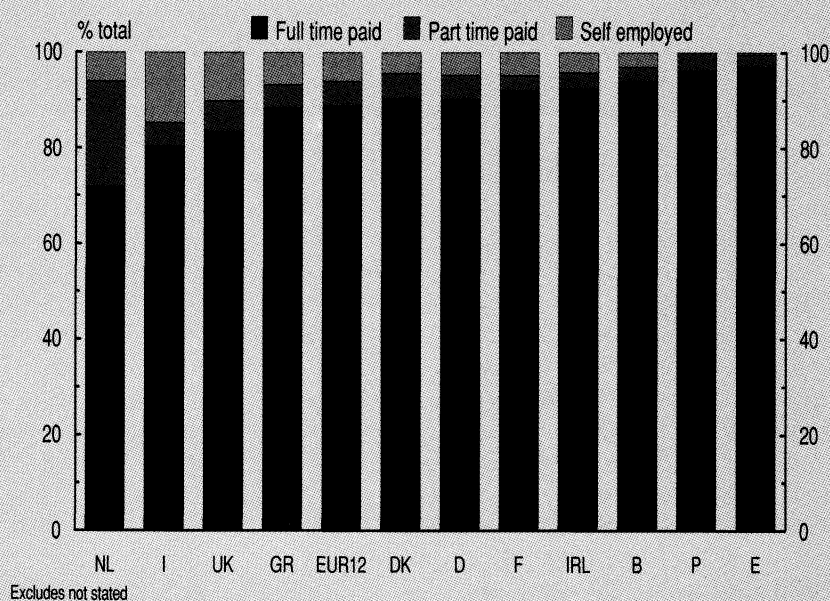
Types of employment sought by the unemployed

Most people who are unemployed in the Community, as would be expected, are looking for full-time paid jobs — almost 80% in 1990. There are, however, differences as between men and women in the type of employment sought as well as differences between Member States (Graphs 14 and 15).

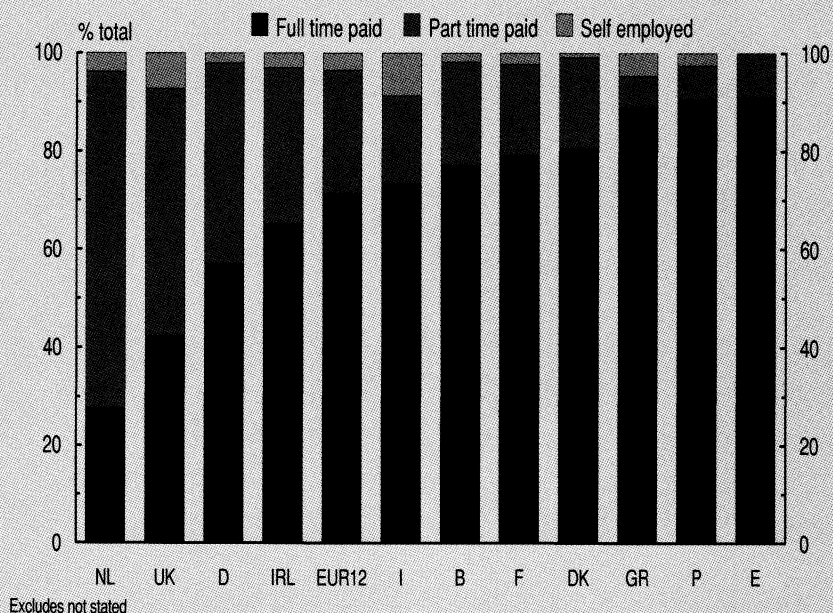
Only a very small proportion of the unemployed tend to be looking for self-employment opportunities as opposed to waged employment. In 1990, over the Community as a whole, around 6% of the men and under 4% of the women out of work were seeking to become self-employed — substantially less than the share of the self-employed in total employment (20% and 10% — see Chapter 5).

This proportion varies significantly across the Community and seems to bear only a tenuous relationship to the importance of self-employment in the economy. It is highest in Italy and the UK, where around 10% of the unemployed were looking for self-employment opportunities in 1990. Whereas self-employment in Italy was well above the Community average it was below average in the UK. Indeed in the UK, in marked contrast to the rest of the Community, the proportion of women looking for self-employment (6.3% of the unemployed) was only slightly below the self-employed share in the total employment of women (7.5%). This difference in the UK may reflect the efforts made — and the incentives offered — by Government to encourage the unemployed to set up their own businesses.

14 Share of unemployed men looking for different types of employment in the Member States, 1990



15 Share of unemployed women looking for different types of employment in the Member States, 1990



The proportion of the unemployed looking for self-employment was lowest in Spain, Portugal and Belgium, where the figure was under 2% in 1990. In Spain and Portugal, however, the relative numbers of self-employed were comparable to Italy and significantly greater than in the UK.

Whereas only a small number of the men out of work were looking for part-time rather than full-time employment (under 5%), a significant proportion of unemployed women were seeking this kind of work (over 22%). Although the proportion varies between Member States, it broadly reflects the relative importance of part-time working in each of the economies, and therefore the kind of jobs likely to be on offer. Thus it is highest in the Netherlands and the UK (67% and 43%), where part-time employment is of great

importance, and it is lowest in Greece and Portugal, where the incidence of part-time working is lowest.

There are, however, exceptions. In Denmark, where the number of part-time jobs is relatively high, comparatively few women were seeking this kind of work in 1990 (only 18%). By contrast in Ireland, where there are relatively few part-time jobs even for women, the proportion of women looking for part-time employment was much higher than average (32%).

Where the unemployed come from

There is little systematic information on the characteristics of the unemployed in terms of qualifica-

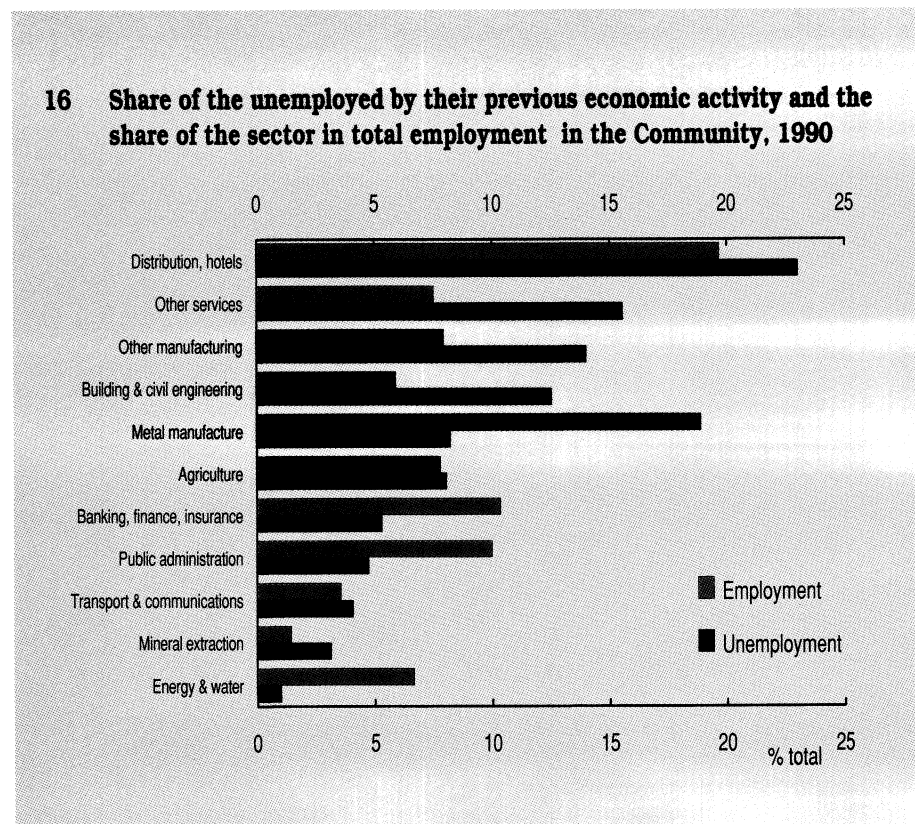
tions and skill levels and virtually no data which are comparable across the Community. Studies which have been carried out for individual countries, however, suggest that the unemployed tend to have, on average, a lower level of skills and qualifications than people in work and that a much higher proportion are unskilled or manual workers.

Details on the former occupation of the unemployed in the Community Labour Force Survey are limited to the sector of activity in which people who lose their jobs for, what is termed, "economic reasons" (i.e. because the companies concerned cut back on their labour force), were previously employed.

However, as noted above, a significant proportion of the unemployed have never previously worked (just under 25% of the total in 1990), while a further sizable proportion were previously inactive (over 20% in total, although for how long is not known). Of those who were previously in work, around two-thirds left or lost their jobs for economic reasons — which means around a third of the total numbers unemployed (40% of men and under 30% of women).

As might be expected, industry accounted for a substantial number of the lost jobs in 1990. However, the majority of those becoming unemployed for economic reasons were formerly employed in services — despite the significant growth of this sector during 1990 and earlier years.

Moreover a high proportion of these were employed in basic service activities. Around 23% of the total number of unemployed falling into this category had previously worked in the distributive trades,



hotels or catering — a slightly higher proportion than the share of these trades in total employment (Graph 16). A further 15% or so had previously been employed in “other services” (which includes activities ranging from personal and domestic services to entertainment) — again a much higher proportion than the share of employment accounted for by these activities. By contrast, under 10% had previously worked in finance and insurance and public administration, health and education — two sectors which were responsible for over 20% of total employment in 1990.

Of those who had formerly worked in industry before losing their jobs, around two-thirds were employed in construction and other manufacturing, where job losses were predominantly in traditional, labour-intensive industries, such as textiles, clothing and footwear.

While these figures seem to indicate that a high proportion of the unemployed had previously worked in relatively basic industries and services, the data are not sufficiently detailed to identify the precise areas of activity where they were employed. It is even less possible to know from the data available whether the people concerned possessed similarly basic skills and qualifications.

Key employment indicators in the Member States, 1985*Units : 1000s*
Unless otherwise specified

	B	DK	D	GR	E	F
Total						
Total population	9805	5064	59859	9656	37549	52930
Population of working-age (15-64)	6610	3358	42002	6260	24307	34825
Total employment	3512	2539	26167	3589	10834	21297
Ratio of employment to working-age population (%)	53.1	75.6	62.3	57.3	44.6	61.2
Total unemployment	449	215	1932	304	2925	2436
Unemployment rate (%)	11.3	7.8	6.9	7.8	21.3	10.3
Youth (<25) unemployment rate (%)	23.6	11.5	9.8	23.9	46.5	25.8
Employment in agriculture	127	170	1349	1037	1752	1734
Employment in industry	1119	706	10728	921	3445	6871
Employment in services	2266	1657	14090	1629	5619	12610
Share of employment in agriculture (%)	3.6	6.7	5.2	28.9	16.2	8.1
Share of employment in industry (%)	31.9	27.8	41.0	25.7	31.8	32.3
Share of employment in services (%)	64.5	65.3	53.8	45.4	51.9	59.2
Men						
Total population	4779	2501	28430	4662	18235	25556
Population of working-age (15-64)	3301	1689	20672	3002	11930	17088
Total employment	2280	1400	15958	2371	7658	12439
Ratio of employment to working-age population (%)	69.1	82.9	77.2	79.0	64.2	72.8
Total unemployment	181	95	987	142	1866	1155
Unemployment rate (%)	7.4	6.4	5.8	5.7	19.6	8.5
Youth (<25) unemployment rate (%)	17.7	10.0	9.0	17.5	44.2	22.9
Employment in agriculture	89	131	711	576	1314	1108
Employment in industry	914	526	8114	720	2913	5167
Employment in services	1278	738	7133	1074	3422	6116
Share of employment in agriculture (%)	3.9	9.4	4.5	24.3	17.2	8.9
Share of employment in industry (%)	40.1	37.6	50.8	30.4	38.0	41.5
Share of employment in services (%)	56.1	52.7	44.7	45.3	44.7	49.2
Women						
Total population	5026	2563	31429	4994	19314	27373
Population of working-age (15-64)	3309	1669	21330	3257	12376	17736
Total employment	1231	1139	10209	1218	3175	8858
Ratio of employment to working-age population (%)	37.2	68.3	47.9	37.4	25.7	49.9
Total unemployment	267	119	945	162	1059	1281
Unemployment rate (%)	17.8	9.5	8.5	11.7	25.0	12.6
Youth (<25) unemployment rate (%)	29.8	13.2	10.7	31.7	49.6	28.8
Employment in agriculture	38	39	639	461	439	626
Employment in industry	205	180	2614	201	532	1704
Employment in services	988	918	6957	555	2197	6495
Share of employment in agriculture (%)	3.1	3.4	6.3	37.8	13.8	7.1
Share of employment in industry (%)	16.7	15.8	25.6	16.5	16.8	19.2
Share of employment in services (%)	80.26	80.597	68.146	45.567	69.197	73.324

Note : E & P 1986

Key employment indicators in the Member States, 1990*Units : 1000s*
Unless otherwise specified

	B	DK	D	GR	E	F
Total						
Total population	9886	5112	62058	9843	38511	54287
Population of working-age (15-64)	6628	3445	43212	6571	25289	35733
Total employment	3625	2656	29001	3719	12551	21874
Ratio of employment to working-age population (%)	54.7	77.1	67.1	56.6	49.6	61.2
Total unemployment	283	242	1491	282	2439	2259
Unemployment rate (%)	7.3	8.3	4.9	7.0	16.3	9.4
Youth (<25) unemployment rate (%)	14.5	11.5	4.6	23.2	31.8	19.8
Employment in agriculture	119	147	1081	889	1496	1394
Employment in industry	1113	725	11619	961	4204	6629
Employment in services	2393	1771	16301	1867	6850	13758
Share of employment in agriculture (%)	3.3	5.5	3.7	23.9	11.9	6.4
Share of employment in industry (%)	30.7	27.3	40.1	25.8	33.5	30.3
Share of employment in services (%)	66.0	66.7	56.2	50.2	54.6	62.9
Men						
Total population	4814	2514	29957	4767	18635	26219
Population of working-age (15-64)	3314	1741	21744	3173	12421	17592
Total employment	2267	1437	17288	2409	8553	12584
Ratio of employment to working-age population (%)	68.4	82.6	79.5	75.9	68.9	71.5
Total unemployment	108	122	728	108	1165	973
Unemployment rate (%)	4.6	7.8	4.0	4.3	12.0	7.2
Youth (<25) unemployment rate (%)	10.1	11.4	4.4	15.1	25.7	16.8
Employment in agriculture	88	113	606	493	1091	914
Employment in industry	897	531	8665	735	3496	4985
Employment in services	1282	785	8017	1181	3965	6630
Share of employment in agriculture (%)	3.9	7.9	3.5	20.5	12.8	7.3
Share of employment in industry (%)	39.6	37.0	50.1	30.5	40.9	39.6
Share of employment in services (%)	56.6	54.6	46.4	49.0	46.4	52.7
Women						
Total population	5072	2598	32101	5077	19875	28068
Population of working-age (15-64)	3314	1704	21468	3398	12868	18141
Total employment	1358	1219	11713	1310	3998	9290
Ratio of employment to working-age population (%)	41.0	71.5	54.6	38.6	31.1	51.2
Total unemployment	175	119	763	174	1275	1286
Unemployment rate (%)	11.4	8.9	6.1	11.7	24.2	12.2
Youth (<25) unemployment rate (%)	19.1	11.6	4.7	32.4	39.3	23.0
Employment in agriculture	31	34	475	396	405	480
Employment in industry	216	194	2954	226	708	1644
Employment in services	1111	985	8284	686	2885	7128
Share of employment in agriculture (%)	2.3	2.8	4.1	30.2	10.1	5.2
Share of employment in industry (%)	15.9	15.9	25.2	17.3	17.7	17.7
Share of employment in services (%)	81.8	80.8	70.7	52.4	72.2	76.7

Key employment indicators in the Member States, 1985**Units : 1000s***Unless otherwise specified*

	IRL	I	L	NL	P	UK
Total						
Total population	3473	56267	356	14103	10167	55769
Population of working-age (15-64)	2079	38048	250	9744	6562	36706
Total employment	1068	20591	148	5124	4225	24282
Ratio of employment to working-age population (%)	51.4	54.1	59.2	52.6	64.4	66.2
Total unemployment	234	2093	4	601	408	3151
Unemployment rate (%)	18.0	9.2	2.6	10.5	8.8	11.5
Youth (<25) unemployment rate (%)	25.1	31.7	6.5	17.7	20.3	18.2
Employment in agriculture	176	2259	7	269	909	563
Employment in industry	318	6906	47	1436	1431	8273
Employment in services	569	11426	93	3378	1878	15040
Share of employment in agriculture (%)	16.5	11.0	4.7	5.2	21.5	2.3
Share of employment in industry (%)	29.8	33.5	31.8	28.0	33.9	34.1
Share of employment in services (%)	53.3	55.5	62.8	65.9	44.4	61.9
Men						
Total population	1748	27267	175	6989	4879	27176
Population of working-age (15-64)	1053	18601	125	4907	3152	18333
Total employment	738	13959	97	3375	2541	14173
Ratio of employment to working-age population (%)	70.1	75.0	77.9	68.8	80.6	77.3
Total unemployment	155	924	2	353	186	1903
Unemployment rate (%)	17.4	6.2	2.0	9.5	6.8	11.8
Youth (<25) unemployment rate (%)	26.4	26.0	6.4	18.7	16.5	19.6
Employment in agriculture	152	1496	5	215	472	438
Employment in industry	255	5281	42	1229	1019	6327
Employment in services	327	7182	50	1904	1044	7145
Share of employment in agriculture (%)	20.6	10.7	5.2	6.4	18.6	3.1
Share of employment in industry (%)	34.6	37.8	43.3	36.4	40.1	44.6
Share of employment in services (%)	44.3	51.5	51.5	56.4	41.1	50.4
Women						
Total population	1725	28999	181	7114	5288	28593
Population of working-age (15-64)	1026	19447	126	4837	3410	18372
Total employment	330	6631	50	1749	1684	10110
Ratio of employment to working-age population (%)	32.2	34.1	39.8	36.2	49.4	55.0
Total unemployment	78	1169	2	247	222	1248
Unemployment rate (%)	19.1	15.0	3.8	12.4	11.7	11.0
Youth (<25) unemployment rate (%)	23.4	38.6	6.5	16.7	25.3	16.6
Employment in agriculture	23	762	2	54	436	125
Employment in industry	63	1625	5	206	412	1946
Employment in services	242	4244	43	1473	834	7895
Share of employment in agriculture (%)	7.0	11.5	4.0	3.1	25.9	1.2
Share of employment in industry (%)	19.1	24.5	10.0	11.8	24.5	19.2
Share of employment in services (%)	73.3	64.0	86.0	84.2	49.5	78.1

Note : E & P 1986

Key employment indicators in the Member States, 1990*Units : 1000s**Unless otherwise specified*

	IRL	I	L	NL	P	UK
Total						
Total population	3447	56684	380	14585	10301	56560
Population of working-age (15-64)	2120	38643	264	10158	6781	37018
Total employment	1135	21221	157	6236	4649	26783
Ratio of employment to working-age population (%)	53.5	54.9	59.6	61.4	68.6	72.4
Total unemployment	186	2314	3	526	229	2008
Unemployment rate (%)	14.1	9.8	1.6	7.8	4.7	7.0
Youth (<25) unemployment rate (%)	19.8	29.0	3.6	11.4	10.4	10.4
Employment in agriculture	173	1913	6	289	840	577
Employment in industry	325	6877	46	1625	1581	8589
Employment in services	632	12431	105	4270	2215	17430
Share of employment in agriculture (%)	15.2	9.0	3.8	4.6	18.1	2.2
Share of employment in industry (%)	28.6	32.4	29.3	26.1	34.0	32.1
Share of employment in services (%)	55.7	58.6	66.9	68.5	47.6	65.1
Men						
Total population	1731	27493	185	7215	4924	27614
Population of working-age (15-64)	1079	19000	134	5122	3259	18529
Total employment	758	13963	103	3875	2694	15206
Ratio of employment to working-age population (%)	70.3	73.5	77.0	75.7	82.7	82.1
Total unemployment	120	960	1	235	92	1187
Unemployment rate (%)	13.7	6.4	1.1	5.7	3.3	7.2
Youth (<25) unemployment rate (%)	21.0	23.5	0.0	10.6	7.9	11.4
Employment in agriculture	155	1234	4	209	423	446
Employment in industry	254	5191	42	1365	1078	6595
Employment in services	346	7538	57	2265	1183	8038
Share of employment in agriculture (%)	20.4	8.8	3.9	5.4	15.7	2.9
Share of employment in industry (%)	33.5	37.2	40.8	35.2	40.0	43.4
Share of employment in services (%)	45.6	54.0	55.3	58.5	43.9	52.9
Women						
Total population	1716	29192	194	7370	5378	28945
Population of working-age (15-64)	1041	19643	130	5036	3522	18490
Total employment	376	7259	54	2361	1955	11576
Ratio of employment to working-age population (%)	36.1	37.0	41.5	46.9	55.5	62.6
Total unemployment	67	1354	1	291	137	821
Unemployment rate (%)	15.0	15.7	2.3	11.0	6.5	6.6
Youth (<25) unemployment rate (%)	18.3	35.4	0.0	12.1	13.4	9.3
Employment in agriculture	18	679	2	79	417	131
Employment in industry	71	1686	5	260	503	1994
Employment in services	286	4893	48	2005	1032	9392
Share of employment in agriculture (%)	4.8	9.4	3.7	3.3	21.3	1.1
Share of employment in industry (%)	18.9	23.2	9.3	11.0	25.7	17.2
Share of employment in services (%)	76.1	67.4	88.9	84.9	52.8	81.1

Key employment indicators in the Community	Units : Millions					
	<i>Unless otherwise specified</i>					
	1965	1975	1985	1988	1990	1991
Total						
Total population	293.2	312.4	321.9	324.2	328.0	328.7
Population of working-age (15-64)	188.0	197.9	215.8	218.6	220.7	221.2
Total employment	122.6	124.3	125.3	130.5	135.0	135.2
Ratio of employment to working-age population (%)	65.2	62.8	58.1	59.7	61.2	61.1
Total unemployment	2.6	5.3	14.9	13.9	12.1	12.9
Unemployment rate (%)	2.1	4.1	10.8	9.8	8.3	8.8
Youth (<25) unemployment rate (%)			23.1	19.6	16.6	17.5
Employment in agriculture	20.1	13.9	10.4	9.4	8.6	8.4
Employment in industry	49.5	48.3	41.1	41.5	42.9	42.3
Employment in services	53.1	62.2	73.8	79.3	83.1	84.2
Share of employment in agriculture (%)	16.4	11.2	8.3	7.2	6.4	6.2
Share of employment in industry (%)	40.4	38.8	32.8	31.8	31.8	31.3
Share of employment in services (%)	43.3	50.0	58.9	60.7	61.5	62.3
Men						
Total population	142.3	152.0	156.5	157.9	159.8	160.3
Total employment	83.0	81.9	78.7	80.4	82.1	81.8
Total unemployment		3.3	8.0	6.8	5.7	6.3
Unemployment rate (%)			9.4	7.9	6.6	7.3
Youth (<25) unemployment rate (%)			21.4	17.3	14.6	16.1
Employment in agriculture	13.3	9.1	6.8	6.1	5.6	5.4
Employment in industry	38.0	37.1	31.8	31.8	32.8	32.3
Employment in services	31.6	35.7	40.1	42.3	43.7	44.1
Share of employment in agriculture (%)	16.0	11.1	8.6	7.6	6.8	6.5
Share of employment in industry (%)	45.8	45.3	40.4	39.6	39.8	39.4
Share of employment in services (%)	38.0	43.6	51.6	52.5	53.2	53.8
Women						
Total population	151.0	160.2	165.3	166.3	168.1	168.6
Total employment	39.6	42.5	46.6	50.1	52.5	53.2
Total unemployment		2.3	6.9	7.1	6.4	6.6
Unemployment rate (%)			12.9	12.6	10.8	11.0
Youth (<25) unemployment rate (%)			25.0	22.2	18.9	19.1
Employment in agriculture	6.8	4.8	3.6	3.3	3.0	2.9
Employment in industry	11.5	11.2	9.4	9.7	10.1	10.0
Employment in services	21.5	26.5	33.4	37.0	39.4	40.3
Share of employment in agriculture (%)	17.2	11.3	7.7	6.5	5.7	5.5
Share of employment in industry (%)	29.0	26.4	20.2	19.3	19.2	18.8
Share of employment in services (%)	54.2	62.4	71.7	73.9	74.8	75.5

Chapter 2 Short-term Economic and Employment Outlook

While the expected fall in employment in 1992 should be reversed next year, the unemployment outlook is for a further, albeit smaller, increase in 1993.

The slowdown in employment growth and the rising trend in unemployment reflects the current economic outlook. In effect, the Community economy seems to be settling into a protracted period of relatively slow growth. Although the downturn in activity since the beginning of 1990 is not on the same scale in most countries as the recessions of 1974–75 and 1981–82 — partly because of the unification-related boom in Germany — the prospects for any rapid return to the high growth rates witnessed in the second half of the 1980s do not look good. The present forecast is for only a modest upturn in economic growth from mid-1992. As a result, employment is likely to be lower in 1992 than in 1991 and unemployment will continue to increase.

Modest recovery in GDP growth after mild but protracted downturn

The low level of economic activity experienced in 1991 in the Community seems to have continued into the first half of 1992. Partly as a result of this, growth in real GDP in 1992, although expected to be higher than in 1991, is nevertheless likely to be modest, at under 2% (Graph 17). A gradual strengthening of demand, however, is expected

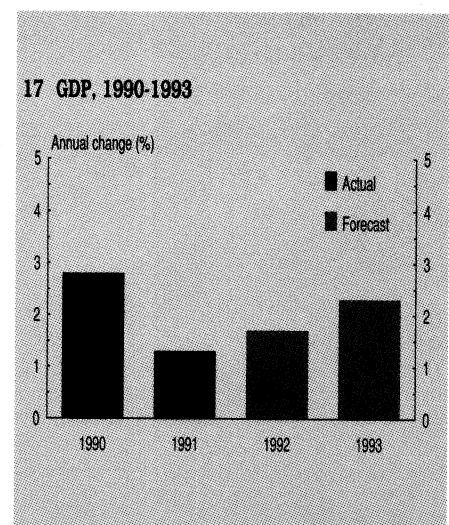
to occur during the course of 1992, fuelled largely by a pick-up in consumers' expenditure, stemming mainly from pent-up demand for consumer durables. This boost to economic activity could be supported by an upturn in residential construction and a mild recovery in business investment.

Unlike previous phases of recovery, however, the anticipated upturn is likely to depend almost entirely on internal forces. Whereas in both 1976 and 1982–83, the Community benefited from considerable expansion in the US economy and in export markets, the world economy is expected to remain sluggish in 1992. No significant impetus from net export growth is therefore anticipated in 1992, any upturn in world trade being largely offset by the disappearance of the demand-pull effects of German unification.

Moreover, monetary and fiscal policy in Member States remain oriented towards price stability and restraint of budget deficits. Against this background, the recovery in consumers' expenditure, which is the main impetus to growth, is expected to be modest. Indeed there is a risk that recovery in expenditure could be delayed by a lack of consumer confidence in an upturn in the economy — in effect, a rise in

economic activity might need to be seen to have occurred before consumers increase their spending on durables. If this were to happen, growth of GDP in 1992 could be even lower than forecast.

With the UK recession bottoming out and high growth in Germany slowing down, the divergences between member States in the growth rates of GDP, which were particularly pronounced in 1991, are likely to narrow significantly. No country, apart from Luxembourg, is forecast to experience growth of more than 2½%, with Spain and Denmark expected to have rates of around this level; seven countries are forecast to have



growth rates of 2% or less. Only the UK and the Netherlands are expected to have rates of under 1½%.

In 1993, almost all Member States are forecast to register higher rates of GDP growth as the recovery strengthens — as increased consumption spreads to investment, and as world trade recovers. Growth averaging just under 2½% is expected across the Community. Apart from Luxembourg, however, only Portugal is forecast to show growth of more than 3% (and then only marginally), and seven countries are expected to have growth rates of between 1.7 and 2.5%. As noted already, these rates are well below those which have occurred during upturns in the past.

On the other hand, there is some possibility that growth could turn out to be stronger than the central forecast. At the moment, only a gradual recovery in the world economy is assumed but it is possible that once the economic climate improves, the upturn in activity in the US, Japan and other developed countries could be more vigorous and the expansion of export markets more substantial. That would boost growth, not only in the Com-

munity but also in the rest of the world.

Weak recovery in investment in 1993 after low growth in 1992

The rate of growth of investment has fallen sharply from an annual average of 6% in the period 1986 to 1990 to virtually zero in 1991. Expenditure on equipment has been particularly hard hit, falling by ½% in 1991 after average growth of 8% a year over the preceding four years.

For 1992, the forecast is for some recovery in both investment in equipment and construction, but only to ½–1% overall, as some of the factors which caused the reduction in growth in 1991 — the weakness in internal demand, low company profits and tight monetary policy — continue to dampen investment growth (Graph 18).

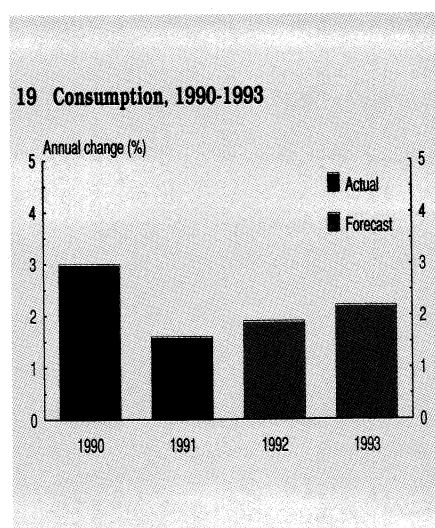
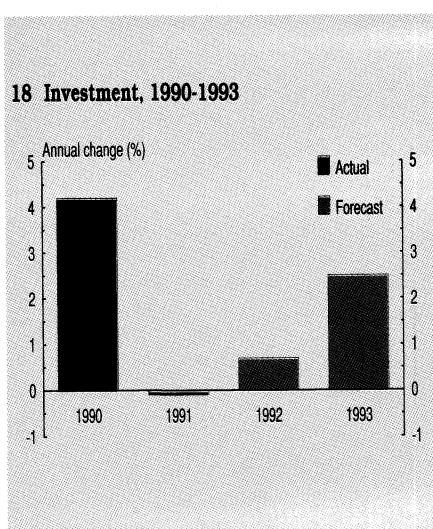
A stronger recovery in investment — to an average growth rate of 2½% — is forecast for 1993 as consumers' expenditure picks up, as world trade improves, and as profits benefit from the expected moder-

ation in unit labour costs. Against this, unutilised productive capacity which now exists in many parts of the Community will tend to limit the positive effect on investment of an upturn in demand, while stability-oriented monetary policy and the — albeit often insufficient — budgetary consolidation efforts are likely both to dampen private investment and reduce the possibility of growth in public investment.

Recovery in private consumption while public consumption is restrained

Consumers' expenditure is forecast to grow by slightly more in 1992 than in 1991 — by just under 2% as opposed to just over 1½%. Whereas the growth in real disposable income is likely to fall in 1992 to just under 1½% — because of lower wage increases, higher unemployment and higher taxes in some countries — this is expected to be more than compensated by a reduction in the savings ratio. In other words, households are forecast to spend a higher proportion of their income on durable goods as the economic climate improves and their confidence in the future increases.

In 1993, consumers' expenditure is projected to rise further to just over 2% as real income grows by more than in 1992 and as the household savings ratio falls further (Graph 19). Government current expenditure is expected to rise by 1½–2% in both 1992 and 1993, with rates of change varying from a growth of 3% in the UK, according to the latest Government plans, to a decline of about ½% in the Netherlands and



Greece. In most countries, less expansive fiscal policy — pursued both to curb inflation and to reduce budget deficits to sustainable levels mainly in preparation for monetary union — limit the use of government spending as a means of stimulating demand.

Inflation set to fall slightly but to remain a concern

The outlook for inflation in the Community is a cause of concern. The rate of increase in consumer prices is forecast to fall from just over 5% in 1991 to just over 4½% in 1992 (Graph 20). A further small fall to 4% is projected for 1993. This reduction, however, is less than might have been expected given the stabilisation efforts of monetary and fiscal policy, the slow growth of output, low import prices and high unemployment.

This fall in inflation reflects a number of factors. The rise in labour costs (wages and salaries plus non-wage costs) are expected to decline sharply in 1992 (from 7% to 5½%) and less markedly in 1993 (to just over 5%). This decline is likely to be reinforced by a cyclical increase in labour productivity as the recovery in output gets under way. Unit labour cost increases are, therefore, expected to be reduced from just under 6% in 1991 to just over 3½% in 1992, and to slightly over 3% in 1993.

On the other hand, the rise in import prices should edge up — although to only 1% in 1992, from under ½% in 1991. The rise in 1993 is forecast to be higher, at around 3½%, leading to a slight deterioration in the terms of

trade. Possible increases in indirect tax rates in some countries could also add to inflation.

Budget deficits to increase before stabilising in 1993

Budget deficits, as measured by general government borrowing, are projected to increase from an average of 4.3% of GDP in 1991 to 4.8% in 1992 in the Community (here including the five new German Länder). This is almost entirely due to increases in two countries, the UK and Germany. In the former, government borrowing is forecast to rise from only 2% in 1991 to almost 5% in 1992, largely as a result of the impact of the recession on public sector finances. In the latter, the deficit is expected to increase from just under 3% in 1991 to around 3½% in 1992 because of the high costs of unification.

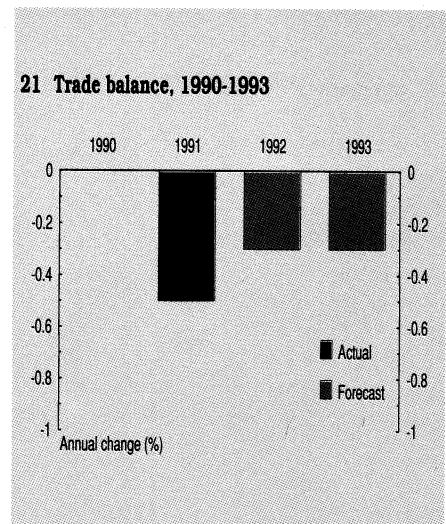
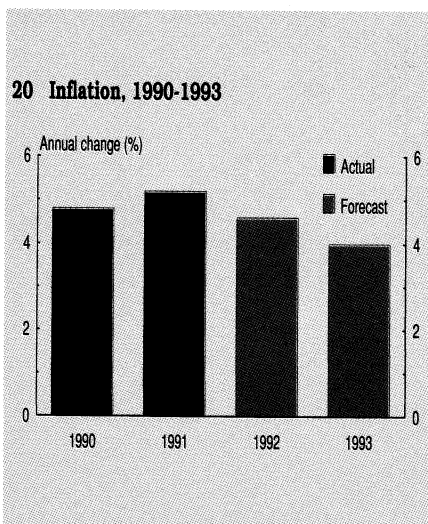
Although the budget deficit is projected to rise slightly further in the UK, no change in the average level of government borrowing relative to GDP is expected in the Community in

1993, since some reduction is forecast in Italy, Greece, Belgium and Portugal.

External balances to remain in small deficit

The balance of trade of the Community (including the five new German Länder) with the rest of the world is forecast to fall very slightly from 0.5% of GDP in 1991 to 0.3% in 1992, and to remain at this level in 1993 (Graph 21).

This aggregate picture, however, conceals wide differences between Member States. The deterioration in the German balance following unification — which resulted in the trade surplus falling from 4.9% of GDP in 1990 (for the former West Germany) to 1% of GDP in 1991 (for the whole of Germany) seems to have come to an end, and some increase in the surplus is anticipated in 1992 and 1993. Ireland's surplus is also projected to rise further to 13% of GDP by 1993. On the other hand, both Greece and Portugal are expected to have trade deficits in excess of 10% of GDP in both 1992 and 1993.



The Community's deficit on current account (including the five new German Länder) is forecast to remain at just under 1% of GDP in both 1992 and 1993, with little change expected for any country. Spain is likely to continue to run the largest deficit (3.4% of GDP), Ireland (apart from Luxembourg) the largest surplus (5.8% of GDP — a deficit on visible trade of 13% of GDP being more than offset by a surplus on invisibles of 19% of GDP).

World trade to show a moderate upturn

Output in the world economy outside the Community is forecast to grow only slowly in 1992, although at a slightly faster rate (just under 1½%) than in 1991 (under ½%). This is expected to result in world trade growth of just over 4½% in 1992 as opposed to only around 2% in 1991.

External developments, however, are expected to become progressively more favourable to Community growth prospects in the course of 1992. Both the US and Japan eased monetary policy very

significantly during 1991 and introduced a range of expansionary fiscal measures which should help to restore business and consumer confidence. Some recovery is also expected in EFTA countries as well as in Canada and Australia, where growth of 2–2½% is anticipated. Primary commodity prices, including oil, are projected to remain low in 1992, which should also be conducive to growth in importing countries.

If these favourable developments materialise, then the growth of world output outside the Community is likely to increase to over 2½% in 1993. This would imply world trade growth of almost 6%, much closer to the rates experienced in the second half of the 1980s.

Employment growth insufficient to bring down unemployment

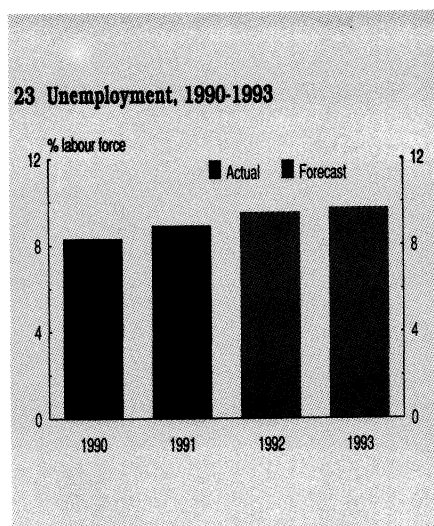
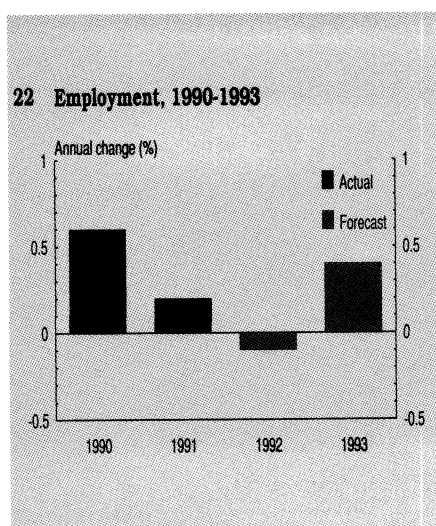
The slowdown in economic growth, which was accompanied by a sharp fall in the rate of growth of employment to only around a ¼% in 1991, means that employment may well fall slightly in 1992 (Graph 22) —

for the first time since the early 1980s. Growth in employment of just under ½% is forecast for 1993 in response to the recovery in output growth. This figure, however, needs to be compared with the average growth of 1½% a year which occurred in the period 1987 to 1990.

The wide divergences in employment growth between Member States which were evident in 1991 are likely to narrow significantly as the slowdown in the rate of job creation becomes more generalised. In the former Federal Republic, the increase in employment is expected to fall from 2½% in 1991 to 1% in 1992 and to only just over ½% in 1993. At the opposite extreme, the decline in employment in the UK is forecast to moderate from 3% in 1991 to under 2½% in 1992 and to only ¼% in 1993.

In 1992, half the Member States are expected to show a fall in employment, and none of them, apart from Germany and Luxembourg, is expected to show a rise of more than ½%. In 1993, although some general recovery in employment is anticipated, only Spain (with a rate of just under 1%) and Luxembourg are forecast to experience growth of much above ½% — which in most countries is less than the normal growth in the labour force (forecast to be around 1% for the Community as a whole in 1993). In the Netherlands and Portugal, as well as in the UK, a further decline in employment is projected for 1993.

In the face of this decline in the rate of job creation, unemployment is likely to increase markedly. The rise is forecast to be especially pronounced in 1992, when the rate of unemployment is projected to average 9.5% as opposed to 8.9% in 1991. In 1993, the rate is expected to stabilise at around 9.7% (Graph 23).



The rate of unemployment is projected to rise in all Member States, apart from Luxembourg, over the forecasting period. In 1992, the increase is expected to be most marked in the UK and Ireland, where increases of around 1½% in unemployment are anticipated, and in Greece, where a rise of almost 1% in unemployment is predicted.

In 1993, the increase in unemployment is forecast to moderate throughout the Community, with only Ireland expected to show an increase of more than ½ percentage point and five countries — including the UK, despite an expected decline in employment — projected to show little change.

If realised, these forecasts mean that in 1993 unemployment will be 10% or above in half the Community countries — Ireland, Spain, the UK, Italy, France and Greece — as opposed to three countries in 1991. It also means that unemployment will be below 9% in only four countries — Germany, Luxembourg, the Netherlands and Portugal — as opposed to seven countries in 1991.

In half the Member States — Italy, France, Greece, Ireland, Denmark and Germany including the five new Länder — the rate of unemployment in 1993 will be above its 1985 level, when the rate for the Community was at its peak.

Chapter 3 **The Community's Labour Force : Recent Growth and Future Prospects**

While population in the Community is likely to grow only slowly, if at all, over the next 10–20 years, the labour force may continue to grow at a similar rate as over the past 30 years owing to the increased participation of women.

Introduction

In a world where population has grown by over 75 million a year in the last three decades, the Community has been an area of low population growth. Over the past 30 years, growth of population in the Community has progressively slowed from over 2 million a year in the 1960s to only around 1 million a year in the 1980s. Employment growth has followed a different pattern. Between 1965 and 1985, the number in employment in the Community was virtually stable — increasing only from 123 million to 125 million. In the five years 1985 to 1990, the number rose by almost 10 million.

As the Community moves into the 1990s, evidence of falling birth rates in most Member States has led to concern that, over coming decades, the Community could be faced with a declining and ageing working population with serious consequences for the Community's productive potential and economic growth. Apart from the labour market implications, attention has been drawn to the

wider social repercussions, and costs, of a declining number of people of working age supporting a growing number of retired people.

Concern about Community population trends has been put into relief by the population changes that are forecast in neighbouring regions. There is the likelihood of rapid population growth in neighbouring countries to the South of the Community — in North Africa and the Middle East. At the same time there is the possibility of migratory pressures from there and from the countries to the East of the Community in Central and Eastern Europe.

This chapter demonstrates that, while concerns about increased inter-generational dependency as a higher proportion of people live into old age may be valid, concerns about the ageing effect on the Community's labour force appear to be exaggerated. The facts are that: the Community's labour force is as young as in most other developed economies; it has grown younger rather than older over the past 20 years; and there

is unlikely to be a significant change over the next 15–20 years.

Fears of overall labour shortage also seem to be misplaced. Even without a change in the rate of immigration, the current low levels of labour market participation together with the prospect of continued increases in the participation of women (particularly in Southern parts of the Community) imply that the Community could need to generate over 25 million additional jobs over the next 20 years — i.e. double the number created over the past 25 years — if it were to offer the same prospects for participation throughout the Community as currently exist in the most 'active' regions.

The fact that the ageing of the Community's labour force may be much less than that of the population of working age from which it is drawn also moderates concerns about the adaptability of the labour force and its ability to absorb new skills. While dynamic economies have often been those with young and growing workforces, the evidence suggests that

this is not an essential prerequisite for economic success.

Estimating future demographic prospects

Demographic trends and labour force prospects in the Community over the next 15–20 years are analysed here in the light of what has happened in Europe, and other developed parts of the world, particularly since 1970. The analysis is based on estimates of population and participation in the labour force — or activity rates — for men and women separately by age, derived from population censuses and labour force surveys. The labour force projections, in particular, should be regarded as very much a first attempt to set out the implications of present

trends in labour force participation continuing.

Long-run predictions of population changes are notoriously difficult to make because of the unpredictability of birth rates. However, forecasts of working-age population in developed countries over a 15–20 year period ought to be reasonably precise because the majority of those who will come of working age by, say, the year 2010 are already born and, in the absence of war or mass disease, the proportions of the population who will survive year by year are also fairly predictable.

The main uncertainties regarding forecasts of working-age population concern migration. Pressures to migrate into the Community will depend, to some extent, on the migratory pressures in labour exporting countries which, in turn, depend on their economic and politi-

cal situations. Much more significant, however, will be the policies adopted by potential recipient countries and the effectiveness with which those policies can be implemented. This chapter does not attempt to speculate on such future policy developments. What it does do, however, is to look at likely working-age population changes in the Community's near neighbours — to the South and East — in order to assess the potential pressure which may come from those sources.

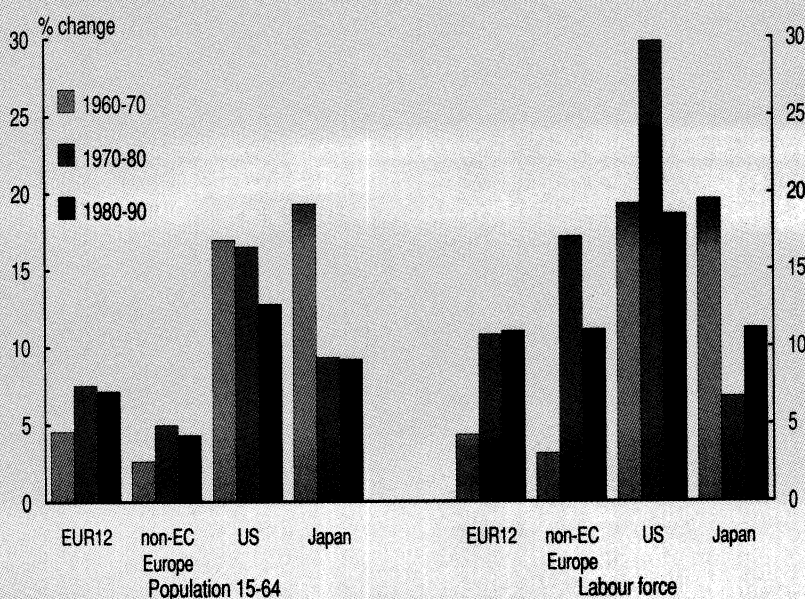
Demographic change in the Community and elsewhere, 1960–1990

The Community's population has grown very slowly over the past 20–30 years, at much less than ½% a year, and with some countries — Germany, Italy and Denmark in particular — showing hardly any increase at all. There is, however, little sign of any slowdown in this rate of growth — the rate of increase in the five years 1985–1990 was much the same as in 1975–1980. Germany did experience an absolute decline in population from the mid-1970s to the mid-1980s, but its population has now risen both with unification and immigration from Central and Eastern Europe.

Population projections for the next 15–20 years suggest that population growth will continue at more or less its recent rate, with projections ranging from 'at most low growth' to 'no change at all'. What actually happens will depend not only on future birth and death rates, but on any change in the scale of migration into, and out of, the Community.

The evidence does suggest, however, that in the period beyond

24 Growth of working-age population (15-64) and labour force in the Community, non-EC Europe, US and Japan, 1960-70, 1970-80 and 1980-90



2010, there may be stagnation or decline in Community population relative to other major regions of the world and that present trends are merely a foretaste of that future. A slowdown in the rate of population increase, as birth and fertility rates decline, is already evident in the Southern Member States — Portugal and Spain in particular — which had been the fastest growing areas in the past.

Population of working age

The population of working-age — those aged 15 and over, but under 65 — is affected by a fall in the birth rate but with a 15-year lag. The future change in the working population is thus much more predictable than total population over the next 15–20 years.

Over the past 20 years, the 15–64 year old age group increased by much more than total population — by around 17% over the period as a whole — reflecting the effects of the post-war baby bulge (Graph 24). Over the next ten years, on the other hand, the working-age population (so defined) is projected to increase by only 3–5% and, over the following ten years, to remain virtually constant or even to decline.

Population movements in the Community can be compared with what is happening in other major areas of the world. The position among European countries outside the Community is that, population growth in recent years has been low, with the number of people of working age increasing at a slower rate than in the Community (by only 10% over the past 20 years). Moreover, little further growth, and perhaps even some

decline, is projected for the next 15–20 years.

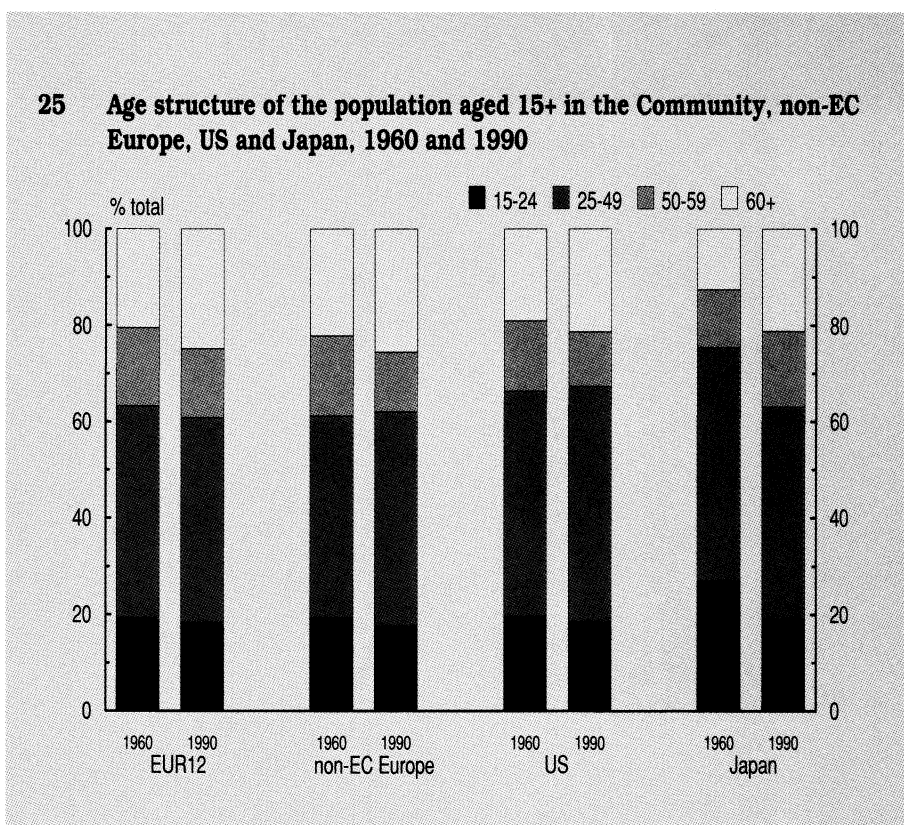
In Japan, the growth of total population has fallen from 1% a year in the 1960s and 1970s to a rate of under 0.5% a year at the present time. Because of time lags, however, its working-age population has, up to now, continued to increase by around 1% a year — although it is now set to show a significant decline over the next two decades as the fall in the birth rate works its way through into the working-age population.

The US, by contrast, is one of the few developed countries experiencing a continuing growth of working-age population on a significant scale — at over 1% a year. On the latest projections, growth is likely to be somewhat slower over the next 20 years, at well under 1% a year.

The age structure of working-age population

The past 30 years have seen the proportion in the Community population aged between 25 and 49 — those often termed of 'prime working age' — decline somewhat, from 44% of the population of 15 and over in 1960 to 42% in 1990 (Graph 25). Over the same period, those of 60 and over increased from 21% to 25%. These trends are set to continue. By the year 2010, 28% of the Community's present population of 15 and over will be at least 60.

This increase in the numbers of people in the older age brackets will be accompanied by declining numbers in the younger age groups. In consequence, fewer



young people will be entering the labour force each year, the average age of the potential labour force will be increasing and the balance of the costs of social and communal services will shift from providing for the young (through, for example, ensuring adequate schooling) to taking care of the old (through making available suitable health and welfare facilities).

A similar ageing of the population has been evident in other developed regions of the world, although it is less pronounced in the US and has, so far, had a different effect on the working-age population in the rest of Western Europe. In the latter, while the proportion of people aged 60 and over out of the total population aged over 15 increased from 21.5% in 1960 to 26% in 1990, the proportion aged between 25 and 49 also rose between 1960 and 1990,

although it is projected to fall back from 44% to 42% over the next 20 years.

In the US, the proportion of 60 year olds and over has risen more slowly — to 21% of the population aged over 15 in 1990 — while the proportion aged between 25 and 49 is at present around 49%. In 2010, these proportions are projected to rise to 24% and to fall to only 42% respectively.

The ageing phenomenon is most pronounced in Japan, where those aged 60 and over increased from only 13% of the population over 15 in 1960 to 21% in 1990. They are projected to rise significantly to 33% in 2010. At the same time, those aged between 20 and 49 fell from 49% in 1970 to 44% in 1990. On current projections, it will be only 39% in 2010.

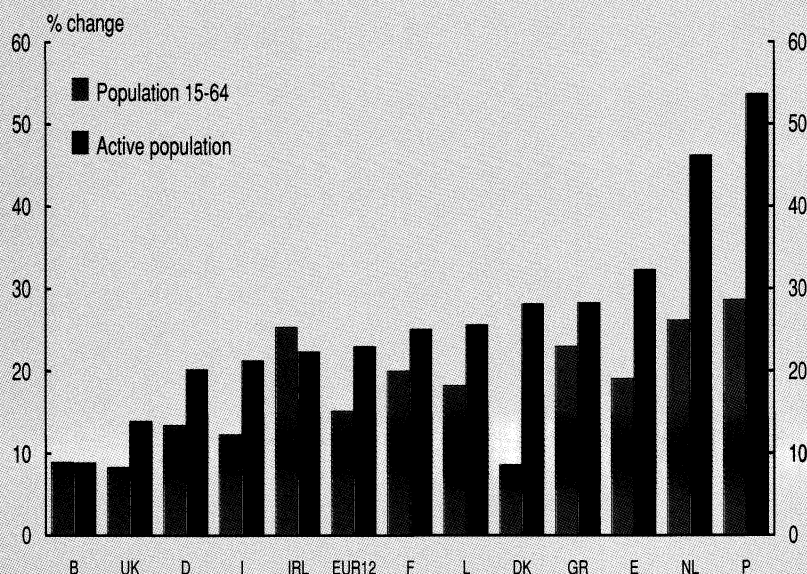
In both the US and Japan, therefore, the ageing effect is projected to be more significant than in the Community over the next 20 years, as discussed further below.

Active population and working-age population

The next step in the investigation involves analysing the relationship between changes in the labour force (defined as those in employment, or actively seeking work) and the population of working age (defined as those aged 15 to 64) — the 'potential labour force' (see Box P.73 on concepts). The labour force has increased in the Community at a slightly faster rate than working-age population over the past 20 years (Graph 24). This is also true of other Western European countries taken as a group. In the US, labour force growth was significantly higher than potential labour force growth. In Japan, on the other hand, the active population rose by slightly less than the potential labour force between 1970 and 1990.

Although there is a broad relationship within the Community as a whole between the growth of the active population and the growth of population aged between 15 and 64, in the sense that countries with relatively high rates of the former also had relatively high rates of the latter, the association is not close, and does not hold true for all countries. For example, in Denmark, the rate of potential labour force growth between 1970 and 1990 was more or less the same as that of the UK or Belgium, but its actual labour force grew at over twice the rate in each of these countries. Similarly, the Netherlands, Greece and Ireland

26 Growth of the population aged 15-64 and active population in the Member States, 1970-1990



had high rates of growth of population aged between 15 and 64 over the same period, but the increase in active population was over twice as high in the Netherlands as it was in Ireland and over half as high again as in Greece (Graph 26).

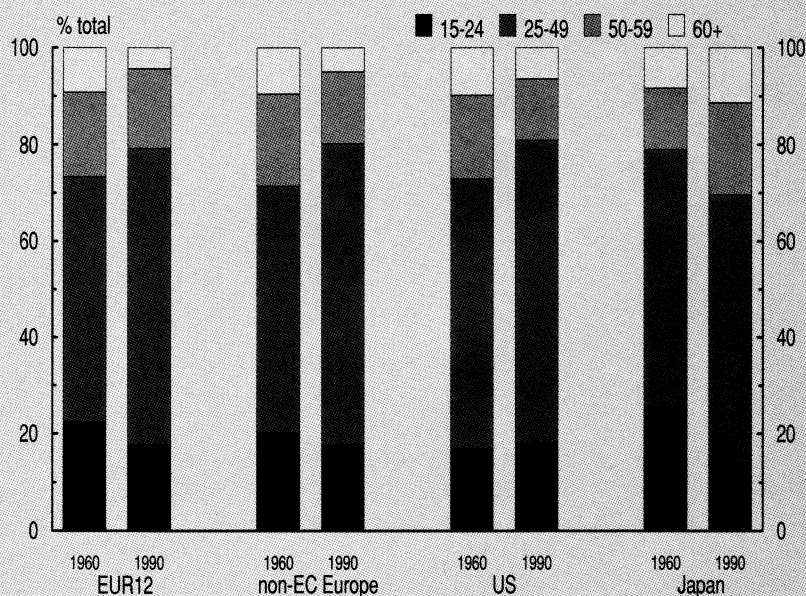
Differences between the pattern of change shown by the 'potential' labour force and the recorded labour force extends also to the age structure. Far from ageing, as is commonly supposed, the active population in the Community has become younger over the past 30 years — the proportion of the work force aged 50 and over fell from 27% in 1960 to 21% in 1990, while the proportion aged between 25 and 49 increased from 51% to 62% (Graph 27).

Moreover, while the Community appears to have an older working-age population at present than the US and Japan, this does not appear to be the case as regards the active population. Indeed, in 1990, the Community had a similar age distribution of its labour force as other Western European countries and the US, while in Japan, a significantly higher proportion of the labour force was in the older age groups — 30% of the work force being aged 50 or over. Unlike in other developed countries, in Japan these older age groups became significantly more important in the work force between 1960 and 1990.

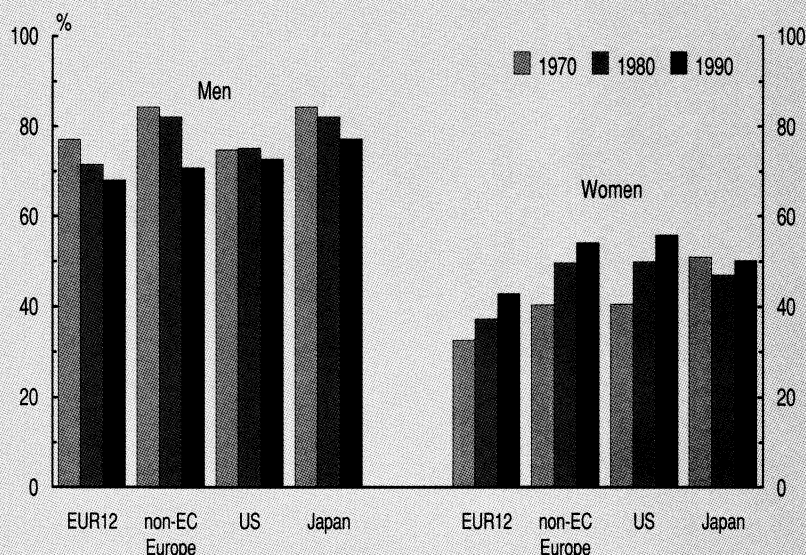
Rates of activity : past and present

The overall rate of labour force participation among those aged 15 and over (here defined as the activity rate) was virtually the same in the Community in 1990 as it had been 30 years earlier. At 55%, however, it is significantly lower than in

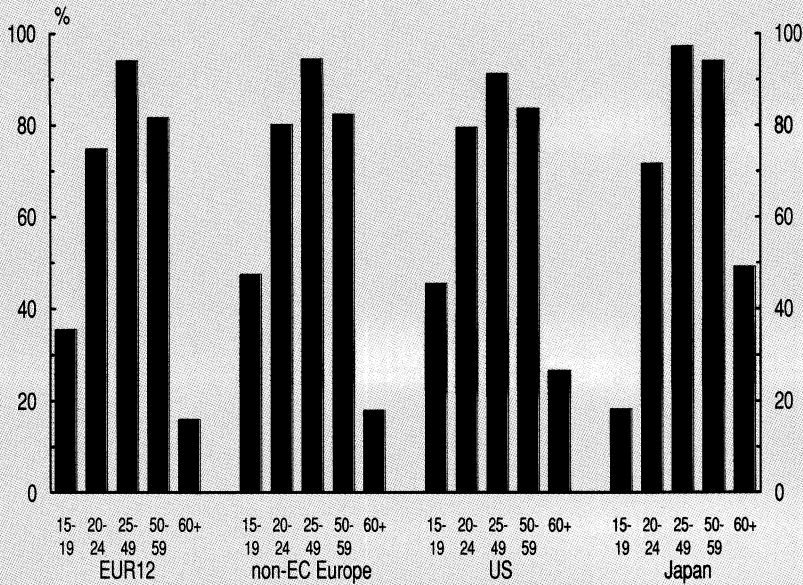
27 Age structure of the active population in the Community, non-EC Europe, US and Japan, 1960 and 1990



28 Activity rates of men and women in the Community, non-EC Europe, US and Japan 1970, 1980 and 1990



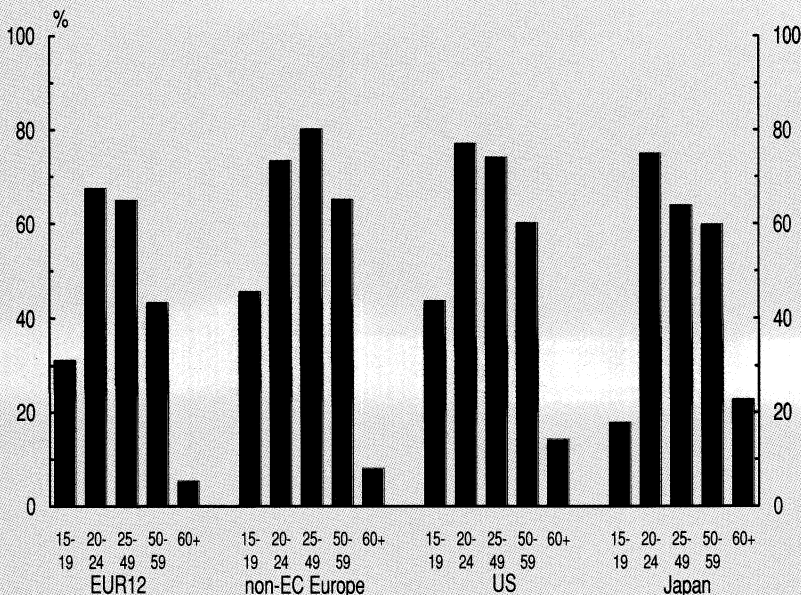
29 Activity rates of men by age group in the Community, non-EC Europe, US and Japan, 1990



other parts of Western Europe, the US or Japan, where the rate in each case is above 62%. (The rate is expressed here in relation to population aged 15 and over in order to include those working over the age of 64 who were an important part of the labour force in the past; expressing the rate in relation to those aged 15-64 does not alter the comparison greatly.)

The main reason for the relatively low overall rate of labour force participation in the Community is not hard to find. The rate of labour force participation among men in the Community — at around 69% — is only slightly below that in other Western European countries, although somewhat further below the rate in the US and, more markedly, in Japan (Graph 28). However, the rate of participation among women in the Community is substantially below that elsewhere in most of the economically developed world.

30 Activity rates of women by age group in the Community, non-EC Europe, US and Japan, 1990



For men, the difference between the Community and both the rest of Western Europe and the US arises largely because the Community has lower rates of participation among young people under 25 and, more especially, under 20 (Graph 29). To the extent that this reflects a higher proportion of this age group in higher education in the Community (whether or not it does remains to be verified), the relatively low figure can be regarded as a positive feature since it may be a means of improving the 'quality' of the work force.

The US also has higher activity than the Community among men in the older age groups — those of 60 and over — but it is in Japan where activity rates for older men are especially high, with almost 50% of men of 60 and over still part of the

labour force. This is over three times higher than for the Community, where the rate has fallen to a very low level.

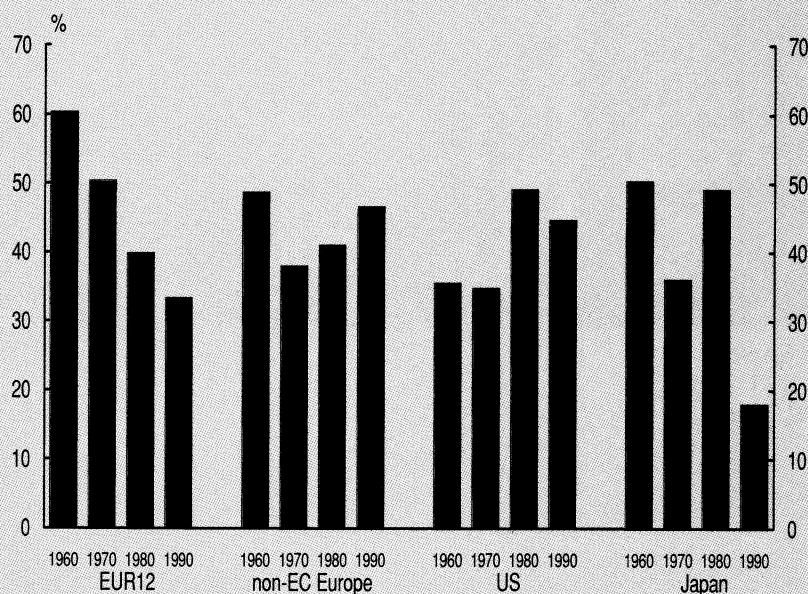
For women, the relatively low activity rate in the Community is a common feature of most age groups. While the rate in the Community for 'prime age' 25–49 group, is similar to that in Japan, at just over 63% — it is considerably lower than in other parts of Europe or the US (Graph 30).

Activity rates, 1960 to 1990

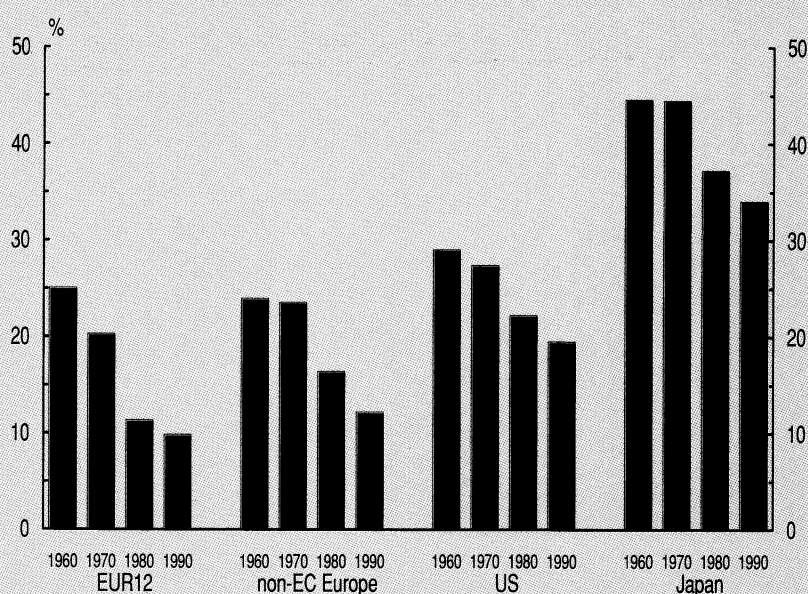
While the overall rate of labour force activity has remained virtually unchanged in the Community over the past 30 years, this aggregation conceals a number of pronounced and offsetting changes. It conceals changes in the rates of participation of men and women in different age groups. It also conceals the effect of changes in the overall age structure of the population which can affect the overall rate, because participation rates vary significantly between different age groups.

The most obvious changes which have occurred since 1960 in the Community, as in other major developed regions, have involved a fall in the activity rate for men — in the Community's case from 82% to just under 69% — and an offsetting rise in the rate for women — from 32% to 42% (Graph 28 — but see Box p. 57). In both cases, the changes are similar to, though smaller than, the changes in other Western European countries. In the US over the same period, the activity rate for men fell only marginally, while that for women rose by more than in either the Community or other European countries. In

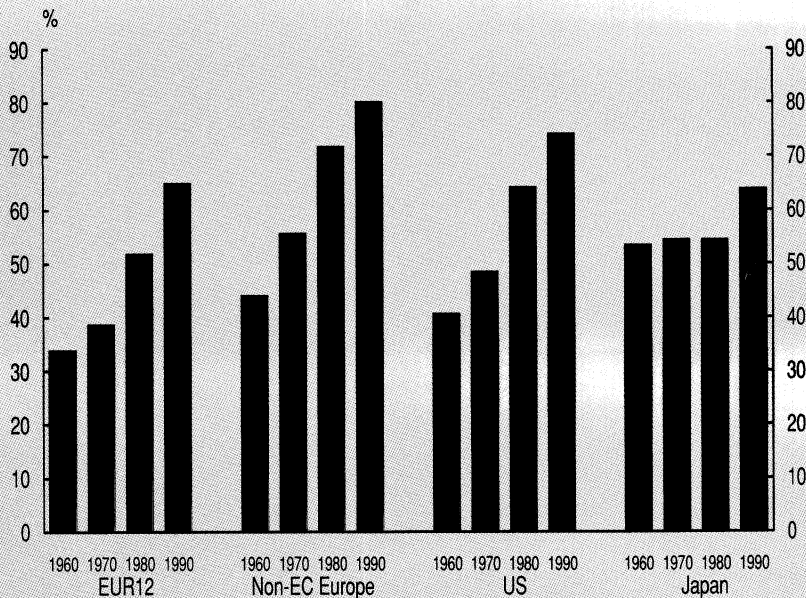
31 Activity rates of the 15-19 age group in the Community, non-EC Europe, US and Japan, 1960, 1970, 1980 and 1990



32 Activity rates of the 60+ age group in the Community, non-EC Europe, US and Japan, 1960, 1970, 1980 and 1990



33 Activity rates of women in the 25-49 age group in the Community, non-EC Europe, US and Japan in 1960, 1970, 1980 and 1990

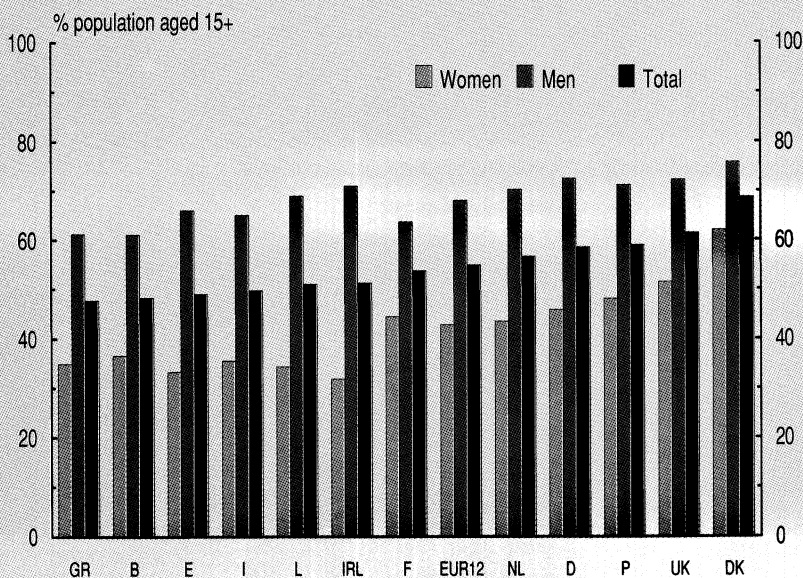


Japan, in contrast, although the activity rate among men fell, there was very little change in the overall rate for women, which has remained at around 50%.

For men, the decline in the activity rate in the Community stems largely from falls in participation among the under 20 year olds and among those of 55 and over, the rate for the 25-54 age group declining only slightly. This is also true of other European countries, the US and Japan, although in most cases the falls are less marked, especially among the young in the US and the older age groups in Japan, where the decline has really been concentrated among those of 65 and over (Graphs 31 and 32).

For women, the increase in activity in the Community, as noted, has been concentrated in the 20-49 age group with much of the rise occurring in the 1970s. This period was marked by relatively slow employment growth and rising unemployment, but it was also a period when there were marked changes in social attitudes towards women working in many Member States, and the development and implementation of legislation on equality. The rise of activity among women in the Community between 1970 and 1990 was similar to that in both other parts of Europe and the US (Graph 33).

34 Activity rates of men and women in the Member States, 1990



Activity rates in Member States

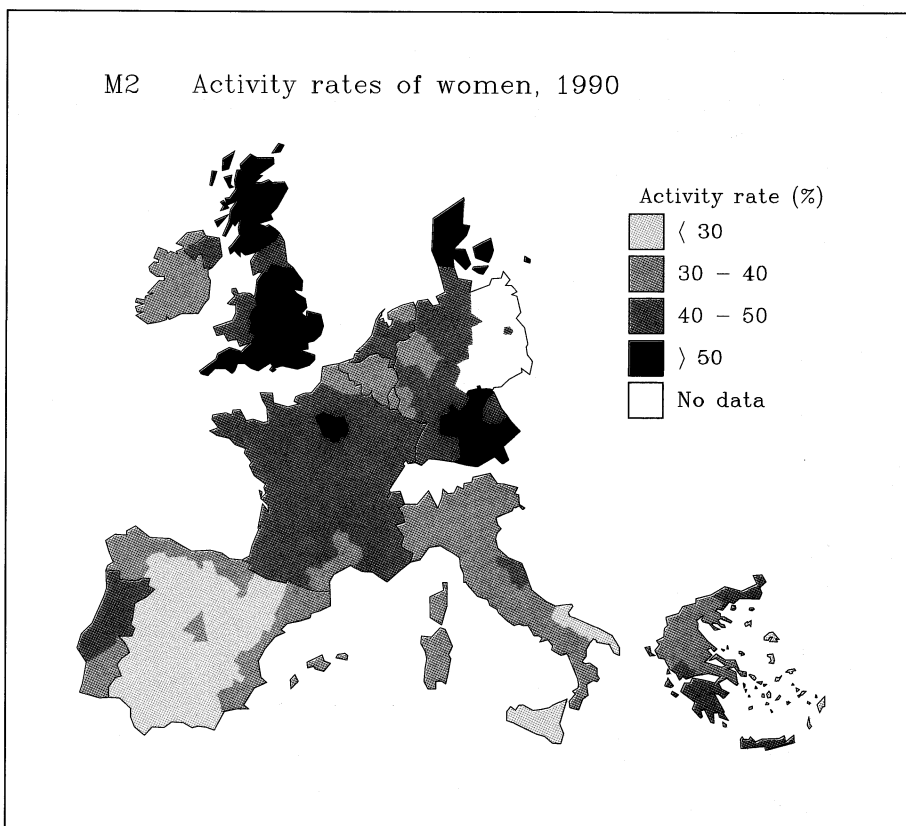
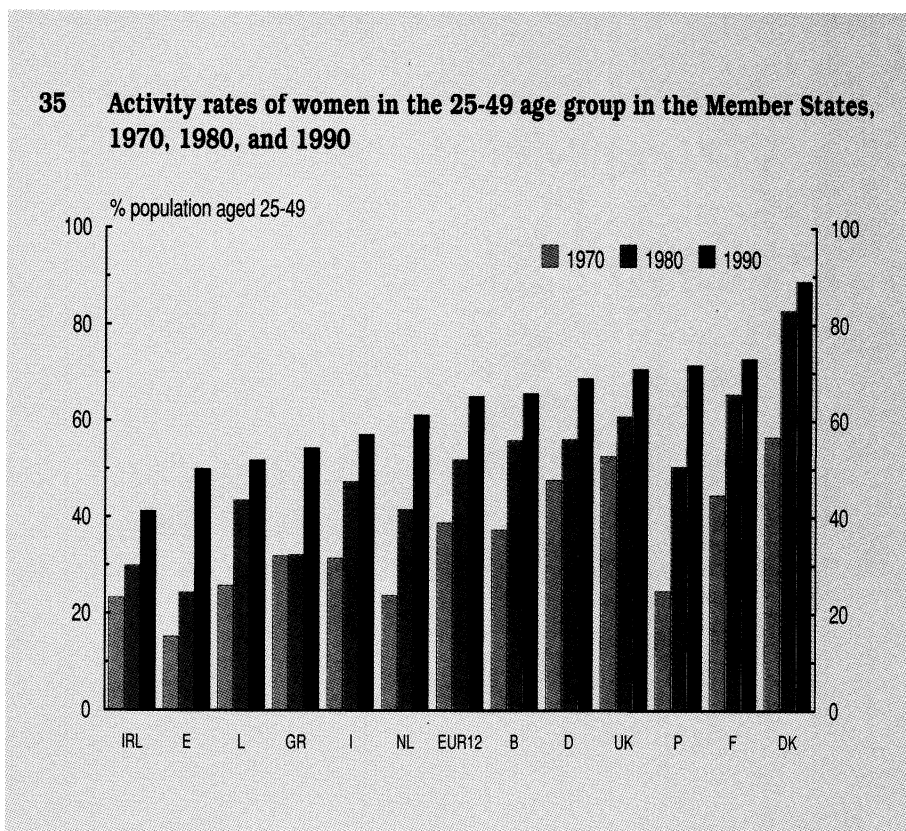
The variation in activity rates across the Community is much more marked for women than for men. For both men and women, rates tend in general to be lowest in the Southern countries — with Spain, Greece and Italy having rates of only around 65% for men

and 35% for women — and highest for the Northern countries — Denmark, the UK, the Netherlands and Germany (excluding the new German Länder in the East) having rates of over 70% for men and over 43% for women (with the rate in Denmark reaching 62%, only slightly below the rate for men in Greece and Italy) (Graph 34).

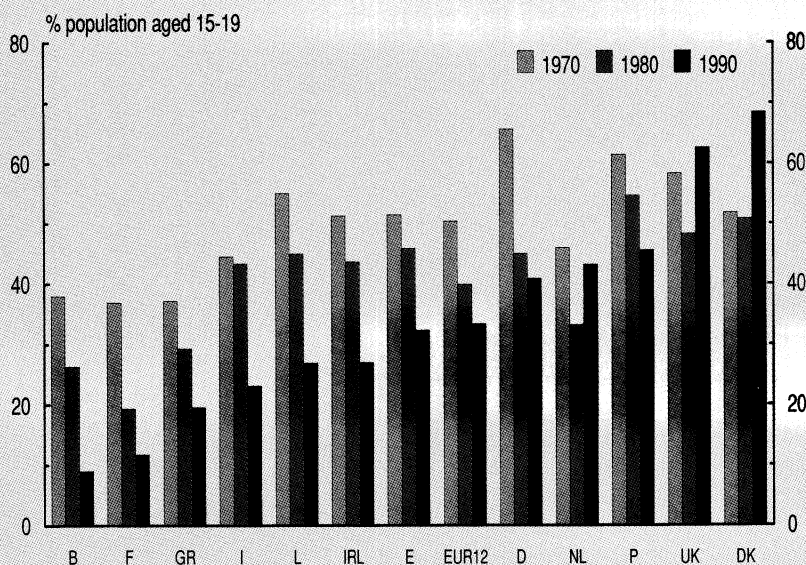
There are, however, many exceptions to the general North-South differences. For both France and Belgium, the activity rate for men is as low as in the Southern countries listed above while, for Portugal, the activity rates for both men and women are above the Community average. Moreover Ireland, a Northern country but with some of the economic characteristics of the Southern Member States, has the lowest activity rate of all for women at only 31%, but an above average rate for men.

The broad pattern of higher activity rates in the economically more developed North of the Community than in the South is confirmed at a regional level, with a number of Southern regions having rates for women of less than 30% and a few of the more prosperous parts of the UK (the South East) and France (around Paris) having rates not far below those in Denmark (Map 2).

The difference in activity rates for men arises largely in the younger and older age brackets, the rates among those between 25 and 54, being broadly similar in all countries. For men under 20, however, the rate varied in 1990 from 10% in Belgium, 14% in France and less than 25% in Greece and Italy to 51% in Portugal, 65% in the UK and 72% in Denmark. Similar differences are evident for women, although activity rates for women



36 Activity rates of the 15-19 age group in the Member States, 1970, 1980 and 1990

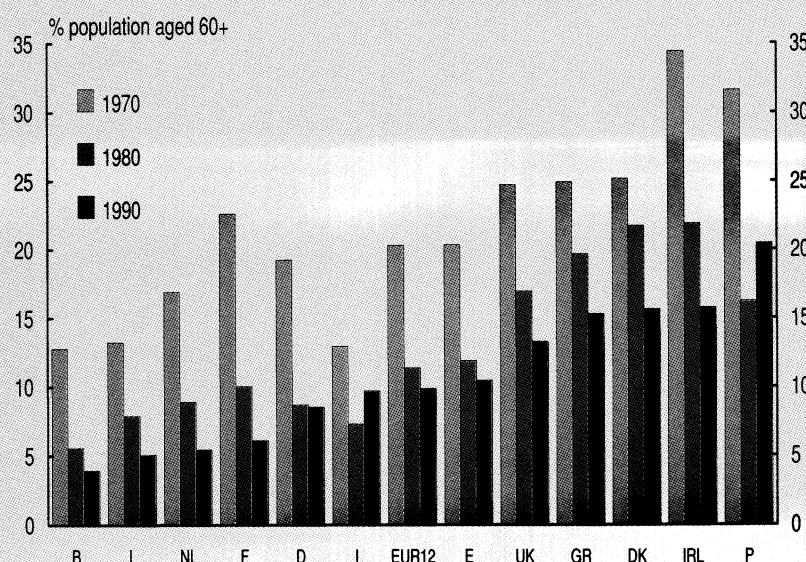


in this age group, as for other ages, are uniformly lower than for men.

While there are differences in the scale of participation in higher education between Member States, this is only part of the reason for these variations. Equally important would seem to be differences in the way employment and unemployment among young people is recorded and the way their participation in various training or vocational schemes is treated at the national level.

In the older age brackets — for men of 60 and over — the rate of activity in 1990 varied from 10% or less in Belgium, Luxembourg, France and the Netherlands to around 30% in Ireland and Portugal. For those of 65 and over, which is beyond the official retirement age in most parts of the Community, the rate of activity for men is over 10% in only four Member States — Denmark and Greece as well as Ireland and Portugal. In the same countries it is only 5% or less for women of 65 and over, except in Portugal (8%).

37 Activity rates of the 60+ age group in the Member States, 1970, 1980 and 1990



For women, there are major differences between Member States in the rate of labour force participation across all age groups. For those aged between 25 and 49, the rate in 1990 was 41% in Ireland and only around 50% in Spain and Luxembourg (Graph 35). By contrast, the rate was above 70% in the UK, France and Portugal and as high as 89% in Denmark. Even among women in the 50–54 age category, which in most cases is past the age when mothers may choose to stay at home to look after children, the activity rate was under 30% in Ireland, Luxembourg and Spain, as against 71% in the UK and 80% in Denmark.

Data on working-age and active population

The main source of historical data used in this chapter is the ILO *Retrospective Year Book* which contains data on population and active population by age group compiled mainly from Population Censuses supplied by countries. Although the Censuses were conducted at approximately the same time in each country — around the beginning of each decade — they were not all carried out in precisely the same year. The data used to describe the position in 1960 are in many cases, therefore, for 1961 (and in the case of France, for 1962) and similarly for the “1970” and “1980” figures. This ought not to affect the changes in activity rates shown more than marginally.

For 1990, the ILO is also the main data source. For the US, because 1990 figures were not available, 1989 figures have been used. For Community countries, where 1990 census figures were not available, the Community Labour Force Survey results were used. To make them consistent with the data for earlier years, they were adjusted approximately to an ILO basis by taking, in each case, the latest available ILO figure (mostly for 1989), expressing this as a ratio of the LFS figure for the same year and using this ratio to adjust the 1990 LFS figure.

For a few countries, the published data for 1960 and 1970, in particular, are for slightly different age groups than those on which the analysis is based. In these cases, the latest *United Nations* figures for population by age group have been used in combination with ILO activity rate data for the age groups closest to those selected to estimate active population in the age groups concerned.

For Switzerland, the lack of detailed data for similar age groups as for the other countries made it impossible to use this approach with any degree of reliability. In consequence, Switzerland was omitted from the analysis. All the historical figures in the chapter relating to non-EC Western European countries, therefore, exclude Switzerland, except the calculations of dependency ratios.

Although the data are from a common source — the ILO — and should be based on a standard set of definitions, differences may still exist between the precise methods chosen by countries to collect and compile the data. The ILO has not made any adjustments to the data to ensure consistency, except to point out obvious discrepancies to countries and allow them to provide revisions.

Two areas in particular where discrepancies may be significant are in the definition of activity, where much depends on the time period chosen as a reference point — whether long or short and the time of year — and in the treatment of groups such as the armed forces, people engaged in part-time work and students. In some countries, therefore, a person may be counted as being “active” if they worked only for a very short time (eg a few hours in the reference period); in other countries in some years, a person may have needed to have worked more or less full-time on a regular basis before being included in active population.

Observed changes in activity rates, of women especially, may, therefore, in some cases partly reflect changes in the way basic concepts, such as activity or employment, are defined in practice. For example, an observed rise in the activity rate of women may be due more to a change in the definition of “active” than to an actual increase in labour force participation. There is little way of knowing how important this factor is likely to be in practice, but over a time span of 30 years, it cannot necessarily be assumed to be insignificant.

The sources of estimates of future working-age population in the Community and other countries are described in more detail in the Box on projections (p.63).

The substantial differences in activity rates for women between different parts of the Community suggest that there is substantial scope for increases in the Community's workforce from among the present population of 'prime' working age. The present differences in rates reflect variations in a range of social, economic and cultural factors which both condition attitudes towards women working, and affect the practical opportunities and incentives to take up employment (these are discussed further in Chapter 5). Differences in rates, however, may also reflect variations in employment regulations, which may, for example, inhibit part-time working by women. These factors can change very quickly over time and, as shown below, activity rates among women have been increasing, in many cases significantly, throughout the Community especially over the past 20 years, in

areas — rural areas particularly — where female participation in the labour force was historically very low as well as where it was already relatively high.

Trends in activity rates in the Member States

In broad terms, the changes which have occurred in activity rates for the Community as a whole over the past 30 years have affected most Member States. With few exceptions, there has been a general and fairly continuous decline in activity among the under 20s and the over 60s, both for men and women (Graphs 36 and 37).

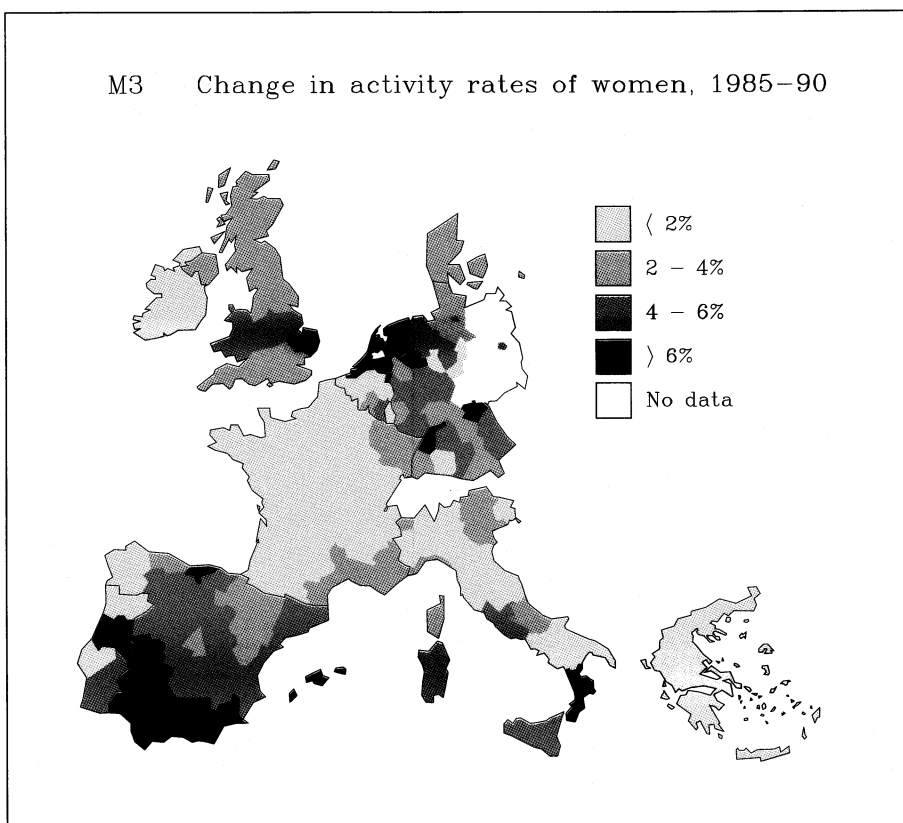
In the UK, Denmark and the Netherlands, however, participation among the under 20s increased

markedly during the 1980s, reflecting measures — training and other schemes — for bringing young people into the work force, rather than a decline in the extent of higher education.

Moreover, at the other end of the scale, in the Southern Member States — Greece, Portugal and Italy — activity rates for women of 60 and over have also increased since 1980, reflecting the increasing tendency for women in general to join the labour force.

This tendency has been most marked in the 25–49 age group, which for women is also the age when they are most likely to have children. For Italy and Portugal, the most significant increase in the activity rate for the women in this age group occurred in the 1970s. In the former it rose by more than a half (from 31% to 47%) and in the latter it more than doubled (from 25% to 51%) in that decade, although it continued to rise significantly during the 1980s. For Spain and Greece, the major increase took place in the 1980s, doubling in the former and rising by more than 50% in the latter (Graph 35, Map 3).

In all four cases, a major factor underlying the increase has been the shift from a rural-based society — and economy — in many regions (in Italy in the South of the country, in the others more generally) towards a developed industrial one. This has brought with it a radical change in the operation and importance of the labour market, from a situation where the prevailing tendency was for women to work on the family farm or holding to one where women have the opportunity to find salaried work in industry or services.



In the Northern Member States, women's participation in the labour force began to increase strongly in the 1970s, although in the UK the largest rise occurred in the 1960s. In all cases — apart from the UK and Germany, where the increase was more modest — the activity rate for women in the 25–49 age group rose by 50% or more between 1970 and 1980. In all countries without exception the activity rate continued to rise throughout the 1980s, at a slower rate than previously but evenly throughout the decade — even in Denmark where the activity rate for this age group had already reached over 85% by 1985.

Evidence from recent history implies that the scope for further increases in activity rates among women in most Member States — Denmark clearly is the primary exception — is no less significant than over the past ten years. In the Southern Member States, in particular, where low growth in working-age population might have had serious economic implications, the scope for substantial increases in the labour force through more female activity is, in fact, considerable. The same is also true, moreover, in a number of Northern countries — in Belgium, the Netherlands, Luxembourg and, to a slightly lesser extent, Germany, where the activity rates for women aged between 20 and 60 are well below those in Denmark or the UK.

In the case of men, apart from in the youngest and oldest age groups, there have generally been only small changes in rates of activity in Member States. Thus the possibility of major changes over the next 20 years is largely confined to the youngest and oldest groups. It is possible, for example, that the bringing forward of the effective age

of retirement which has significantly reduced the activity rate since 1980 for those of 60 and over, in Northern countries especially, could continue and spread to Italy and Portugal, where there has been little change.

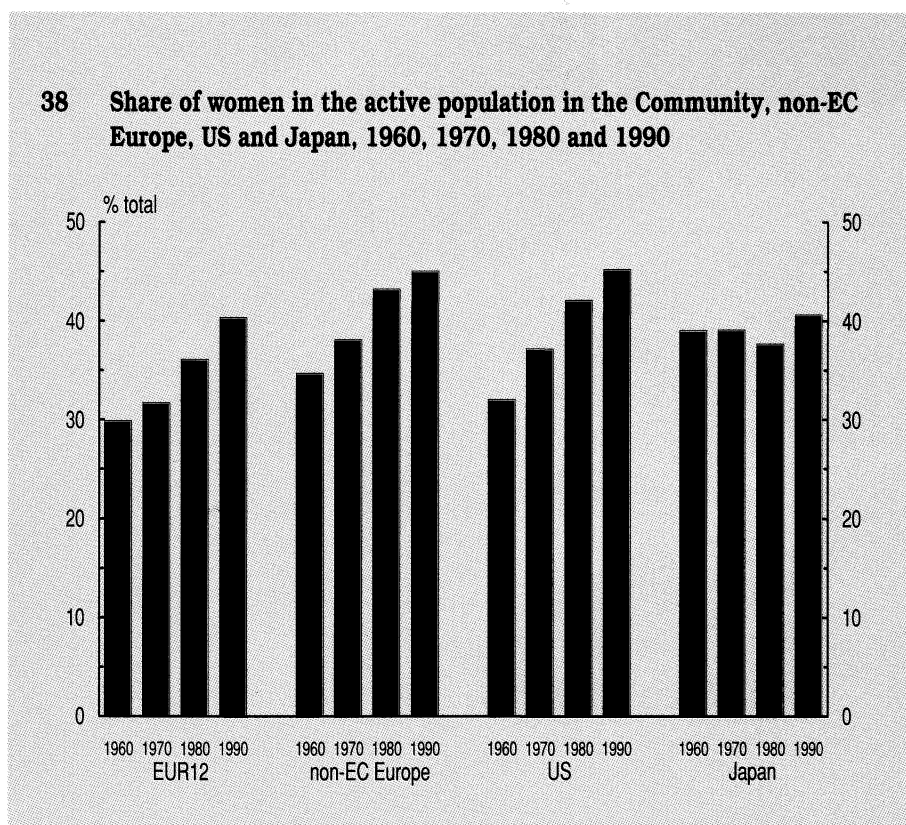
As noted above, however, the incentive to push for earlier retirement is affected by prevailing economic circumstances, and is less likely to arise if demand for labour is high.

Effects of changes in the age composition of the population

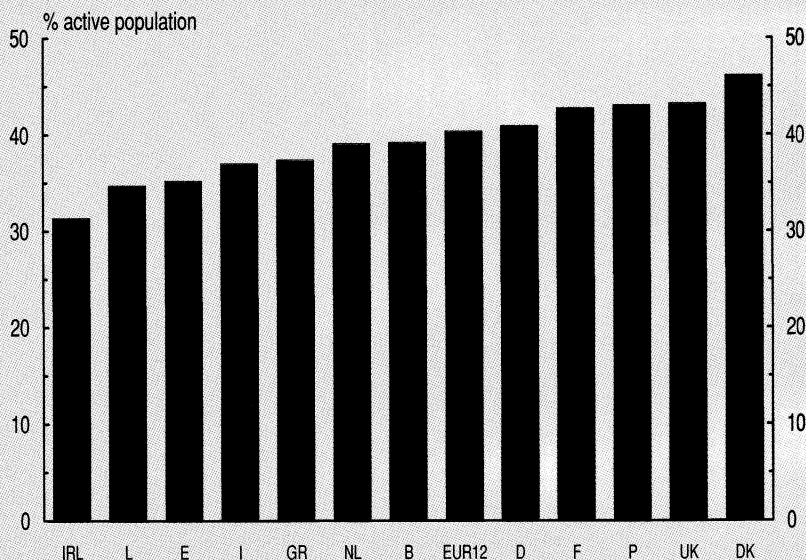
Changes in the age composition of the population have potentially important effects on the overall rate of participation in the labour force and therefore on the growth of the work

force. If the population on average gets older and the proportion of people in retirement increases, then the overall activity rate naturally tends to fall and the labour force tends to be reduced. Observed changes in overall activity rates can be misleading if this compositional effect is not taken into account.

The scale of the ageing effect in the past can be estimated by holding total population aged over 15 and activity rates within age groups constant over time, and then calculating the overall rate of activity and the numbers in the labour force given the changing age distribution of the population. This tells us, in effect, how the active population would have changed over time if everything but the age distribution of population had remained unchanged. In this way, it is possible to disentangle the effects on the size of the



39 Womens share of the active population in the Member States, 1990



labour force of changes in the population aged over 15 from which it needs to be drawn; of changes in the age structure of that population; and of changes in activity rates per se.

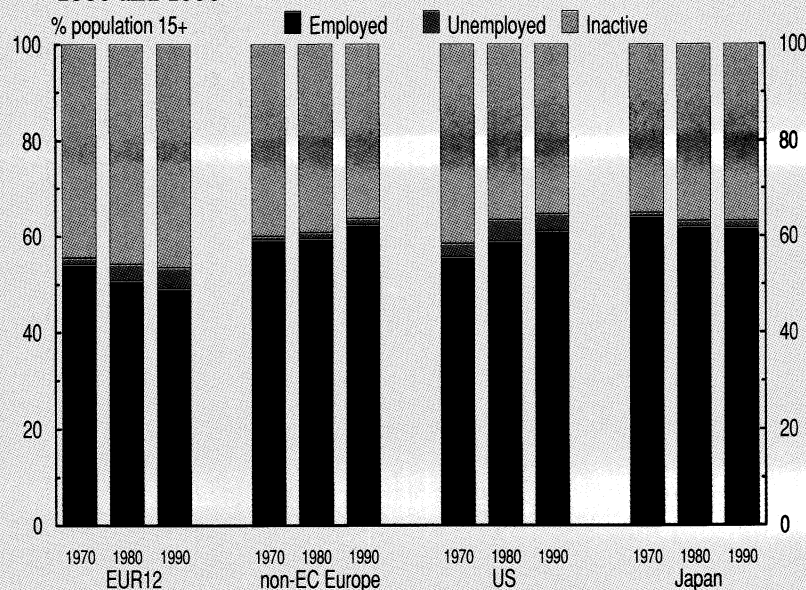
Over the period between 1960 and 1990, the effect of the ageing of population was to reduce the Community potential labour force by an estimated 4 million people, with much of this effect occurring between 1960 and 1970. This was in practice partially offset by an increase in activity rates within age groups which in total added just under 3 million to the labour force over this period. (The observed activity rate, calculated without allowing for changes in the age composition of population, actually declined over this period.) The rise in activity was particularly marked in the 1980s, when it added over 4 million to the Community's work force, resulting in the active population growing at a significantly higher rate than the population of working-age.

During the 1980s, therefore, the increase in participation among women was sufficiently pronounced to offset the decline among men by a sizable margin.

The sex composition of the labour force

The effect of increased activity among women, coupled with the declining activity of men, obviously had the effect of raising the proportion of women in the Community labour force. Thus, between 1960 and 1990, the proportion of women increased from 30% to 40% (Graph 38). This proportion, however, as would be expected from the relative rates of activity among women, is sub-

40 Employment, unemployment and inactivity amongst the active population in the Community, non-EC Europe, US and Japan, 1970, 1980 and 1990



stantially below the figures in non-EC Europe and the US which were both around 45% in 1990 and which had, moreover, increased by much more over the preceding 30 years.

Of the increase in the recorded labour force of just under 29 million in the Community which occurred over the period 1960 to 1990, women accounted for over 20 million.

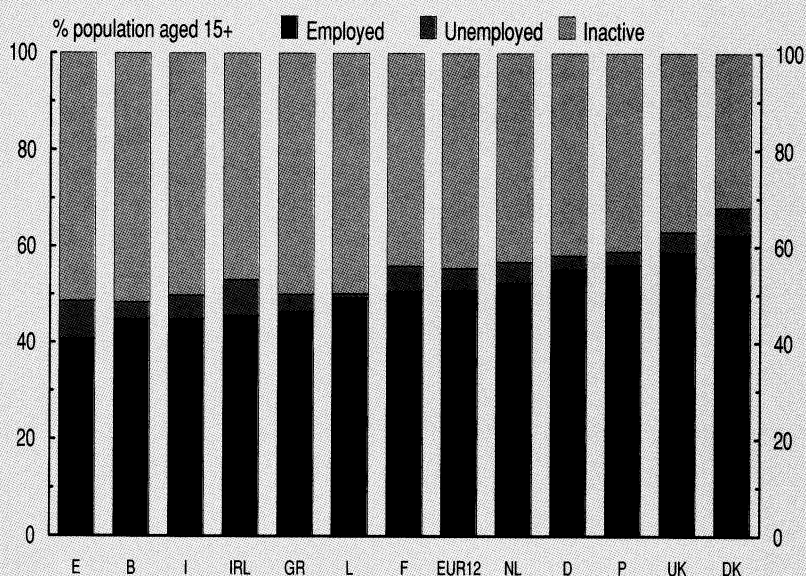
The rise in the importance of women in the labour force has been a general feature throughout the Community over the past 20 years. Nevertheless, in 1990, the proportion of working population represented by women varied markedly between Member States, from 46% in Denmark down to 35% in Spain and Luxembourg and only just over 30% in Ireland (Graph 39).

Employment and unemployment

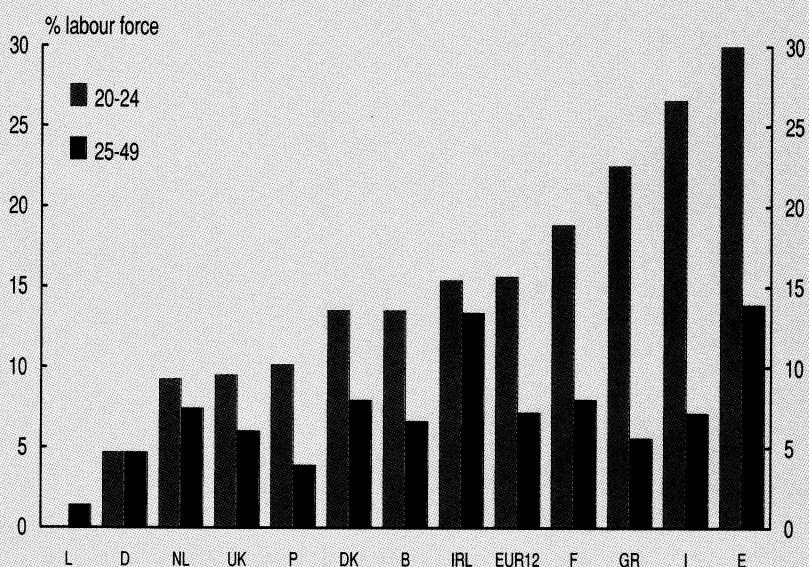
In the 1960s and early 1970s, unemployment rates in the Community were low and relatively stable, and almost all of the recorded labour force was in employment. Since then, unemployment has increased and although it fell during the second half of the 1980s, it remains at a high level. In 1990, over 8% of the active population in the Community was unemployed.

The Community's utilised labour force, therefore, amounted to only around 50% of the population of 15 and over — about the same as in 1980 and less than in 1970 (54%). This compares with a utilised labour force rate (or an employment rate) of around 60% or more in other parts of Western Europe, the US and Japan (Graph 40). In effect it

41 Employment, unemployment, and inactivity amongst the population aged 15+ in the Member States, 1990



42 Unemployment rates of the 20-24 and 25-49 age groups in the Member States, 1990



means that, if the employment rate in the Community were the same as in these other countries, some 12 million more people would be in work. The problem of under-employment is particularly acute in the less developed parts of the Community, in Spain, Ireland, Greece and the South of Italy, where the employment — or utilised labour force — rate was around 45% or less in 1990, although it was also at this level in Belgium (Graph 41). In Denmark and the UK, on the other hand, the utilised labour force rate was around 60%, similar to that in other parts of Western Europe.

Even though a proportion of those not at present in work may be difficult to employ in practice for one reason or another — because, for example, they do not possess, and would find it difficult to acquire, the requisite skills and attitude — the evidence of recent history

strongly suggests that the majority of them could be absorbed into the labour force if sufficient jobs could be created.

This view is reinforced by the fact that significant numbers of the unemployed throughout the Community are young people under the age of 25. In most Member States, the rate of unemployment among the 20–24 age group, both for men and women, is at least double the rate for those over 25 (Graph 42). In Italy and Spain, the unemployment rate for this age group is as high as 25–30%.

This is clearly another important factor to be taken into account when assessing the prospects for labour force growth in the coming years. Concerns about an ageing — and possibly shrinking — work force need to be juxtaposed with the Community's inability over the past 15

years to employ many of the young people potentially available for employment. The prospect of declining numbers of young people coming onto the labour market each year would be more serious if more of those at present becoming available for work could actually find employment.

The dependency ratio

The dependency ratio, which seeks to indicate the dependence of children and the elderly on the rest of the population, is conventionally measured by the ratio of those either too young or too old to work to the number of people of working age. Defined in these terms, the dependency ratio in the Community in 1990 was around 49%, if working-age population is taken as those aged between 15 and 64. This is slightly less than in non-EC Europe (50%) or the US (52%), though more than in Japan (44%) (Graph 43, in which working-age dependency is defined as total population less population of 15–64 as a ratio of population 15–64, and employed dependency as total population less those in employment as a ratio of those in employment).

The dependency ratio defined in such statistical terms, however, is a potentially misleading indicator of dependency from an economic standpoint. The burden of economic support falls not on the working-age population as such but on those in employment, who have not only to generate income to support the young and the old, but also to provide for the unemployed and inactive. A more meaningful measure of dependency from an economic standpoint is, therefore, the ratio of the population not in work to those who are in paid employment.

43 Dependency ratios in the Community, non-EC Europe, US and Japan, 1970, 1980 and 1990



Population and labour force projections

The projections of population by age group and sex for the Community were compiled by Eurostat and are summarised in *Two long term population scenarios for the European Community*, paper distributed at the International Conference on Human Resources in Europe at the Dawn of the 21st Century, held in Luxembourg on the 27–29 November 1991.

The main assumptions underlying the “high” population projection are:

- an increase of fertility to around 2 children per woman of child-bearing age
- a continuation of the upward trend in life expectancy
- a slight fall in net immigration into the Community to an annual inflow of 750 000 people a year from 1994 onwards.

The main assumptions underlying the “low” population projection are:

- a further fall in fertility to around 1.5 children per woman of child-bearing age
- a small increase in life expectancy during the 1990s and no change thereafter
- a decline in net immigration into the Community to an annual inflow of 250 000 people from 1994 onwards.

The population projections for other countries are derived from the latest *United Nations* demographic projections, *World Population Prospects, 1990*, supplemented by *United Nations, Global Estimates and Projections of Population by Sex and Age — 1988 Revision*.

The assumptions on which the labour force projections are based are:

- For the “high” activity projection:

Men — no change in activity rates from 1990 for all age groups

Women — same absolute increase as 1980 to 1990 for all age groups with upper limit imposed by 1990 rate in Denmark and no rate allowed to fall (Denmark has highest activity rate in all age groups, except 65+ where Portugal has slightly higher rate — Portugal is assumed to come down to Danish rate).

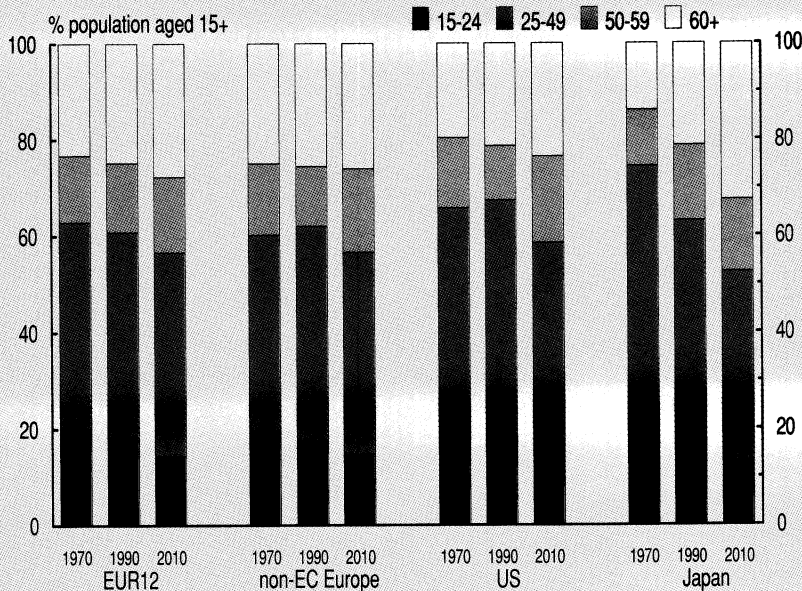
- For the “low” activity projection:

Men — same absolute change as 1980 to 1990 for all age groups, with France imposing a lower limit for 15–19 and 20–24 age groups (Greece 20–24 rate held constant), 10% being lower limit for 60–64 age group and 2% being lower limit for 65+ age group.

Women — half 1980–1990 absolute change with Denmark again imposing an upper limit for each age group and with rates allowed to fall (but not below 0).

Eurostat is currently preparing more elaborate national and regional population and labour force scenarios for the whole Community, which should be completed before Summer 1993.

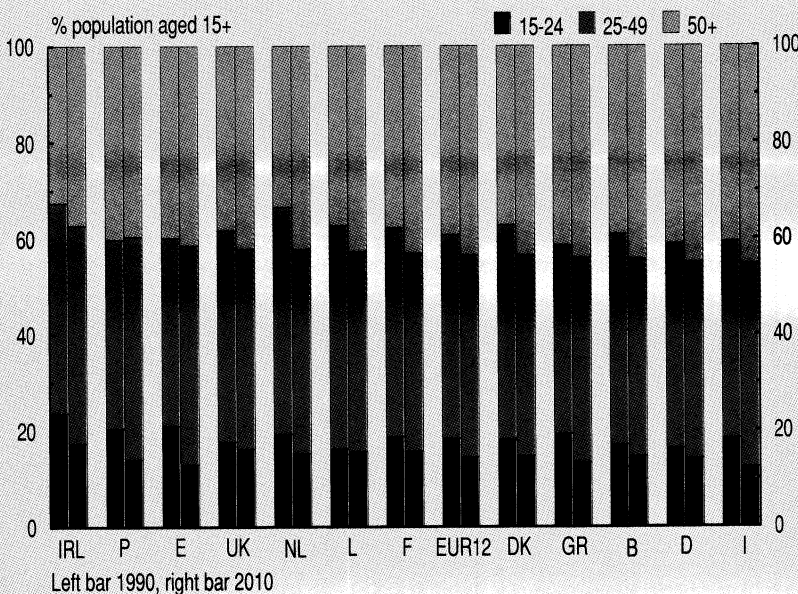
44 Age distribution of the population aged 15+ in the Community, non-EC Europe, US and Japan, 1970, 1990 and 2010



In the Community, the dependency ratio defined in these terms was around 1.5 in 1990, implying that for every 10 people in paid employment another 15 people were not working (or more correctly, not drawing a salary). This is significantly higher than in other parts of Western Europe, Japan (both 1.0) or the US (1.1). It is, however, about the same as it has been over the past 30 years. Both the US and Western European countries outside the Community, on the other hand, have seen a significant reduction in this ratio over the past 20 years which, other things being equal, should have boosted their average income per head relative to that of the Community.

Labour market prospects for the next 20 years

45 Age distribution of the population aged 15+ in the Member States, 1990, 2010



As noted at the outset, the latest demographic projections show that the population of working age will grow only very slowly if at all in the Community over the period up to 2010, and that this trend will be particularly marked after the year 2000 on. If there is a significant slowdown in the current rate of inward migration then there is a real possibility of an absolute fall from this point. This contrasts with continuous growth over the past 20 years of just under 1% a year.

As a result of the decline in the number of young people coming of working age, a significant ageing of the population of 15 and over is also in prospect. Taking a medium projection (i.e. midway between the high and the low projections produced by Eurostat — see Box, p.63), those under 25 will fall from 18% of population above working age in 1990 to 14% in 2010, while

the proportion of those of 50 and over will rise from 39% to 43% (Graph 44). This will reverse the trend over the past 20 years towards a slight increase in the proportion of those in the 15–24 age group and a corresponding decrease in the older age group.

This ageing effect is also evident in other countries of Western Europe, the US and Japan. In other parts of Western Europe, the proportion of 50 year olds and over in the population of 15 and over is projected to increase from 38% to 44% between 1990 and 2010 and in the US, even more significantly, from 32% to 42%. In Japan, the effect is yet more pronounced. The numbers of young people under 25 is projected to decline from 19% of all those of 15 and over to 13% between 1990 and 2010, reflecting the sharp slowdown in population growth over the past 30 years, while those of 50 and over will rise from 37% to 47%. Non-EC Europe and especially the US and Japan therefore have a similar task to the Community in coping with a population which is becoming older. However, Japan, in particular, has had to cope with an even more pronounced ageing since 1960 (admittedly from a younger starting-point) and seems to have succeeded in preventing it from adversely affecting its competitiveness.

Within the Community, the ageing effect, on the average of the projections, will vary significantly between Member States. By the year 2010, those aged 50 and over are forecast to account for over 45% of the population of 15 and over in Italy and Germany, whereas in Ireland and Portugal the proportion will still be below 40% (Graph 45).

At the same time, the relative numbers in the prime age group of 25–49

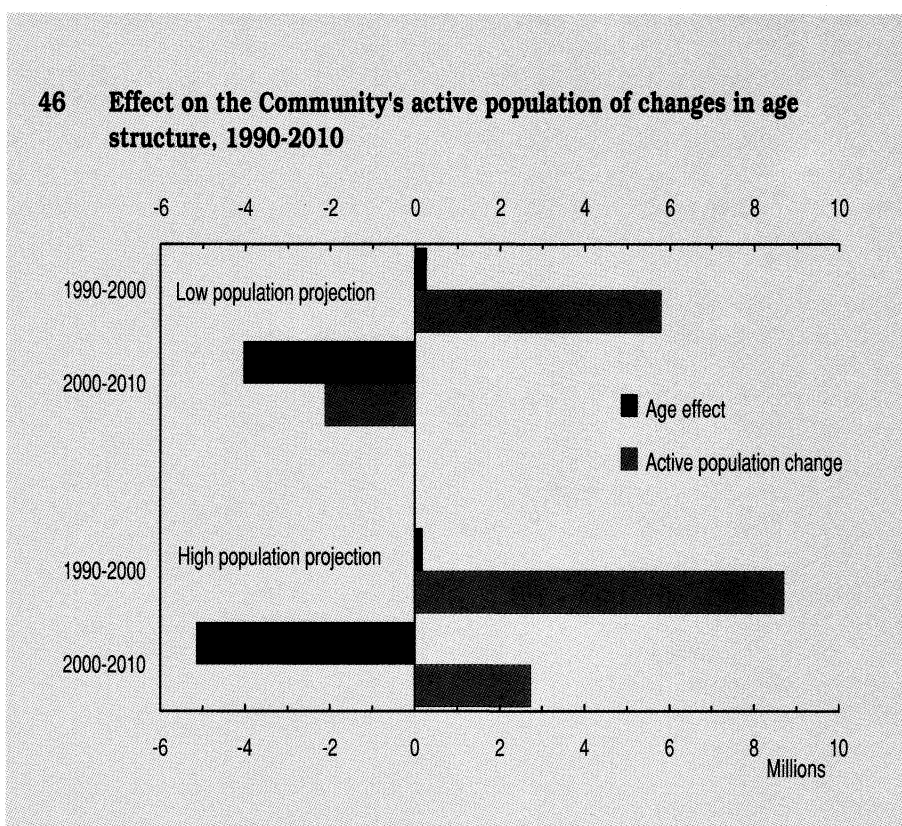
are projected to increase in all the Southern Community countries, as well as in Ireland, and to decline in all the Northern Member States. In Portugal and Spain the rise is particularly pronounced, with the share of those aged 25–49 in the population of 15 and over increasing in both cases from around 40% in 1990 to 46% in 2010. By contrast, in the Netherlands, the share of this prime age group is projected to fall from 47% to 42% and in Belgium and France from 44% to 41%.

To a large degree, therefore, it is the more developed, more prosperous parts of the Community which will have to cope with the implications of an ageing potential work force over the next 20 years. On the other hand, it is in the Southern countries where the decline in the relative numbers of young people aged under 25 is most pronounced, and therefore where the potential num-

bers of young people joining the labour force will fall by most over this period. In Spain, the share of this age group is projected to decline from 21% in 1990 to 13% in 2010 and in the other three countries from 18–20% to 12–14%.

Concern about both these prospects, however, needs to be tempered with the recognition that, as noted above, the age structure of working-age population does not necessarily coincide with the age structure of the work force, still less with that of the employed work force. Spain and Italy — where the decline in the numbers of young people coming of working age will be particularly pronounced — both currently have a large proportion of their potential labour force of young people in unemployment.

As has been shown, although overall participation of people of



working age in the labour force has not changed greatly in the recent past, the trends of men and women have been in opposite directions; these, in combination, have significant implications for both the growth and age composition of the Community's labour force over the next 20 years.

The effect of ageing on future activity

The potential effect of the changing age distribution of the working-age population on labour force participation can be estimated, as above, by calculating what the overall rate of activity would be in future years if activity rates within broad age groups were to remain unchanged. Such an exercise indicates that between 1990 and the year 2000, the effect of the changes in the age distribution of population on overall activity is negligible, with a decline in the relative numbers of young people under 25 (who have comparatively low rates of activity) being offset by a relative increase in the older age groups, who have similarly low rates (Graph 46).

In the following ten years, however, a significant acceleration of ageing stands to have a substantial effect on the Community's labour force. If rates of activity within age groups were to remain unchanged, this of itself would reduce the overall activity rate between 2000 and 2010 from 55% to just over 53.5% on the low population projection, so decreasing the total work force by some 3.7 million. On the high population projection, the effect is even more pronounced, because the numbers of both young and old are proportionally greater. Given unchanged activity rates, the Com-

munity's labour force would be reduced by just under 2%, or by over 5 million people, over the 10-year period 2000–2010.

Potential changes in active population

These mechanical calculations are, however, misleading. On the experience of the recent past, rates of activity in the Community are most unlikely to remain unchanged in the future. For women in particular, rates in the future are almost certain to be higher than prevailing rates given the increase which has occurred over the past 20 years, and given also the still substantial differences in activity rates, both within the Community and between the Community and many other developed countries.

To give a broad indication of how the Community's labour force over the next 20 years might change, illustrative projections have been made on the basis of two alternative sets of assumptions about the movement of activity rates for men and women by age group. These projections are not based on any attempt to explain past changes in activity rates in terms of changes in economic and other variables (which in any event has proved unreliable). Rather, the exercise simply assumes that past and present trends continue into the future.

The first projection, labelled 'high', makes 3 main assumptions. Firstly, it assumes that activity rates for women in the main working-age groups increase in each country by the same amount over each future 10-year period as they did between 1980 and 1990. (The change over the 1980 to 1990 period ought to be reasonably representative insofar as it covers more or less a complete

economic cycle — five years of slow growth or decline in employment followed by five years of expansion.) Secondly, it assumes that activity rates for the very youngest and oldest age groups, which in some Member States have shown some tendency to fall, remain unchanged.

For men, it assumes that activity rates in each age group remain unchanged at their 1990 level, instead of falling — slightly in the prime working-age groups and more markedly in the oldest and youngest age brackets — as has been the tendency in the recent past.

Finally, for Denmark, where rates for each age group are already higher, often much higher, than elsewhere in the Community, it is assumed that rates do not increase further. The Danish rate for each age group is used to define an upper limit to the level to which rates could rise elsewhere.

Although this is labelled the 'high' projection, it should not be regarded as the maximum to which activity rates might rise over the next 20 years. It is perfectly feasible that rates could increase by more, especially in parts of the Community where the rates for women are well below those elsewhere.

The second projection, labelled 'low', assumes that activity rates for men change in each future 10-year period by the same amount as over the period 1980 to 1990. In virtually all cases, and especially for the youngest and oldest age groups, this means a continuing fall. Lower limits are imposed to prevent rates declining to what would appear unrealistically low levels (10% in the 60–64 age group and 2% in the 65 and over group, in particular).

For women, activity rates are assumed to change over the next and subsequent ten years by half the amount they did over the past 10 years. In most cases, this implies a rise — except in the oldest age group — although, again, the rates in Denmark are held at their 1990 level and no rate is allowed to increase above these.

As in the case of the 'high' projection, the overall activity rate generated by this set of assumptions does not necessarily represent the minimum level to which they could fall over the next 20 years. In particular, if action to encourage and make it easier for women to join the labour force were put into reverse and/or if there were to be little economic growth and a reduction in employment rather than an increase, participation might turn out to be even less than this. Without major developments of this kind, however, it is hard to imagine the activity rate falling below this projection.

Applying the activity rates generated by these two sets of assumptions to the high and low population projections indicates that the overall rate of participation among those of 15 and over could, in one case, rise from just over 55% in 1990 to just under 59% in the year 2000, or fall slightly in the other case. Over the subsequent 10 years (2000–2010), the overall rate is unlikely to increase much even on favourable assumptions because of the unfavourable change in age distribution noted above. On unfavourable assumptions, it could decline to around 52% by 2010 (Graph 47).

This means that the Community labour force could, under a combination of relatively favourable — but by no means unrealistic — cir-

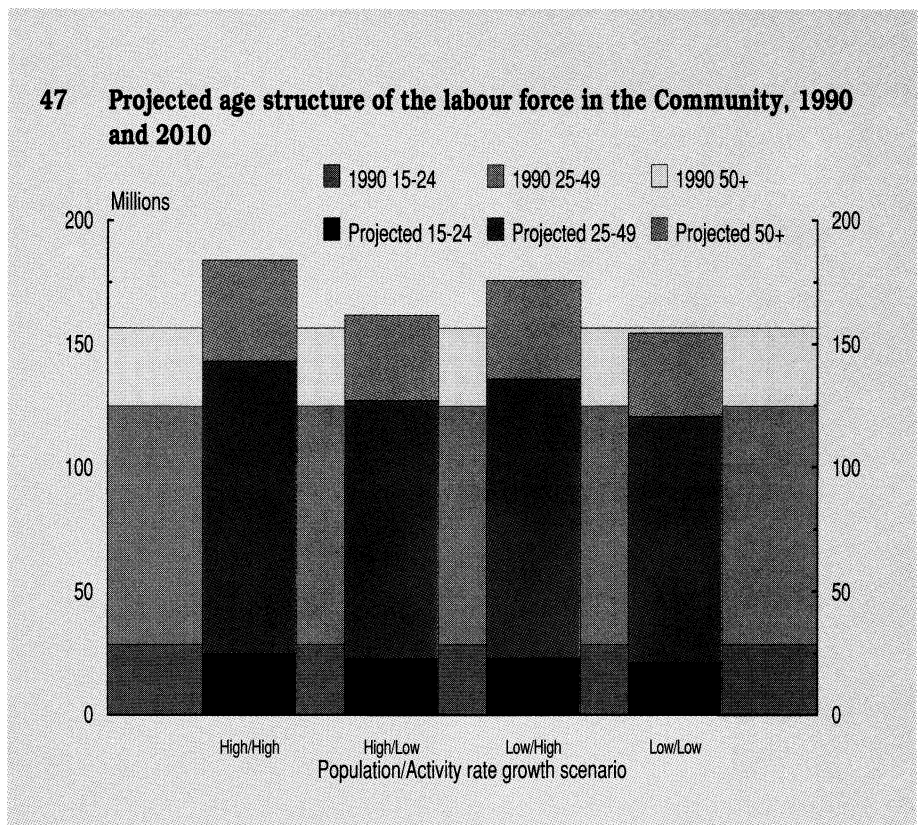
cumstances, increase by over 11%, or by some 17.5 million, between 1990 and the year 2000. This is more than occurred over the 10 years to 1990. If things continued to be favourable over the following 10 years, then by 2010, the labour force could have grown by a further 10 million, or by another 6%. This would imply a net addition of almost 28 million to the labour force over this 20 year period as a whole — more than the current total working population of, say, France or Italy.

Even if the population were to grow over the next 20 years according to the low growth projection — which would imply the population of working age (15–64) increasing by under 1% — a relatively favourable development of rates of activity could still result in the Community labour force expanding significantly. Thus, on the high activity rate projection,

the total work force would still be over 12% larger in 2010 than in 1990, giving an additional 19 million people available for employment.

Most significant, at least for the next 20 years, is the fact that the assumptions which are made about movements in activity rates have a much greater effect on the size of the future labour force than do the assumptions about population growth. For example, even if the population were to increase up to 2010 according to the high population projection, unfavourable movements in activity rates could result in very little growth of the Community's work force over this period.

If circumstances turned out to be relatively unfavourable, both in respect of population growth and activity, the Community labour



force could remain more or less unchanged over the next 10 years and then decline over the following decade. How far this should be a cause for concern depends, to an important extent, on the economic situation prevailing over this period. If economic growth turned out to be relatively low and the demand for employment relatively depressed, then a decline in the labour force would be unlikely to be seen as creating serious problems.

If, in contrast, economic developments are more favourable and demand for labour grows, then there will be increased pressure on the Community to make more productive use of the numbers presently unemployed, as well as to ensure that more women are able to participate in the labour force. As an indication, if half of those now unemployed were brought into employment, this would be suffi-

cient to enable the numbers in work — the utilised labour force — to increase over the next 20 years, even under the most unfavourable assumptions about population growth and activity rates.

Projected changes in the labour force in Member States

Most of the prospective growth in the labour force over the next 20 years in terms of absolute numbers is likely to occur in the North of the Community. On the high activity, high population projection, the work force in Germany, France and the UK would expand by 4–5 million people in each case between 1990 and 2010, with Italy showing an increase of around 3 million. In these four countries, growth of the labour force over this period would

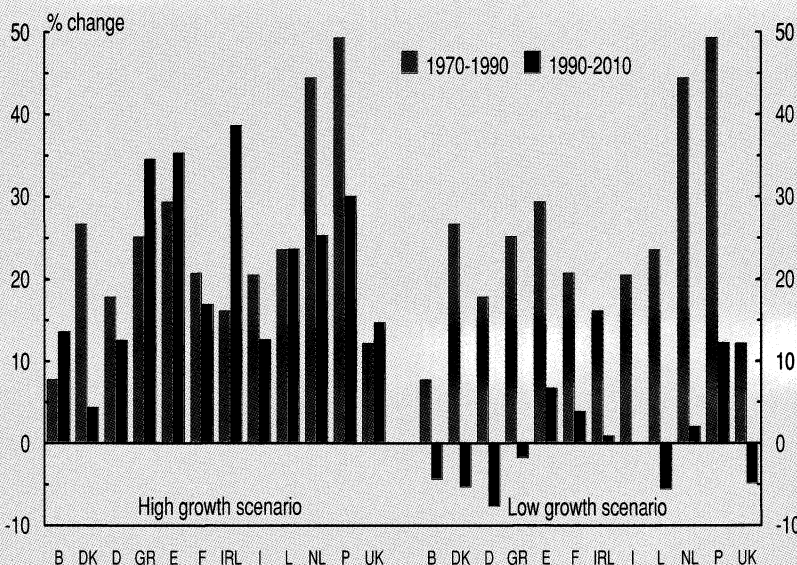
range between 13 and 17%, in all cases slightly lower than the growth over the past 20 years (Graph 48).

In percentage terms, the highest increases would be in the Southern Member States plus Ireland, where rates of growth of 30–40% could occur. In the case of Spain and Portugal, such high growth would in fact be less than the rate experienced over the 1980s. For Greece, it would be slightly more, but for Ireland, it would be significantly higher (although much more because of a high projected growth in working-age population than of an assumed increase in activity).

For all four countries, but especially for Greece and Ireland, the key question is whether the economy would be able to absorb such a large expansion in labour supply without it leading to much higher unemployment. The problem in each case, therefore — particularly in Spain, Ireland and Greece — where open or concealed unemployment is already very high, is not likely to be one of inadequate growth of the labour force holding back production, but one of trying to sustain sufficient growth of output to create enough jobs to employ those who might be looking for work. In practice, if this problem is not resolved then it is likely that activity rates, especially among women, will probably remain relatively low.

By contrast, if both population and activity trends turned out to be unfavourable (i.e. if they accorded with the low population, low activity projection), then 7 of the 12 countries would experience a decline in the labour force between 1990 and 2010, of as much as 8% in the case of Germany (Graph 48). Even Ireland and Greece — where the work force is projected to grow rapidly on favourable assumptions,

48 Changes in the labour force in the Community, 1970-1990 and 1990-2010 (high and low growth scenarios)



and where an increase in population of working age is forecast even under the low population projection — especially in the case of Ireland (13%) there would be little growth or even a decline in the labour force under these assumptions. Since, however, such a scenario is more likely to be fulfilled in the event of low economic growth and employment creation, it does not follow that it would necessarily be associated with problems of inadequate labour supply.

The changing age structure of the labour force

As noted above, a pronounced ageing of the population of 15 and over is in prospect over the next 20 years in the Community, as people live longer and as the fall in the birth rate reduces the numbers in the younger age groups. This has led to concern being expressed about the possible detrimental effect on the Community's work force and, in particular, on its productivity and capacity to learn new skills. However, in making this assessment, account must also be taken of the upward trend among women, especially in their 20s and 30s, to want to work.

It is undoubtedly the case that, under any plausible set of assumptions, there will be a proportionate decline in the numbers of young people entering the labour market for the first time over the next two decades — though not necessarily an absolute decline. Nevertheless, because of increasing participation of women, the numbers of people of prime working age in the work force — those aged 25–49 — stand to increase significantly in

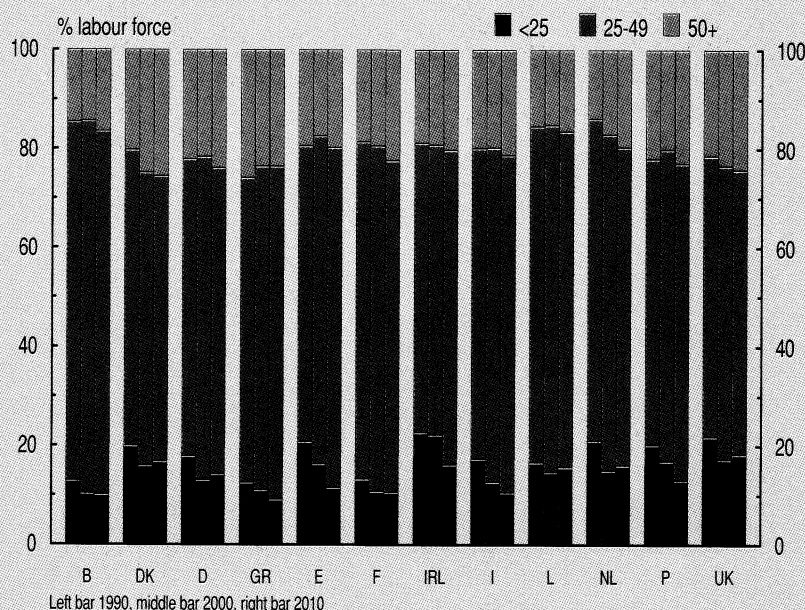
both relative and absolute terms. On both the high and low activity rate projection, the proportion of the labour force in this age group stands to increase from under 62% in 1990 to over 64% in 2010. While much of the rise is accounted for by those over 40, the numbers aged between 25 and 39 are projected to be more or less the same in relative terms in 2010 as in 1990.

All and more of this relative increase, however, will occur over the next ten years. Thereafter, the proportion of the labour force in the 25–49 age group will fall and the relative numbers in their 50s will rise as the people born in the baby boom immediately following the last world war grow older. The prospect of an ageing labour force in the Community is, therefore, much more a problem to be faced in the early years of the 21st century than

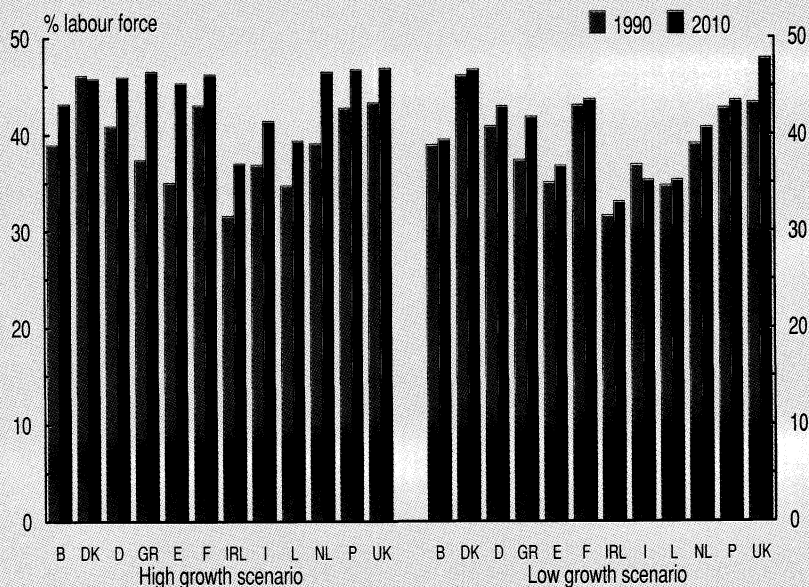
in the remainder of the 1990s. Even then, it is likely to take some time for the proportion of the work force aged between 25 and 49 in the Community to fall below its 1990 level and much longer for it to decline back to what it was in 1970 (54%).

The same tendency for members of the work force aged between 25 and 49 to increase in relative importance over the next ten years and to represent a higher share of the total in 2010 than in 1990 is true for most Member States. Indeed in the Southern countries of Spain, Greece and Italy as well as in Ireland (where activity rates of women are relatively low) the share of this age group stands to be significantly higher by 2010, largely because of the growth in participation of prime age women (Graph 49). Only in the case of Denmark, France and Luxembourg would the share be slightly

49 Projected age distribution of the labour force in the Member States, 1990, 2000 and 2010 (high growth scenario)



50 Projected importance of women in the labour force in the Member States, 1990 and 2010



lower in 2010 than in 1990 — in Denmark because participation among women in the 25–49 age group is already very high (and assumed not to rise further), in the latter two countries because this group already accounts for a higher proportion of the work force (68%) than anywhere else in the Community except Belgium.

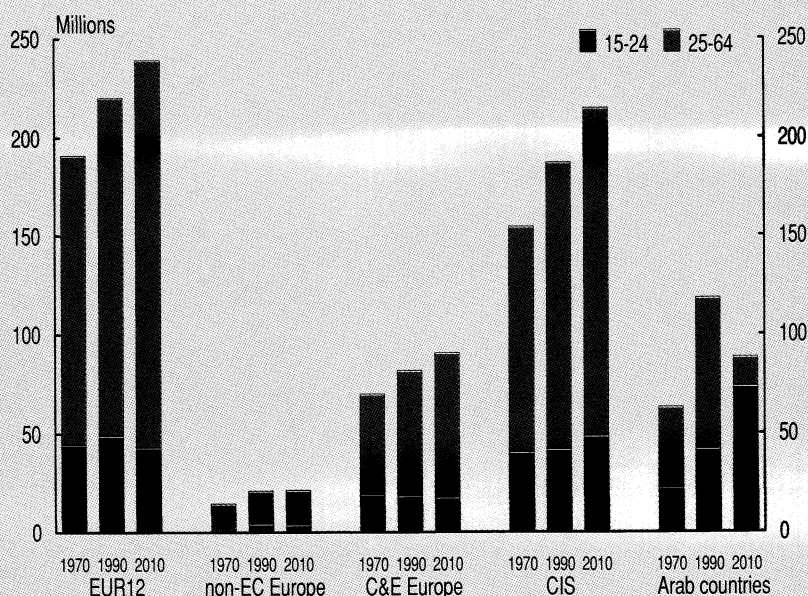
The sex composition of the labour force

Most of any projected growth of the labour force over the next 20 years is likely to come from more women entering the labour market.

Although the numbers of men and women in the working-age population are naturally expected to change by similar amounts between 1990 and 2010, a continuing increase in women's participation in the labour force, coupled with the possibility of continuing decline in the case of men, will result in women becoming progressively more important in the work place. In the high activity scenario, the proportion of women in the labour force would rise from around 40% in 1990 to 45% in 2010 (Graph 50). Of the total increase in the numbers coming onto the labour market over this period, some 73% would be women.

Under this scenario, the most significant changes would be in the Southern Member States — although less in Portugal than in Spain or Greece — where activity among women is much lower than elsewhere in the Community. For example, in Spain, the share of women in the work force is projected to rise from 35% in 1990 to 45% in 2010 and in Greece from 37% to 46%. Although these increases are substantial they represent a much

51 Working-age population by age group in the Community, non-EC Europe, C&E Europe, CIS and Arab countries, 1970, 1990 and 2010



lower rate of increase than over the past ten years. Elsewhere in the Community, apart from in Italy, Ireland, Belgium and Luxembourg — where activity rates of women are relatively low and/or have risen relatively slowly over the past ten years — the share of women in the labour force is projected under these assumptions to reach 46–47% by 2010.

On the low activity low population projection, the importance of women would still increase over the next 20 years but the rise would be much less. Over the Community as a whole, the share of women would increase from 40% to around 42% in 20 years time, with little or no rise in a number of countries, such as Belgium, Luxembourg and France, and with Italy even showing a fall.

Population growth in surrounding areas

The relatively low growth in population of working age (defined as 15–64) projected for the Community over the next 20 years is common to most developed parts of the world.

For non-EC Western European countries as a whole, the change in working-age population, according to the latest projections, is likely to be less than in the Community and only just positive over the next two decades (a 1% rise over the period as opposed to 3% for the Community, taking the average of the high and low projections). Indeed, in Austria and Switzerland, population of working age may well decline over this period (Graph 51).

In Central and Eastern Europe, although working-age population is projected to grow up to 2010 at a faster rate than in the Community,

the differential is relatively small (0.5% a year as against 0.2%) even in the absence of significant outward migration. Moreover a large part of the increase is accounted for by just one country, Poland, which alone is responsible for almost 45% of the increased number of people in this age group. In Hungary and Bulgaria, working-age population is forecast to decline over the next 20 years.

In the CIS (the former Soviet Union), growth in the next two decades is projected to be slightly higher than in countries on its Western border (0.7% a year), with the less developed states in the South and East of the region likely to show the largest increases. Again, however, the future rate of growth is forecast to be less than in the past and not so much higher than in the Community.

It is in the countries to the South of Europe, in the Arab countries in North Africa and the Middle East, where population growth is likely to be most rapid in the period up to 2010. This is particularly the case for the population aged 15 to 64, the growth in which is only marginally affected by a possible reduction in the birth rate. Over the next 20 years, population of working-age in the region as a whole, according to the latest UN projections, will increase by some 3% a year, implying almost a doubling of numbers by the end of the period.

This means that working-age population in the Arab countries, from being only around half that in the Community in 1990, is projected to be only slightly less by 2010 and marginally higher than in the CIS. Within the region, the highest rates of growth are likely to occur in the countries in the Arabian peninsular — in Saudi Arabia, in particular,

where working-age population is forecast to more than double over the period — and in the Horn of Africa. The rate of increase in the Maghreb and Machrek countries in North Africa, however, at around 75%, is projected to be only slightly lower.

The most pronounced difference in demographic developments between the Community and neighbouring regions concerns young people in the 15–24 age group, i.e. those who are new entrants to the labour market. For this age group, a marked decline in numbers is expected to occur in the Community over the next 20 years. Taking the average of the high and low projections, the numbers will be some 18% less in 2010 than in 1990. The numbers in this age group are also projected to decline in other parts of Western Europe and in Central and Eastern Europe, though by less (by 13% and 4%, respectively), whereas in the CIS, a rise of over 15% is expected.

Although the growth of 15–24 year olds in Arab countries to the South of the Community is projected to be slightly lower than for total working-age population, it will still be substantial (just under 3% a year). If the projections are correct, it will mean that by 2010 the numbers of young people of working-age in North Africa and the Middle East will be some 70% greater than in the Community, whereas they were around 20% smaller in 1990.

It is hard to imagine that the projected rate of working-age population growth in countries to the South of Europe and the large expansion in the numbers of young people imply any kind of competitive threat to Community producers. They are, however, likely to have profound political,

economic and social implications in the region.

Unless there is a radical acceleration in the pace of economic development in the Arab countries, population growth on the scale projected is likely to lead to further impoverishment and continued social and political unrest in many places. It will also mean that substantial, and probably increasing, numbers of people of working age will be unable to find employment of any kind in the countries where they live.

Although demographic pressure is likely to be much less acute in Central and Eastern Europe and the CIS, problems of achieving an acceptable rate of economic development could well be only slightly less serious (see Chapter 5).

The real challenge facing the Community is how to respond to these problems and how it can assist neighbouring countries to the South and East to overcome them. The alternative would seem to be to accept the prospect of greatly increased migratory pressure from these countries, which, although it might add to labour force growth in the Community, is likely to create problems of its own.

Defining and Measuring the Labour Force

The measurement of the labour force in the Community, or anywhere else, is not straight-forward. It involves conceptual as well as practical difficulties. There are a number of definitions which can legitimately be applied — each of which gives rise to practical problems of measurement.

A first definition is the 'utilised' labour force — i.e. those people actually in employment. This definition is the least ambiguous and is useful for gauging the success of an economy in employing the human resources at its disposal to produce goods and services (though there are some difficulties in defining employment as noted below). This is the basis of the 'employment rate' used by the *Employment in Europe* Report to make comparisons between the Community and other major economic areas. It is, however, too narrow a definition to be used as a general indicator of available labour supply.

There is the standard definition for measuring the 'active population', which includes the unemployed as well as those in employment. This definition, developed and sponsored by the ILO, seeks to measure the numbers of people who are either in employment (including self-employment) or who are unemployed but both available for work and actively seeking employment. This clearly accords with a commonsense definition of the labour force. Data are collected on this basis by Member States and in the Community Labour Force Survey.

Problems may arise here both over deciding whether an individual is employed and over determining whether non-employed people are looking for work. So far as the former is concerned, this requires the specification of some minimum period during which the individual was working — is one hour a day or a week sufficient to constitute employment, and if not, how many hours are? Different definitions of the length of this period and different ways of treating non-regular or atypical employment can lead to differences in recording employment — and the labour force — as between countries (see Box P. 57).

So far as measuring unemployment according to ILO is concerned, there is ample evidence to demonstrate that whether a person is actively seeking work or not depends to an important extent on availability of work (see *Employment in Europe 1991* Chapter 3), a factor which cannot be included in a statistical definition to be applied to a specific reference period. Lack of acceptable jobs is a major deterrent to looking for work, especially where there is no entitlement to unemployment benefit, and no incentive to register officially as seeking employment — conditions which may particularly apply to women. The evidence from the recent period of high employment growth in the Community is that, when job opportunities are created, a significant proportion of the people who take up these jobs — women especially — were not previously recorded as unemployed, and therefore not previously counted as part of the official labour force. The ILO definition cannot be expected to identify all those who would work if suitable jobs were available.

Since the concern here is to analyse long-term trends, account has to be taken of the fact that whether a person works or looks for work (particularly in the case of married women) is conditioned by a variety of economic, social and labour market factors, which can change over time, and which are inherently difficult to predict (see Chapter 6 of this report). The enormous changes in participation rates which have occurred over the recent past, as described in the text, demonstrate what can happen even over comparatively short periods of time.

A wider definition of the labour force would measure the number of people who would prospectively be available for work in the longer-term, should sufficient job opportunities be created. This is probably the most appropriate for assessing future labour market developments, but it is difficult to formulate a practical definition so as to measure the prospective labour force in an objective way.

The closest practical concept to this is that of **working-age population, which is termed here the 'potential' labour force, though this should not be taken to imply that everyone of working age would wish, be willing or be able to take up employment.** Nevertheless, it can be assumed that most people of working age might conceivably join the labour force under particular circumstances. More importantly for the present purpose, it can also reasonably be assumed that the proportion of working-age population who might so join the labour force is unlikely to be significantly different as between countries with similar economic and social characteristics. As such the concept provides a useful benchmark against which the actual labour force can be judged. The problem is to define the 'working age'.

Difficulty arises at both the lower and upper ends of the scale. Although, with the exception of Portugal, there is virtually no-one currently in legal employment who is younger than 15 years old — and in most countries, younger than 16 — the prevalence of further education and training beyond the official school-leaving age varies between Member States and has changed significantly over time. Participation in the labour force among the young, especially those aged between 15 and 19, is, therefore, very different in different parts of the Community.

In the upper age brackets, neither official retirement ages nor the propensity to work beyond retirement age are uniform across the Community. Nor have they remained unchanged over time.

Moreover, there are significant differences, in both respects, between men and women. Imposing upper definitional limits on working age creates problems, especially when attitudes to older people working, or their prospects to do so, change over time.

In many parts of the Community, 30, even 20, years ago, sizable proportions of people — men especially — in their late 60s and older were in employment. At that time, definition of working-age population with an upper age limit would have excluded such people and been highly misleading. Since then, however, there has been a tendency in Member States to bring forward official retirement ages and to encourage early retirement. This was especially a feature of the late 1970s and early 1980s, when unemployment increased rapidly, although it has been less prevalent since the mid-1980s when unemployment has fallen.

Except for a few countries — notably Portugal and Ireland — the proportion of people currently working over the age of 65 is now very small in the Community. Unless there is a major change — which should not be entirely ruled out — defining the potential labour force to be those aged between 15 and 64 would not, in most cases exclude a significant proportion of those actually in employment.

Nevertheless the analysis here, for the most part, focuses on the population of 15 and over — those above working-age — partly because historically a significant proportion of people of 65 and over were in employment in the Community, partly because it is conceivable that they might be again in the future if labour shortages were really to materialise. At the same time, special attention is paid to changes in the population aged 15 to 64, since the vast majority of the labour force will come from this age group.

Part II Employment Issues

Chapter 4 Employment in Services : More Growth to Come

Chapter 5 Employment Developments in Central and Eastern Europe

Chapter 6 Men and Women in the Community Labour Market

Chapter 4 Employment in Services : More Growth to Come

There is little sign of services employment growth ending. Whether the jobs will be created where they are most needed is less certain.

Introduction

Over the 1980s, the number of people employed in the service sector in the Community expanded by almost 12 million, a rise of just under 1% a year. At the same time, the number employed in agriculture and industry declined by around 8 million. The growth of jobs in services over the Community as a whole was not sufficient, however, to provide enough employment opportunities not only for those losing their jobs in other sectors, but also for the additional number of people joining the work force for the first time. Unemployment was, therefore, over 4 million higher at the end of the decade than at the beginning.

The creation of the additional service jobs was unevenly distributed across the Community. It did not always occur in areas where the decline of employment in agriculture and industry was greatest. Moreover, the nature of the service jobs created varied significantly from one part of the Community to another. In some cases, they tended to involve relatively basic skills, such as in retailing, hotels or cleaning; in others, much higher skill levels, such as in finance or computer programming.

Furthermore, in some areas, a significant proportion of the additional jobs were part-time whereas the jobs lost in others sectors were predominantly full-time. Thus the net gain in the volume of work available was less than the figures for numbers employed would imply.

Key issues

This chapter examines both the pattern of service sector activities across the Community and the growth in services which occurred over the 1980s. In the light of the evidence available, it considers a number of related issues which are important for the process of job creation and the future prospects for employment in different parts of the Community. In particular, it considers:

- the scope for future employment growth in the different parts of the service sector, in line with developments in the US and Japan as well as those in the Community;
- how far the growth of service sector employment is the result of a shift of jobs out of manufacturing or agriculture as part of the progressive specialisation of activities in pursuit of greater productive efficiency;

- the importance of population growth, on the one hand, and real income growth, on the other, in determining the growth of demand for services and the distribution of jobs in the sector across the Community;
- how far the creation of jobs in services is dependent on the expansion of manufacturing or agricultural production or how far, on the other hand, employment in services can increase independently of what is happening in other parts of the economy — regional, national or Community;
- how far the jobs created have been part-time rather than full-time.

There is a further issue running through previous economic analyses of the sector — namely, whether the relative growth of employment in services, which is a general feature of developed economies, is predominantly a consequence of the demand for services increasing more than the demand for physical goods as people become wealthier — i.e. as real income per head increases — or whether it reflects a tendency for labour productivity in the provision of services to grow by less

Data on employment in services

The depth of the analysis which it is possible to carry out with regard to services is constrained by the general inadequacy of data. The approach adopted is somewhat eclectic, using whatever data are available to throw light on the issues addressed, even if this means not covering all the Community countries, employing a variety of service sector classifications; examining different time periods, or interpolating or making estimates when figures are missing. The considerable efforts now being made to increase data availability at Community level (in the form of the MERCURE project in particular) should improve the situation in the future.

Although the widely differing characteristics of individual service activities make it important to adopt a disaggregated approach, the statistics available at present at Community level are largely confined to five or six broad groupings — either to NACE 1-digit (rather than 2-digit or 3-digit sectors) or to NACE-CLIO sectors. This means that activities which have very different features, which are supplied predominantly to businesses rather than to final consumers and which are likely to be affected in differing ways by economic, social and demographic developments are aggregated together. For example, in NACE, retailing is included with hotels, insurance with banking, health and education with public administration.

Most of the analysis below is based on national accounts data which use the NACE-CLIO system of classification — which provides other divisions than NACE — dividing the distributive trades from hotels and catering, and distinguishing between market and non-market services. Data for employment in six service sectors are available for all Member States (with the exception of Greece and Ireland) for the period 1980 to 1989 (1990 data are at present available only for some Member States). For most countries, data on value-added are also available for this period (the two exceptions are Spain and Portugal).

Regional accounts data, for the most part using the same system of classification (although in Italy, using the NACE classification), are used to supplement the national analyses and examine both the pattern of service employment within Member States and the changes over the period 1986 to 1990 — the only years for which anything approaching a complete set of comparable data are available.

Because these national accounts data are derived from enterprise and administrative records, they differ — in some cases significantly — from the Labour Force Survey data (derived from households) in terms of both the numbers employed and changes over time. This applies particularly to the regional statistics where the national accounts will record the place of work of those in employment, while the Labour Force Survey will record the place of residence. (Where commuting across regional boundaries is involved, the two may show a very different picture.)

than that in manufacturing or agriculture.

In support of the latter view, it is argued that for many service activities, the scope for increasing output relative to the people employed is limited because they involve personal contact or require physical presence — as, for example, with teachers, nurses, business advisers or shop assistants. Indeed, in many cases the level or quality of service provided may be directly related to the number of people involved — as in health care, personal services or hotels.

This argument cannot be pushed too far, however. Most services involve a range of functions which do not require direct contact with the client — administration and record-keeping, for example — where the scope for automation is no less than in manufacturing. Even for those services which do involve contact, modern advances in technology have opened the possibility for considerable increases in output per person.

Such contact as is necessary can these days often happen remotely via, for example, telecommunications links, although the growth of such services, the realisation of economies of scale and improvements in efficiency are in a number of cases hampered by barriers to trade, which in some areas remain important even within the Community. These barriers, rather than the nature of the services being provided, may be the main factor requiring the physical presence of the producer in the market concerned.

The difficulty of assessing what has actually happened in practice is that, for many services, outputs

cannot easily be measured independently of inputs, which makes the identification of productivity gains problematic. This is the case for most public and social services as well as for retailing, banking and the range of business services.

The analysis below shows that value-added — i.e. the financial compensation to employees plus profits — in most service activities has tended to increase relative to GDP across the Community and that real value-added per person has also tended to increase, again in most activities, although this may partly reflect relative price as well as volume increases (the price deflator used to convert to real terms is often the GDP or consumer price index). There are, however, pronounced differences between Member States and between service activities, which in some degree may arise from measurement problems.

A major aspect of the analysis is an attempt to distinguish between different kinds of service activity — between consumer and business services, basic and more advanced services, public and market services — since the determinants of growth, the factors influencing their location and, therefore, the future prospects for job creation across the Community, are likely to vary significantly from one activity to another. The availability of data, however, limits what it is possible to do, especially as regards separating business services from consumer services (see Box, p.78).

Service employment in the Community

The service sector accounted for 62% of the total numbers

However, the LFS is the only source of data on part-time working, which is especially important in a number of service activities. This has therefore been used to convert the national accounts estimates of numbers employed to a full-time equivalent basis in order to give a more meaningful indication of the volume of employment in the various activities in different parts of the Community.

The analysis in the chapter is based on three main sources:

1. Figures published by OECD on the ISIC (International Standard Industrial Classification) are used for the international comparisons of employment in services.
2. National accounts data supplied by Member States to Eurostat are used for the national comparisons within the Community. These are based on the NACE-CLIO classification of activities. The figures for numbers in employment from this source (self-employed and employees) have been adjusted approximately to a full-time equivalent basis, by using the Community Labour Force Survey data on the division of employment between full-time and part-time and on average hours worked by each in the closest NACE 1-digit sector.

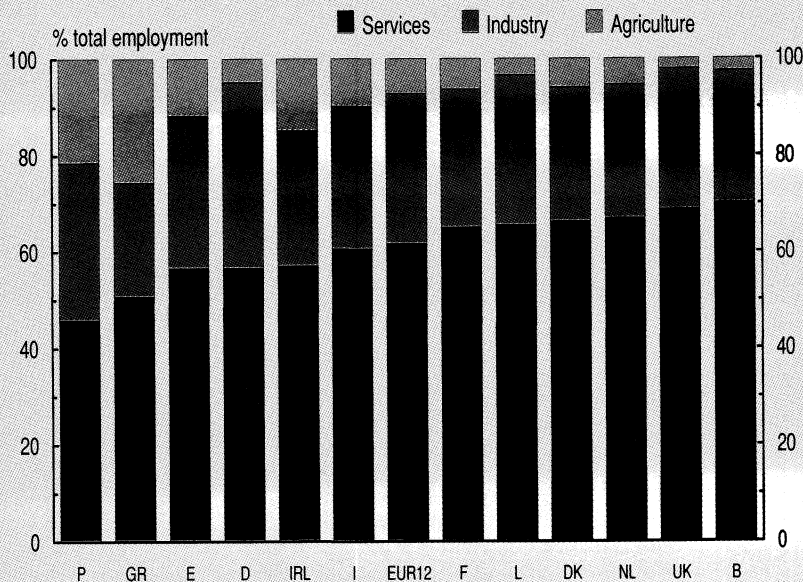
Although the latter classification system differs from the NACE-CLIO system, in most cases the service activities distinguished are close enough for this purpose. The main difficulty arises over employment in distribution, hotels and catering which is classified to a single NACE 1-digit sector but to two NACE-CLIO sectors. In this case, the same full-time/part-time breakdown and the same figures for the average hours worked by each are applied to both sectors.

For Spain and Portugal where no LFS data exist before 1986, it is assumed that the full-time/part-time division and the average hours worked by each remained unchanged between 1980 and 1986. Since part-time employment is relatively small in these two countries, the results should be only slightly affected by this assumption.

3. Community LFS data have been used for the regional analysis. The employment figures are for normal hours worked, so that comparisons of employment both between the various service sectors and between services and other activities are in terms of hours rather than numbers of people. For the calculation of the employment/population ratio, the figures for hours have been converted to numbers of (full-time equivalent) persons employed by taking 40 hours as the normal working week. The division of employment between the service activities distinguished in the analysis has been carried out by Eurostat.

For Greece, because of changes in the classification of regions, it is not possible to calculate change in employment by region between 1986 and 1990, while for Portugal, some adjustment is necessary to convert the 1986 regional data to the same basis as the 1990 figures.

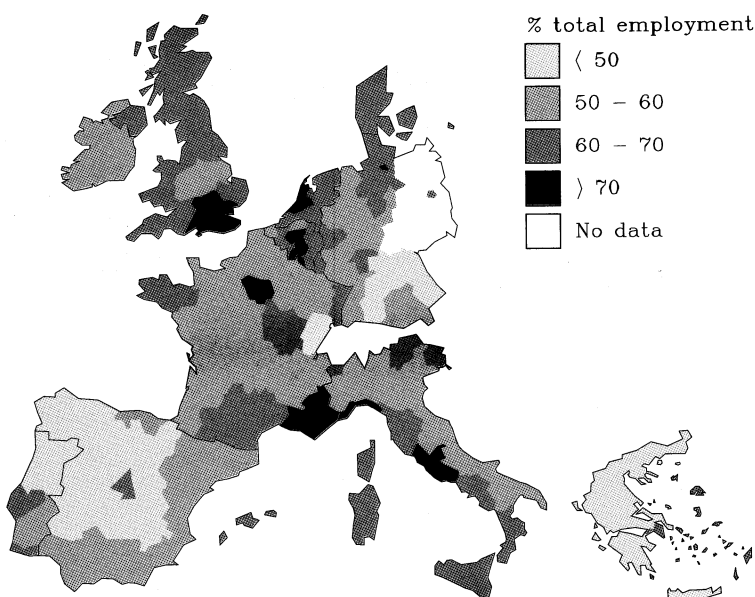
52 Distribution of employment by sector in the Member States, 1989



employed in the Community in 1989, as against 31% employed in industry and 7% in agriculture. The share of employment in services is higher than in Japan, where the figure for the same year was 58% (with 34% employed in industry), but significantly lower than in the US, where the share was over 70% (with 27% employed in industry and only 3% in agriculture).

Within the Community, the share of services in total employment varies significantly between Member States, the main division being between the more developed and more prosperous North and the less developed South. In Belgium, the share is on a par with the US, at 70%, while in the UK it is around 69% (although, as indicated below, the share in terms of the volume of employment rather than numbers is, in the latter case especially, much lower). In contrast, in Greece, the share was only around 51% and in Portugal, as low as 46%. In both these countries, the numbers employed in agriculture remain large, at over 20% of the total in work in 1989 (Graph 52).

M4 Share of employment in services, 1990



The major exception to this division is Germany, where services accounted for under 57% of the numbers employed in 1989, around the same proportion as in Spain. This is a reflection, as is well known, of the high share of employment in industry, which in this year amounted to some 39% of the total — well above any other country in the Community, and higher even than in Japan.

At the regional level, employment in services is particularly high in and around capital cities. Over 70% of the total numbers employed in the Paris basin, in

the South-East of England in and around London, in the Brussels region, in the Amsterdam–Rotterdam area of the Netherlands and in the Rome region of Italy work in services (Map 4). The position is similar in the tourist region of the Côte d'Azur in the South of France.

On the other hand, services account for under 50% of the numbers employed in most of Greece, much of Northern and Central Spain and the North of Portugal — where a significant proportion of jobs are in agriculture — and in parts of Southern Germany and Eastern France — where manufacturing is responsible for over 40% of employment.

Part-time working

Because of the importance of part-time working in services in a number of Member States, the figures for the numbers employed can give a misleading impression of the relative contribution of services to the volume of employment across the Community. On average, 18% of those employed in services worked part-time in 1989. The proportion, however, was over 38% in the Netherlands and around 28% in both the UK and Denmark — all three countries in which the relative number employed in services is high. By contrast, the proportion was only around 5% in Greece and Italy and under 10% in Spain and Portugal — all countries with relatively low numbers employed in services — as well as in Luxembourg (Graph 53).

If the figures for numbers employed are adjusted for part-timers and converted to a

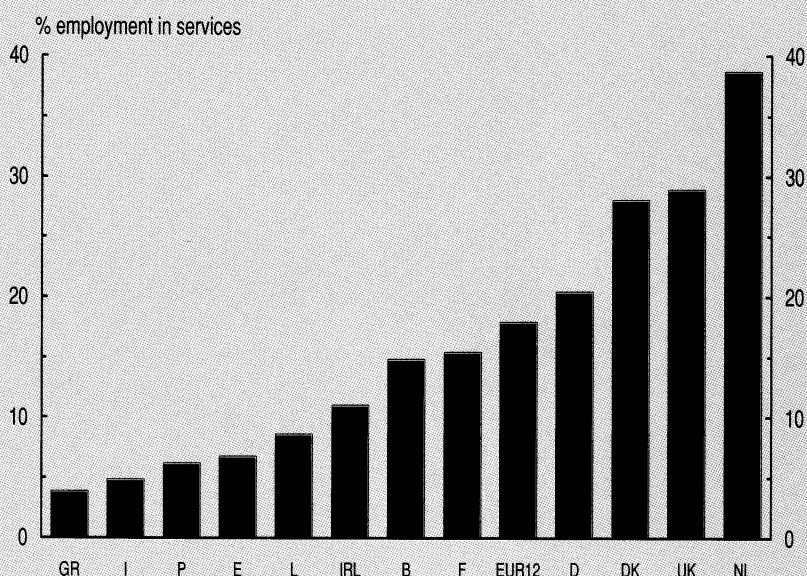
volume-of-work basis, the variation between Member States in the share of services in total employment narrows significantly. Whereas for the Southern Member States, the adjustment makes little difference to the share, for Belgium and the Netherlands the share of services is reduced from just under 70% to just over 60% and, for the UK, from 69% to 59% — less than in all other Northern Member States, apart from Germany and Ireland, and only slightly higher than in Italy.

In the analysis below, except where otherwise stated, the figures for employment are adjusted to a full-time equivalent basis, in terms of average hours worked, in order to give a more meaningful indication of differences and trends in the jobs provided by services across the Community.

Employment in services relative to population

A potential explanation of the variation in service employment across the Community is that, unlike industry and agriculture where there is an international market for the goods produced, the market for services tends largely to be domestic. This reflects the nature of a high proportion of services in that, as noted above, they involve personal contact between suppliers and consumers which limits the extent to which they can be traded. On this argument, the extent of employment in services might tend to be related more to population and/or real income within the country or region in question rather than to, say, natu-

53 Part-time working in services in the Member States, 1990



ral resource endowment, or the international competitiveness of production.

This argument, however, cannot be applied to all services. As noted above, even where contact between producer and consumer is necessary, this can often be achieved remotely and the development of an international market may be largely restricted by artificial rather than inherent obstacles. Moreover, the growth of particular kinds of service activity in certain areas may be dependent as much on supply-side factors, on the availability of particular skills in the labour force, as on demand. Since these may be more likely to be present the larger the size of the labour force to draw upon, their availability may also tend to be related in some degree to population.

Expressing service employment in relation to population, however, reveals more variation between Member States than when expressed relative to total employment. Thus in 1989 the volume of employment in services (measured in terms of full-time equivalents) relative to the size of the population, ranged from over 30% in Denmark, Luxembourg and the UK to under 20% in Portugal, Ireland and Spain (Graph 54). Only in the case of the Netherlands, where the ratio of employment to population is relatively low — reflecting low participation among women — does this measure give a significantly different impression than employment in services relative to total employment.

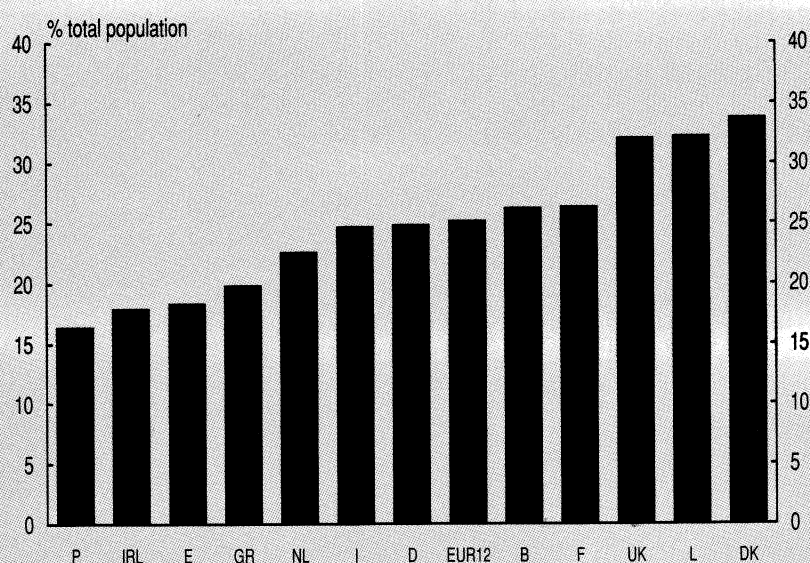
In broad terms, some tendency is evident for employment in

services relative to population to vary between countries according to differences in income per head. Denmark and Luxembourg (where average income per head is amongst the highest in the Community) have the highest ratios, Portugal and Ireland (with relatively low levels of income per head) have the lowest ratios. Nevertheless, there are important exceptions to this general pattern — Germany and the Netherlands with high income per head and low service ratios, the UK with income per head around the Community average and a service ratio well above the average. It is clear that other factors are at work.

One of these factors is the importance of trade in services. While many services may not be tradeable, tourism and financial services represent significant sources of export earnings for some Member States, and neither is inherently related to population or real income in the locality in which the employment is located. The interrelationship between employment, population and real income is examined further below for more narrowly defined service activities where trade does not complicate the issue.

Another factor is the intensity of industrial production which might be expected to be an important determinant of the scale of demand for business services. This, however, is difficult to verify given the data available largely because business services cannot easily be separated from consumer services. Moreover, both agriculture and consumer services as well as industry might equally give rise to a demand for business services.

54 Employment in services as a share of population in the Member States, 1989



Value-added in services

The relative contribution of the service sector to value-added in the Community is greater than its contribution to the volume of employment. This holds true for all Member States, apart from Luxembourg where there is little difference between the two. For the Community as a whole, the share of services in total value-added averaged around 63% in 1989. Only in Portugal and Greece was the share less than 60%, and even here it was only slightly less at 57–58% — around 10% higher than the share of services in employment.

Changes in the share of services in total employment

The importance of services in terms of employment has increased almost continuously over the past 20 years in the Community, from around 44% in 1970 to 53% in 1980 and 61% in 1989 (Graph 55). Although there has been some growth in the extent of part-time working in services relative to other sectors, the increase in the share of services is not much less if it is measured in terms of the volume of employment rather than the numbers employed.

There is little sign of any long-term slowdown in this relative growth in services. While the rise in the share in the second half of the 1980s was slightly less than over the preceding five years, this can be attributed to the additional jobs in industry which were created during this period of relatively high economic growth. A similar upward trend in the share of services in employment

is also evident in other developed parts of the world. In other Western European countries, the rise in share was almost precisely the same as in the Community. Although the increase was less in the US and Japan — in the former, because of a much smaller decline in agriculture, which already employed far fewer people in 1965, and in the latter because of continuing growth of employment in industry — it was still substantial, with an increase from 58% to 71% in the US, and from 44% to 58% in Japan. In both countries, the rise in share was much the same over the 1980s as over the 1970s.

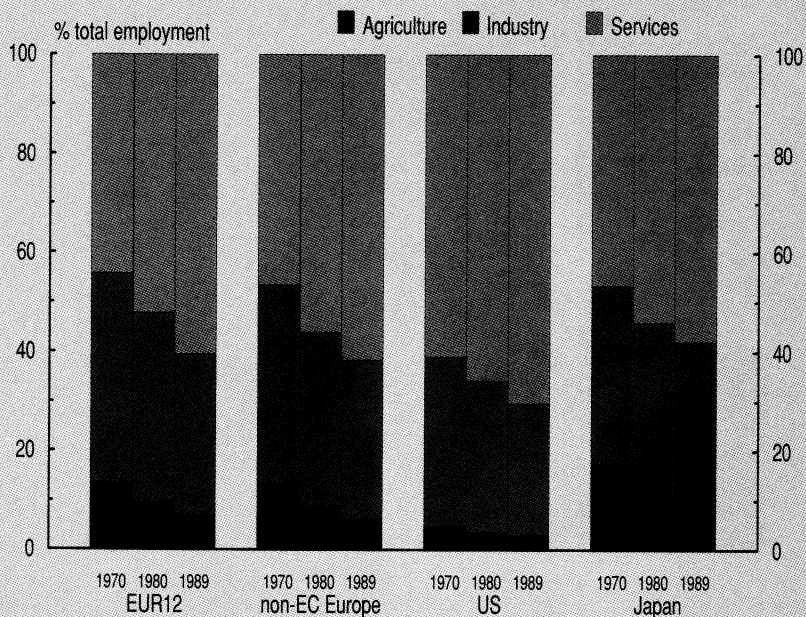
The experience of other countries, especially the US where services have been more important than in the Community for some time, suggests, therefore, that the growth of service employment is far from exhausted. As seen below, however,

the composition of employment in terms of the activities undertaken has changed over time and is likely to continue to change in the future.

Growth in service employment relative to agriculture and industry in Member States in the 1980s

In all Member States, employment in services increased during the 1980s and declined in industry and agriculture taken together. The share of services in total employment, therefore, rose significantly. The rate of growth of service employment in terms of full-time equivalents (i.e. adjusting for the changing importance of part-time working), was far from uniform across the Community, however. Although there was some tendency

55 Sectoral distribution of employment in the Community, non-EC Europe, US and Japan, 1970, 1980, and 1989



for growth to have been higher over this period in the Southern Member States, where the share of services in total employment was relatively low, this was not invariably the case.

Thus the growth of service employment between 1980 and 1989 varied from around 3% a year in Luxembourg, Greece and Spain to under 1% a year in Belgium, Ireland and the Netherlands. (In the Netherlands, however, there is a major difference between the national accounts figures for employment and the LFS figures — the latter show a substantial growth in employment between 1983 and 1990, over 3% a year in full-time equivalent terms, the former under 1% a year. Since average GDP growth during the 1980s, at under 2% a year, was relatively low, the national accounts figures in this

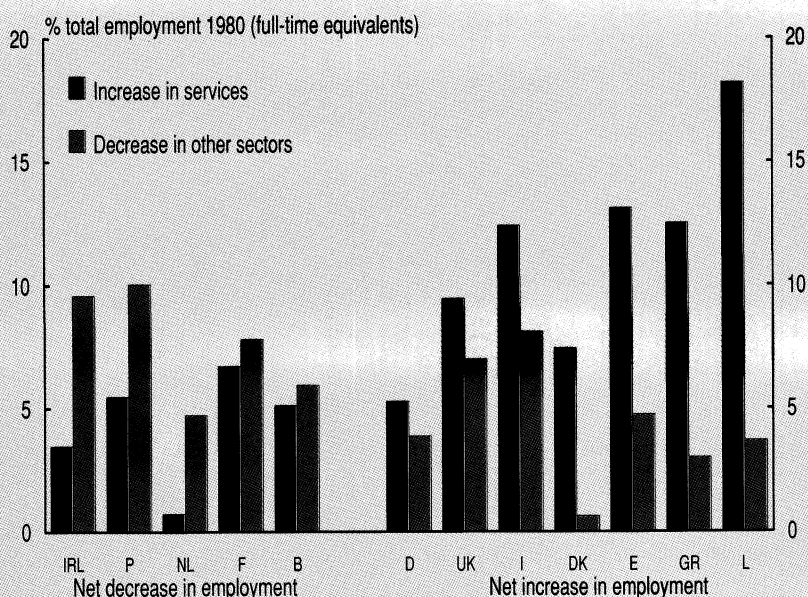
case may be a better indicator of the actual change in employment.)

In terms of their contribution to overall job creation, services were responsible for increasing total employment by over 18% in Luxembourg between 1980 and 1989, and by over 10% in Greece, Spain and Italy (Graph 56). In all four of these countries, the net addition to jobs accounted for by the expansion of services more than offset the decline in employment caused by the loss of jobs in agriculture and industry. This was also the case in Denmark, the UK and Germany. Except for Luxembourg, however, the overall net gain in jobs failed to match the increase in labour supply, as increasing numbers came of working age and as a higher proportion of women joined the work force. In consequence unemployment rose.

In the five other Member States — Ireland, the Netherlands, Portugal, France and Belgium — the gain in service employment was less than the reduction in other sectors over this period. (In the case of Portugal and the Netherlands, the LFS shows a much higher level of employment in all sectors in 1989 — in this case more in line with economic growth performance).

In terms of the competing views on the causes of the growth of service employment — as outlined at the beginning of the chapter — the evidence for the 1980s suggests, if anything, a positive rather than a negative association between the change in employment in services and that in other sectors, at least at the national level. Although the relationship is weak, there is some tendency for those countries which experienced a below average decline in employment in agriculture and industry between 1980 and 1989 to have shown an above average increase in service employment.

56 Changes in employment in services and other sectors in the Member States, 1980-1989



Growth in service employment by region in the 1980s

The increase in employment in services during the 1980s varied even more markedly between regions in the Community than between countries. In, for example, the East and the South-West of England, Brittany, Southern Portugal, Madrid and the Southern tip of Italy as well as Luxembourg, the growth of services added over 14% to the total numbers employed between 1980 and 1990. (There are no consistent data before 1986 to enable the volume of employment to be estimated). On the other hand, there

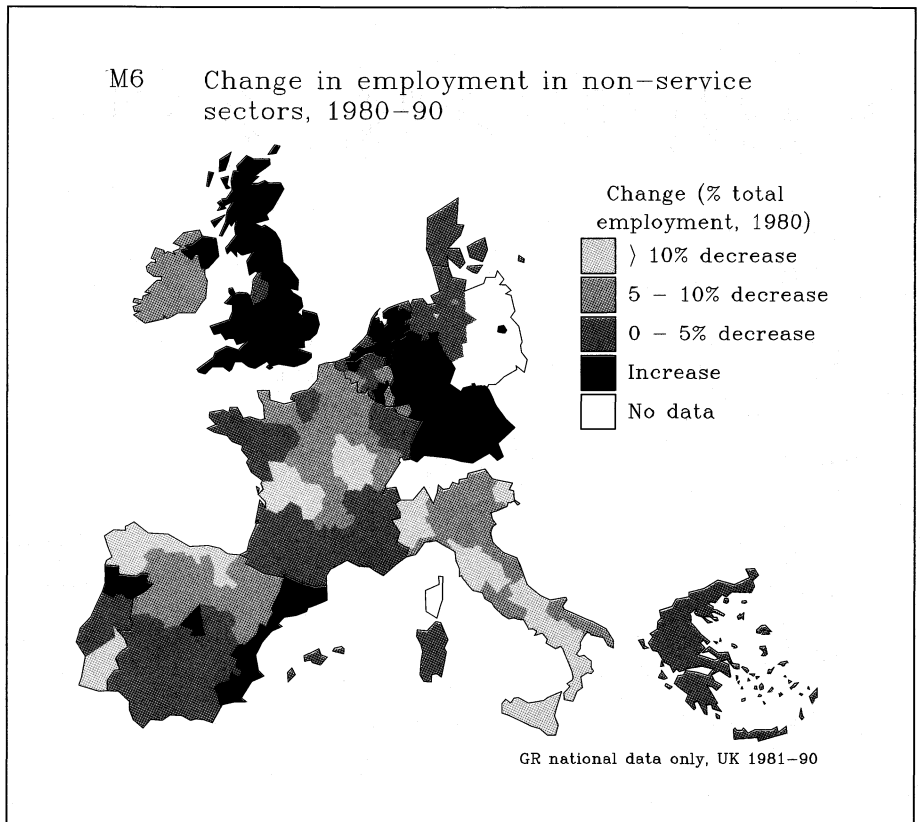
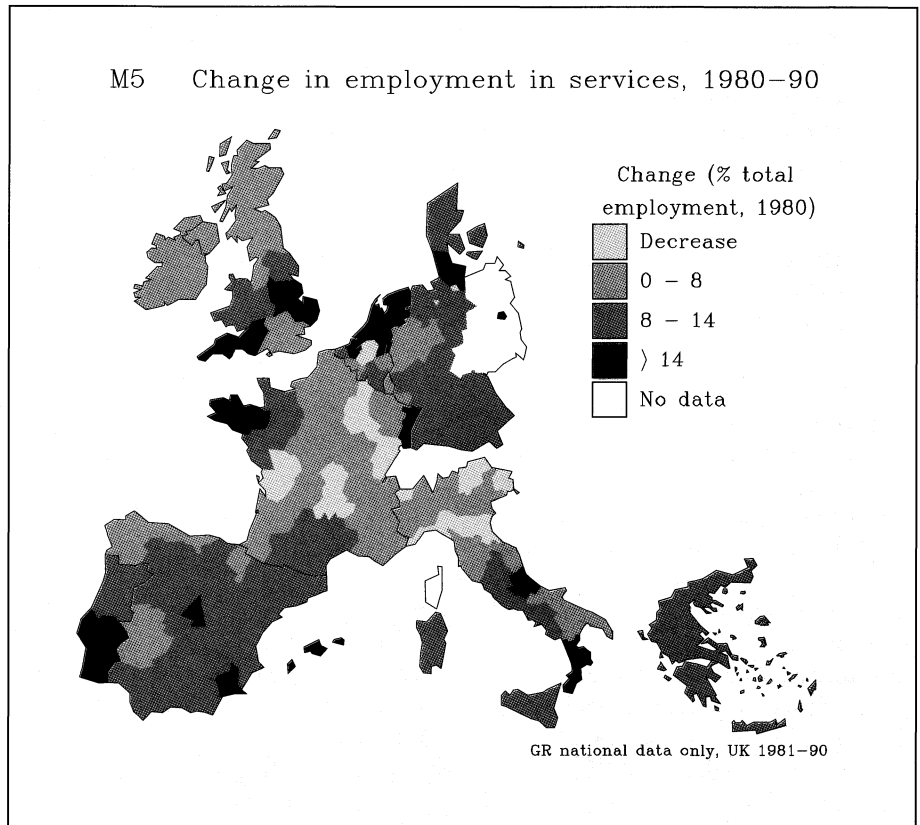
are several parts of France and Northern Italy where the numbers employed in services actually fell over this period (Map 5).

A key issue at regional as well as national level is whether there is any tendency for growth in service employment to have occurred predominantly in areas where jobs in agriculture and industry declined, or whether, in contrast, the highest rates of job creation in services occurred typically in different regions to those where employment in other sectors showed the biggest falls.

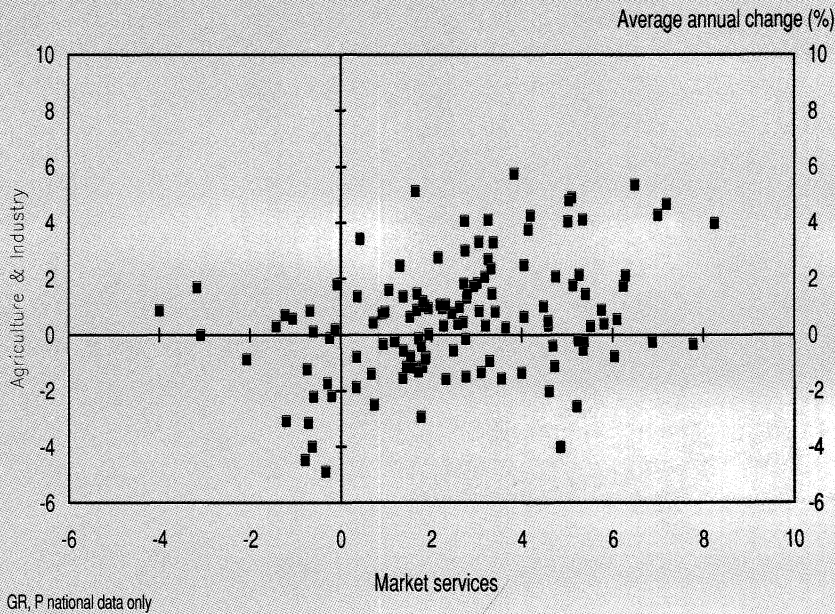
The evidence for the 1980s is mixed and supports neither view conclusively, although on balance there seem to be slightly more regions where employment in service and non-service activities changed in similar ways than regions where the changes were in opposing directions.

Many of the regions which experienced large reductions of employment in industry and agriculture, in Italy, Northern Spain, the mid-West and Centre of France — where the loss of jobs in these sectors reduced total employment by more than 10% over the 1980s — enjoyed relatively low growth of jobs in services (Maps 5 and 6). At the same time, a number of regions where employment in non-service sectors increased — the East and South-West of England, Madrid and the Murcia region of Spain and parts of the Netherlands — also experienced large gains in service employment.

On the other hand, there are also a few regions — notably Southern Portugal and the Southern tip of Italy — which suffered large reductions in jobs in agriculture and industry, but experienced large



57 Growth of employment in market services compared to agriculture and industrial sectors in regions of the Community, 1986-1990

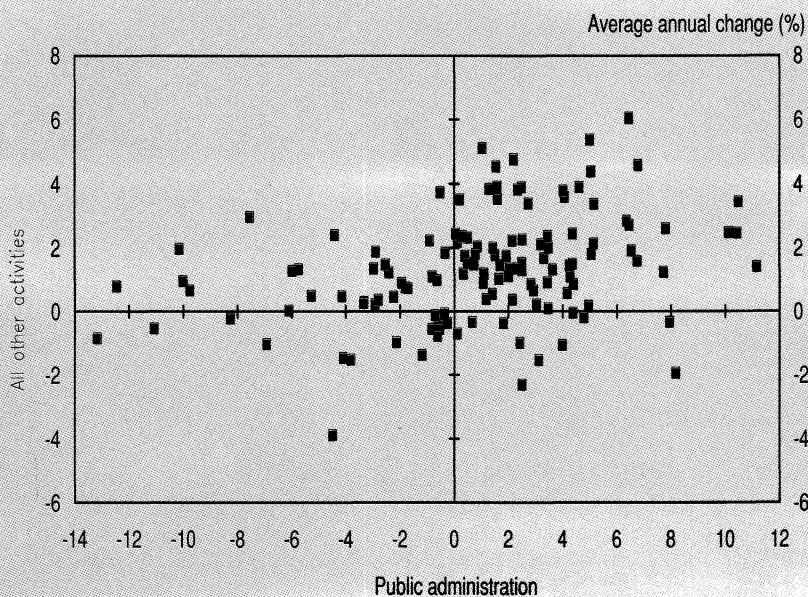


increases in service employment. There were also a few regions where non-service sector employment expanded but where comparatively few jobs were created in services — particularly Scotland and the North of England, Northern Ireland and parts of Western Germany.

One general conclusion which can be drawn from the evidence of this period is, however, that — other than perhaps in the very long term — there has been no general tendency for services to expand in areas suffering large job losses in agriculture and/or industry.

This conclusion is confirmed if growth in employment by region in market services (i.e. excluding public services, the location of which is determined as much by government as by economic forces) is related to the change in employment in other sectors. Although the period for which this analysis can be carried out for all the Community regions is only four years — 1986 to 1990 — it is nevertheless indicative.

58 Growth of employment in public administration compared to all other sectors in the regions of the Community, 1986-1990



While the relationship between the rates of change in employment (measured in terms of average hours worked) in these two broad sectors over this period is not very close, it does suggest that those regions which experienced above-average growth of employment in market services also tended to show increases rather than reductions in employment in industry and agriculture combined (Graph 57).

The broad relationship between changes in employment in services and other sectors can, of course, be influenced by a wide range of factors as intimated above. It is clearly important to differentiate between the kinds of activity which are declining or expanding — not least to examine the ease or difficulty

with which the people losing their jobs in one sector can take up employment elsewhere — and the skills possessed by the indigenous labour force. It is equally important to carry out the analysis for a longer period of time than is possible at present.

It is to be noted that, if the rate of employment change in public administration by region over this four-year period is also related to employment changes in other sectors (including market services), a similar conclusion emerges (Graph 58). There is no sign of any general tendency, therefore, for governments to direct the employment over which they have control to areas of employment decline. It should be emphasised, however, that four years may be too short a period for any such policy to show itself in the pattern of change.

The division of employment between service sectors in the Community, and elsewhere

Insofar as it can be compared, the division of employment in services between different kinds of activity seems to be broadly similar in the Community to that in the US (Graph 59). The main differences in 1989 seem to be that the Community had a higher proportion employed in transport and communication (6% of total employment as against 5%) and a lower proportion employed in finance, insurance and business services (8% as against 11%). Since the former activity seems to decline in relative importance over time and the latter to increase, this may reflect differences in the stage of economic

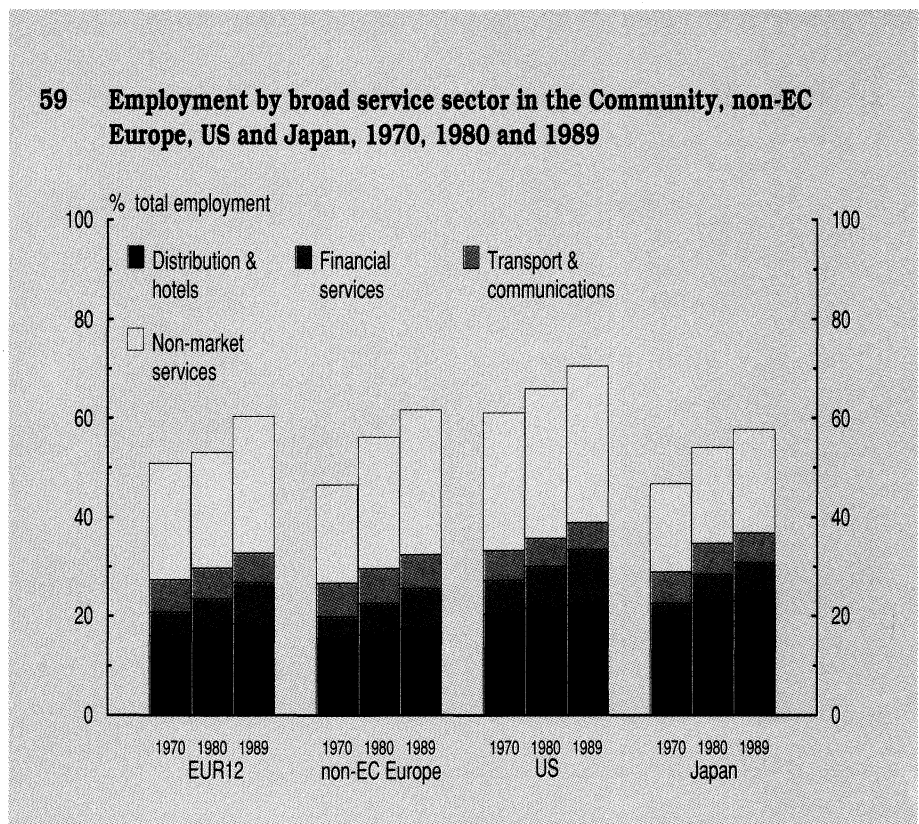
development reached, and in levels of real income per head.

As compared with Japan, on the other hand, the Community has similar shares of service employment in both transport and communication and finance, insurance and business services, but a much smaller share in distribution, hotels and catering and a much larger share in public and other services. This difference seems to reflect two distinguishing features of the Japanese economy: firstly, that Japan has a notoriously complex distribution system with, in many cases, several “layers” of intermediary between the producer and retailer; secondly, that a high proportion of social and welfare functions are performed by enterprises rather than government, and therefore not included in the latter sector.

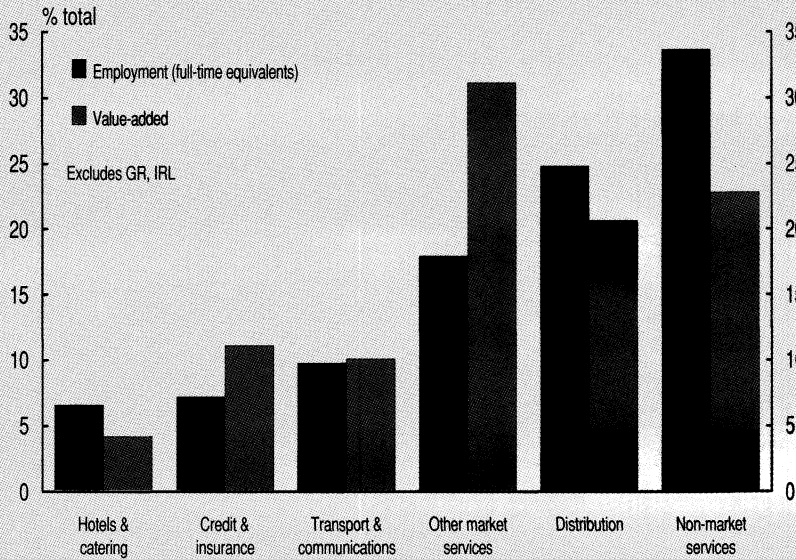
The relative growth of employment in these different kinds of service activity seems to have been similar in the Community to that in the US and Japan. In all three parts of the world, the numbers employed in finance, insurance and business services have shown by far the largest increase in percentage terms, with those employed in transport and communication showing the biggest relative decline.

Employment in different service activities in the Community

On the basis of the data available, the service sector in the Community can be sub-divided into six groups for further analysis. In terms of employment, the largest by far of these



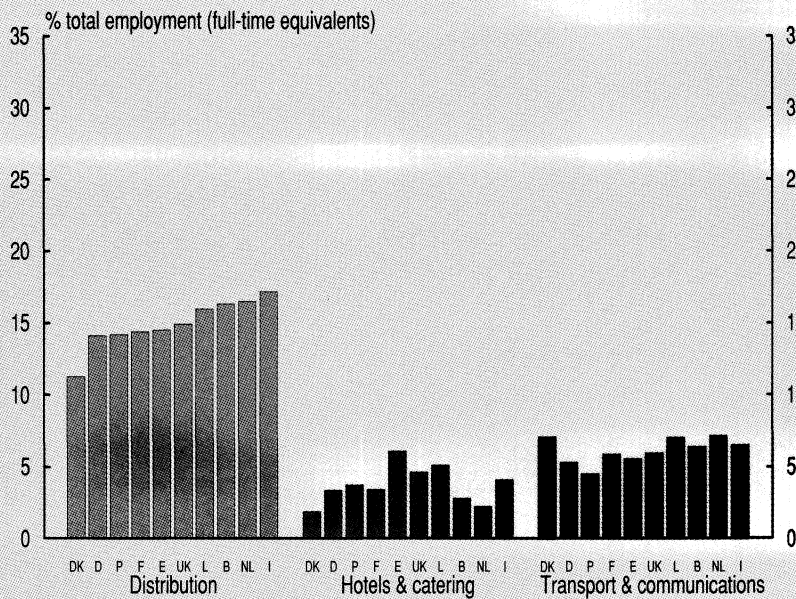
60 Share of value-added and employment in services accounted for by different service activities in the Community, 1989



sub-sectors is non-market services, comprising public administration, health, education and various other social and communal services. In 1989, these accounted for over a third of total employment in services (Graph 60). The next largest sector, retailing and wholesaling, was responsible for just under a quarter of service employment, while other market services — consisting of activities ranging from entertainment to personal services such as cleaning and hair-dressing — accounted for around 17%. The other three sectors — transport and communications, finance and insurance, and hotels and catering — were each responsible for less than 10% of employment in services.

In terms of value-added, the relative importance of these sectors is somewhat different. Both other market services and finance and insurance contribute much more to value-added in the Community than they do to employment — indeed the former was responsible for some 30% of total value-added in services in 1989 — whereas hotels and catering, distribution and, in particular, non-market services account for significantly less — the last for only just over 20% of the total for services in 1989.

61 Share of employment by service activity in the Member States, 1989



This difference reflects differences in average levels of wages, salaries and profits as between sectors, as well as measurement conventions. Because non-market services by definition generate no profits, the value-added which the sector is estimated to produce is correspondingly reduced relative to other sectors. For this and other reasons, it is questionable how far value-added is a suitable measure of the output of these various groups of activity.

Employment in different service activities in Member States

For purposes of analysis, the six service sectors distinguished above can be divided into two groups. The first group comprises distribution, hotels and catering, and transport and communications — which can broadly be described as basic services — which tend to grow relatively slowly over time. The second group consists of finance and insurance, other market services and non-market services. In terms of employment, the relative importance of the first group varies comparatively little between Member States; the importance of the second group varies considerably. It is the variation in size of this latter group which is mainly responsible for differences in the share of services in total employment across the Community.

Thus the share of total employment in distribution in Member States in 1989, apart from in two countries — Denmark where it was low and Italy where it was high — varied between 14% and 17%, while in transport and communications, it varied between 5% and 7%, apart from in Portugal, where it was only around 4%, reflecting perhaps the less developed nature of the Portuguese economy (Graph 61).

Slightly more variation between countries is apparent for hotels and catering, although the volume of employment in this sector was generally comparatively small in all Member States. The sector, therefore, accounted for over 6% of employment in Spain but for only around 2% in Denmark and the Netherlands. Contrary to

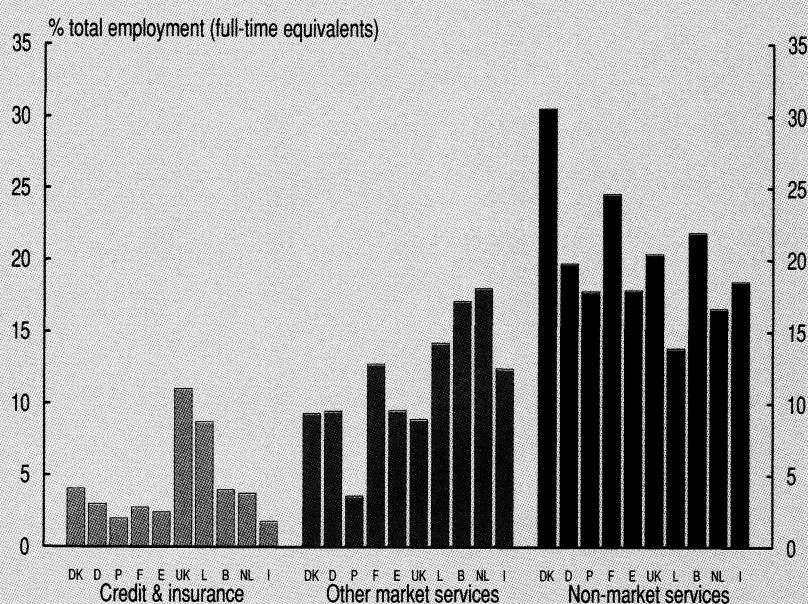
what might have been expected, however, differences in the proportion working in the services sector do not seem to be closely related to differences in the importance of tourism. Both Italy and France, for example, had proportionately fewer people employed in hotels and catering in 1989 than the UK or Luxembourg.

It is in the remaining three sectors where differences in employment are most pronounced. The share of finance and insurance in total employment in 1989 ranged from over 10% in the UK and over 8% in Luxembourg to under 3% in Italy, Portugal and Spain (Graph 62). For both former countries, high employment in this sector is largely attributable to their comparative specialisation in international finance. Despite the apparent tendency for this sector to become more important over time as countries

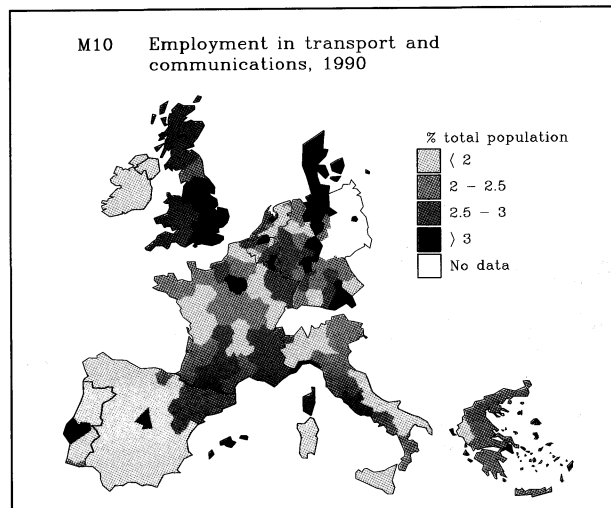
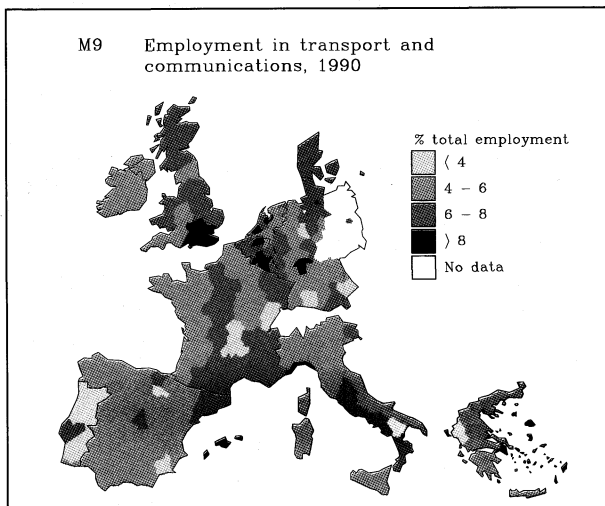
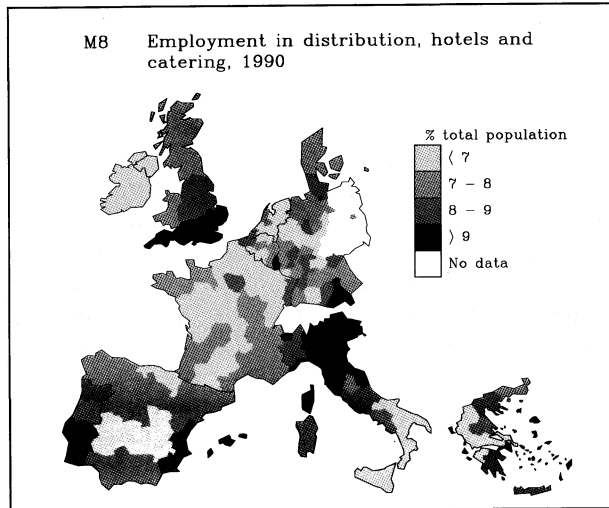
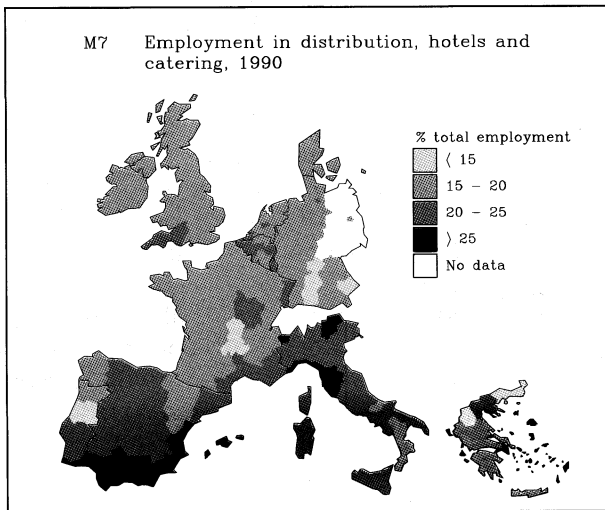
develop and become wealthier, its share of employment across the Community does not vary very closely with income per head, even if the UK and Luxembourg are excluded as special cases. Thus the proportion employed in finance and insurance in Spain in 1989 was only marginally less than in Germany or France.

In other market services, which includes widely different activities, the variation in employment shares is even greater. In the Netherlands and Belgium, this sector accounted for 17–18% of the total volume of employment in 1989, whereas in Germany, Denmark and the UK as well as in Spain, the figure was under 10% and in Portugal under 5%. Unfortunately, with the data available, it is not possible to identify the precise activities within this sector which could be responsible for these differences.

62 Share of employment by service activity in the Member States, 1989



Employment in service activities relative to total employment and population



For non-market services, inter-country differences in relative employment are equally marked. While in Denmark this sector was responsible for over 30% of total employment in 1989, and in France for just under 25%, in Spain and Portugal it accounted for under 18%, in the Netherlands for around 16% and in Luxembourg for under 14%. Again, any association between the share of employment in this sector and income per head is not very close. Since, however, it includes such a wide range of activities — public administration as well as healthcare and education, refuse disposal as well as cultural activities — this may not be too surprising. The pattern of employment at a finer level of disaggregation within this sector is examined below.

Employment in different service activities by region

There are more pronounced variations in the pattern of service employment between regions across the Community than between countries. This is true not only of the second broad group of activities distinguished above but also of the more basic services included in the first group.

Distribution, hotels and catering

Although there is comparatively little variation over much of Germany, the UK, Denmark, the Benelux countries and Northern France in the share of employment in distribution, hotels and catering (at the regional level, it is not possible to separate these sectors), there are major regional differences

in the South of the Community (Map 7). This clearly reflects the influence of tourism which results in concentrations of employment around the Mediterranean coast of Spain, France and Italy and in the Greek islands. In a number of these places, this sector accounted for over 25% of total employment (measured in terms of average hours worked) in 1990.

There are, however, a number of regions with high employment in this sector where tourism does not seem to be an important factor. This is true of most of Central and Northern Spain, parts of Central and Eastern France and the South-East of Italy. The explanation lies largely in the size of population in these localities relative to the total numbers in employment.

The number of people living in a particular area, as well as the scale of tourism, is an important determinant of, in particular, the size of the retail sector. However, because of major variations in activity rates, this is not necessarily reflected in total employment. Areas where employment is low relative to population will, therefore, tend to have a relatively high share of employment in this sector. This is confirmed if employment in distribution, hotels and catering is measured as a proportion of population (Map 8). The variation in this is much less wide than for the employment share and most of the regions where the share of employment in this sector is unexpectedly high have a relatively low ratio of employment to population.

Transport and communications

Employment in transport and communications services would be

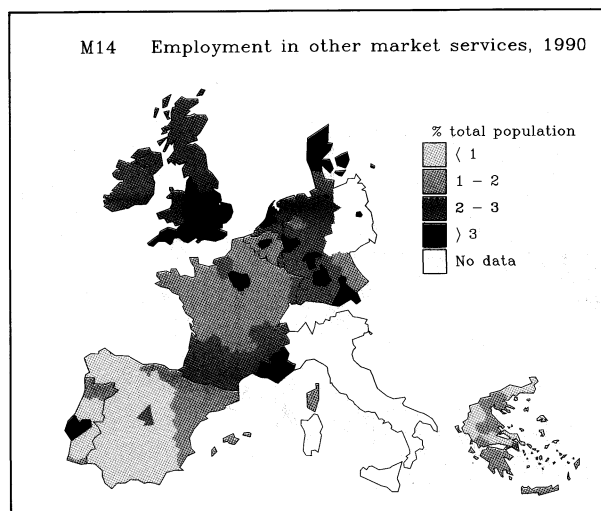
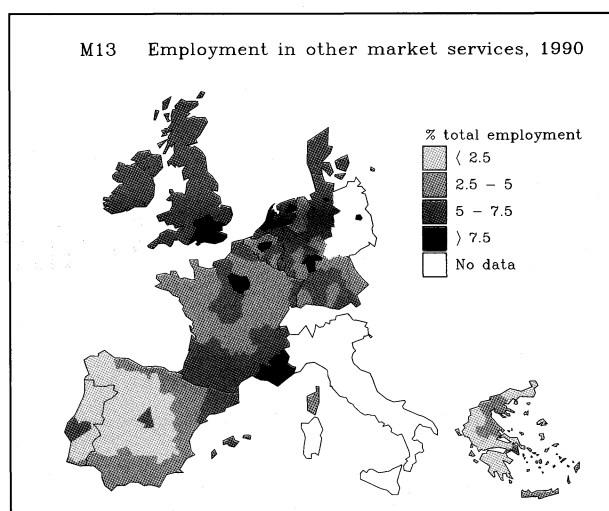
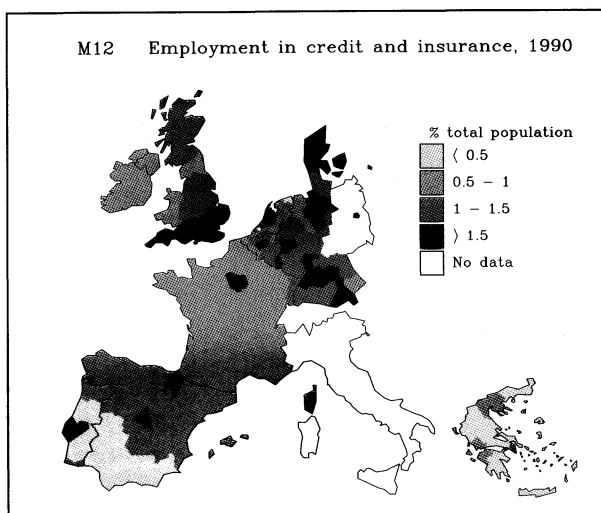
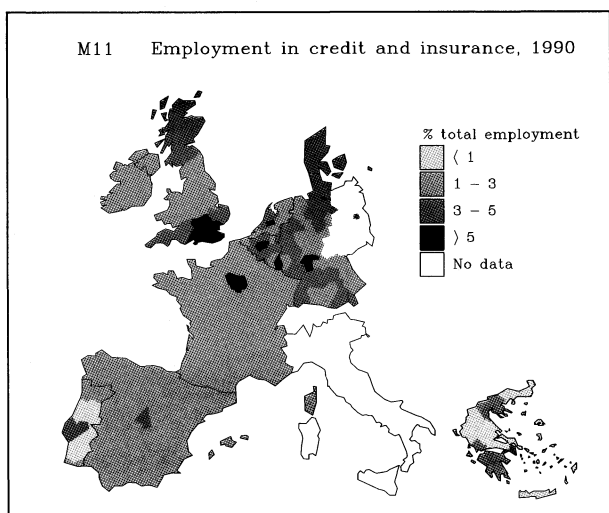
expected to vary between regions according to two main factors — the scale of economic (especially industrial) activity and the size of the population. The pattern of employment in this sector broadly conforms with this expectation, with the share of total employment relatively high in the densely populated areas in the Benelux countries, the Ruhr valley, Bavaria, the Paris basin, the South-East of England, Madrid and the North-East of Spain. These areas are, in many cases, also important industrial areas (Map 9).

The share is also high, however, over much of Southern France and Southern Italy and in Scotland, which have neither large concentrations of population nor industry. In this case relating employment in this sector to population does not provide an explanation of variations. The proportion also remains high in Denmark and parts of Northern Germany, where industry is also not unusually important (Map 10).

Finance and insurance

The regional distribution of employment in finance and insurance conforms more closely to expectations. The share of employment in this sector in 1990 was high in financial centres — London, Paris, Frankfurt — accounting for over 5% of employment in the areas concerned, and was also higher than average in regions with relatively high levels of income per head — Denmark and parts of Southern Germany, for example (Map 11). By contrast, over much of Greece and Portugal, where income per head is well below the Community average and which are less developed economically, the share was less than 1% (no regional data are available for Italy).

Employment in service activities relative to total employment and population



Relating employment to population reinforces this picture, although a few apparent anomalies are revealed — Corsica, the Basque region of Spain, and Scotland, all have relatively high ratios of employment in financial services to population (Map 12).

Other market services

The regional pattern of employment in other market services — which comprise a variety of activities ranging from business services to recreational and personal services — broadly follows a similar pattern to financial services. Since the relative importance of this sector is also likely to be influenced by the same factors — population and income per head — this is only to be expected. However, it is also likely to be affected by tourism and the scale of economic activity.

The influence of all these factors is evident in the variation in the share of employment in this sector across the Community (Map 13). The share was relatively high in 1990 in many of the more prosperous parts of Northern Member States and low over much of the less prosperous, less developed South, with the exception of capital cities — Madrid, Lisbon and Athens — and tourist areas — the South of France in particular (again no regional data are available for Italy). This pattern is again reinforced if employment in the sector is related to population rather than to total employment in the region (Map 14).

The main exception to the general pattern seems to be Ireland, which has a relatively high share of employment in other market services but below average income per head, a less developed tourist

industry than, say, Spain or Greece, and a less developed economy than many parts of the North with similarly high shares.

Healthcare and education

Employment in health services and education in any given region can be expected to be largely influenced by two factors — the number of people living there (especially the number of young and older people) and real income levels (since the demand for both kinds of service is likely to increase with income).

As a share of total employment, employment in this sector was relatively high in 1990 — over 10% — over much of Southern Italy and Southern Portugal and Spain as well as in Northern France and parts of Northern Germany (Map 15). In terms of shares of employment, there seems to be no significant difference between the North and South of the Community. Both have regions with high and low shares.

When employment in this sector is related to population, however, a somewhat different pattern emerges. In most parts of the less developed South of the Community, the ratio of employment to population was below average in 1990, the only exceptions being Southern Portugal, the Campania region of Southern Italy, Sardinia and Corsica (Map 16). By contrast, employment in healthcare and education tends to be high relative to population in areas with relatively high levels of income per head — in Northern Italy, Southern Germany, Denmark, Paris, the Netherlands and England. Against this general pattern, the ratio is

also high in Brittany and Northern Ireland.

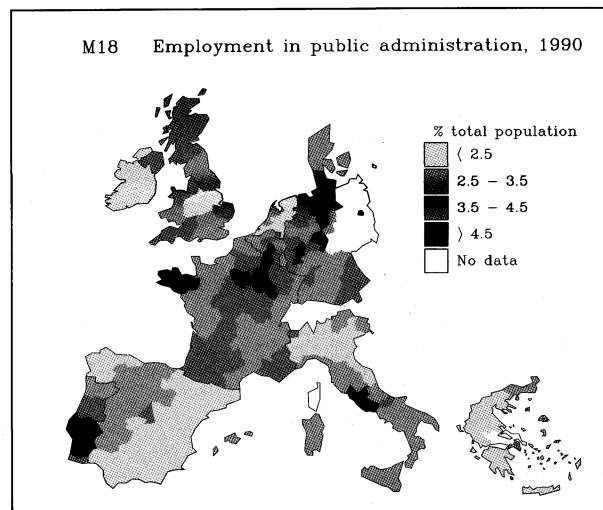
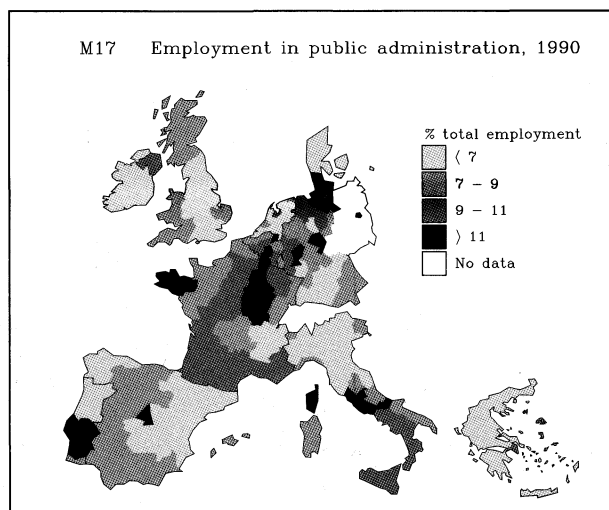
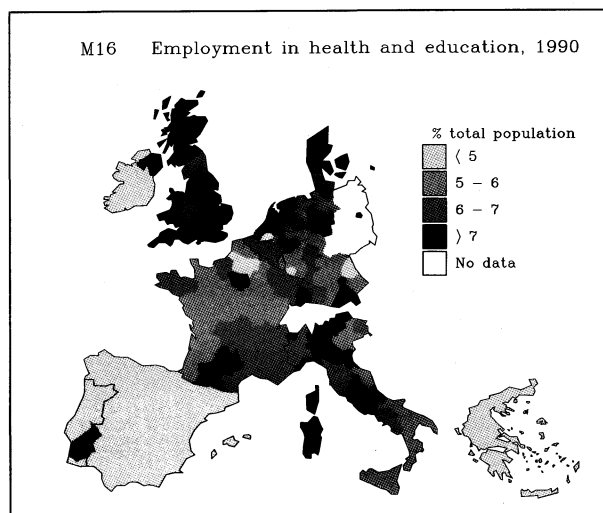
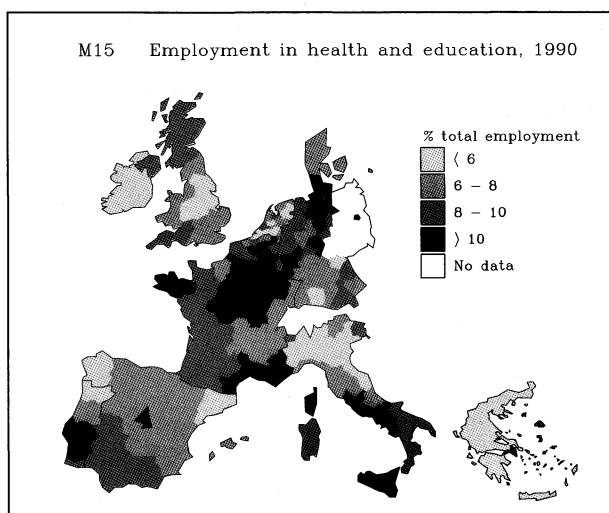
The analysis of employment variations in this sector can be taken one step further. By adjusting the employment/population ratio explicitly for inter-regional differences in income per head (as measured in terms of purchasing power standards (PPS) relative to the Community average), some indication can be obtained of the extent of the variation in employment in healthcare and education once population and real income levels have been allowed for. If employment in this sector rises more than in proportion to income per head, then this adjusted measure would show a similar, although less pronounced, variation between different parts of the Community as the unadjusted employment/population ratio (as shown in Map 16). If, on the contrary, employment tends to rise by less than in proportion to income per head, then the adjusted measure should show the reverse pattern.

In practice, the adjusted measure shows no clear pattern at all (Map 19). Employment in 1990 was higher than expected, given population and relative income levels, in the North of the Community, in Denmark, the North of the UK, Wales, parts of the Netherlands and Belgium, Brittany and parts of Southern France and, in the South, in much of Portugal, Southern Italy and parts of Greece. Similarly, employment was lower than expected in many parts of Germany, Luxembourg, Paris and North-East Italy, as well as over much of Spain and Greece.

Public administration

Employment in public administration in different localities

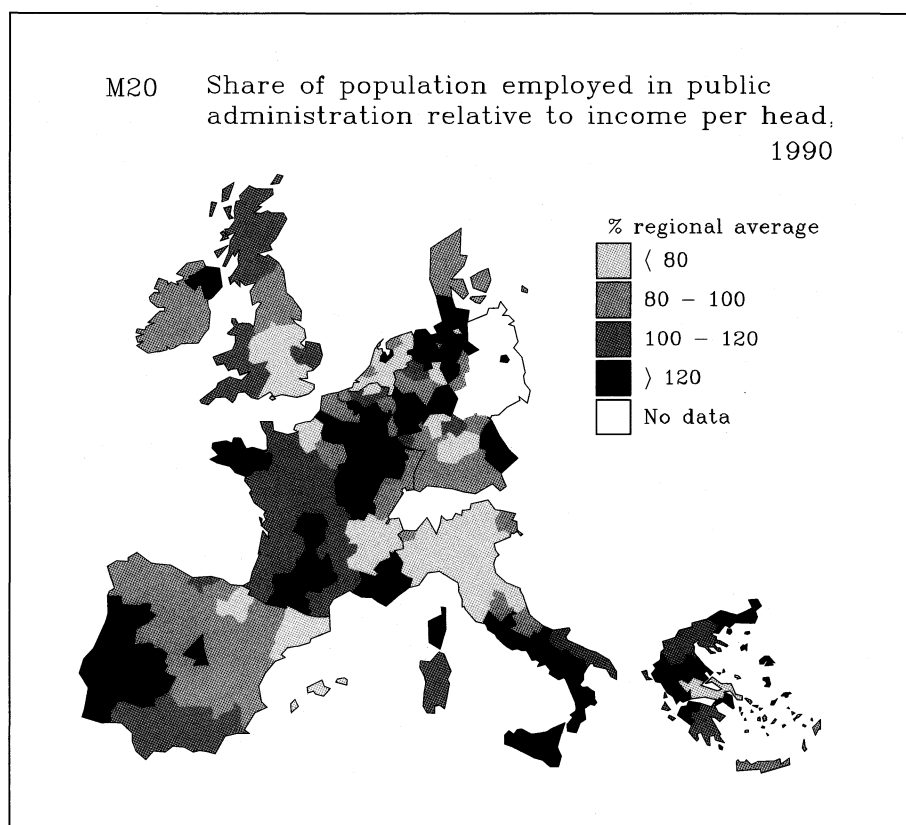
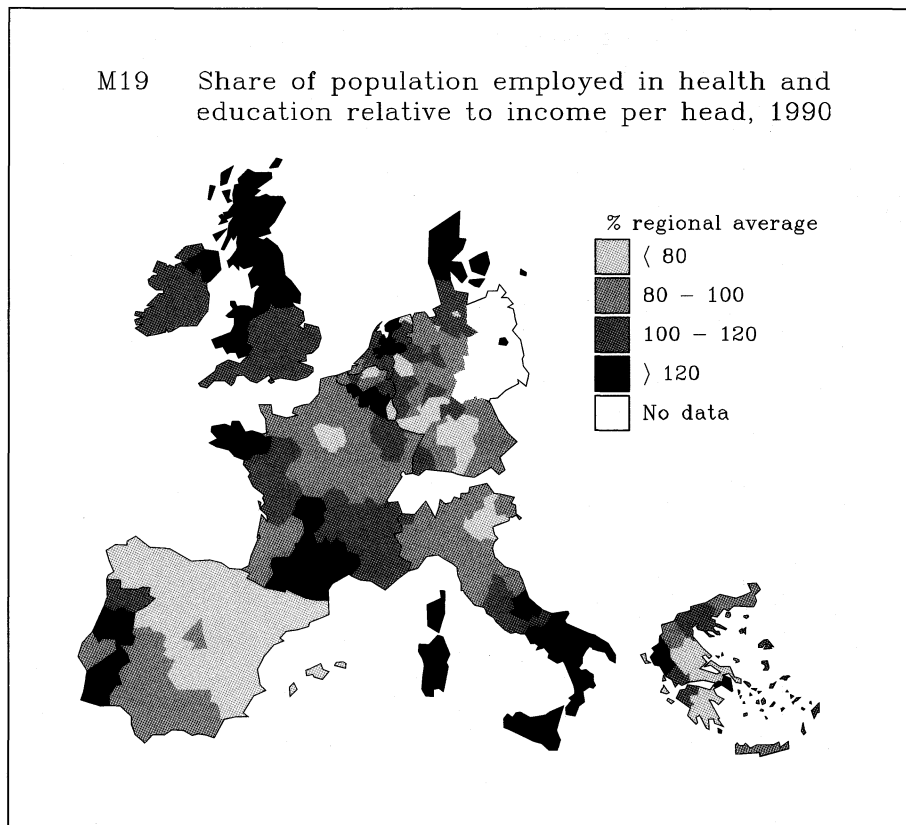
Employment in service activities relative to total employment and population



might also be expected to reflect population levels. In practice, it varies significantly across the Community in relation to both total employment and population (Maps 17 and 18), although relative to population there is some tendency for employment to be lower in the South than in the North of the Community.

There is some indication, however, that employment in this sector, as well as being relatively high in regions where capital cities are located — London being a significant exception — also tends to be above average in a number of areas where unemployment is a problem — in Northern Ireland, Brittany, parts of Northern France and of Northern Germany — suggesting that the sector may form part of government policy towards addressing this problem.

As in the case of employment in healthcare and education, any tendency for employment in public administration to increase as regions become wealthier can be examined by adjusting the employment/population ratio for variations in income per head. On balance, the differences in this adjusted measure tend to suggest that employment in public administration varies less than in proportion to income per head, being low in relation to income in some of the most prosperous parts of the Community — in Northern Italy, parts of Southern Germany, South-East England, Paris and over much of the Netherlands. At the same time, employment seems to be high in relation to both population and income in Portugal, Southern Italy and many parts of Greece (Map 20).



Changes in employment in different service activities in the 1980s

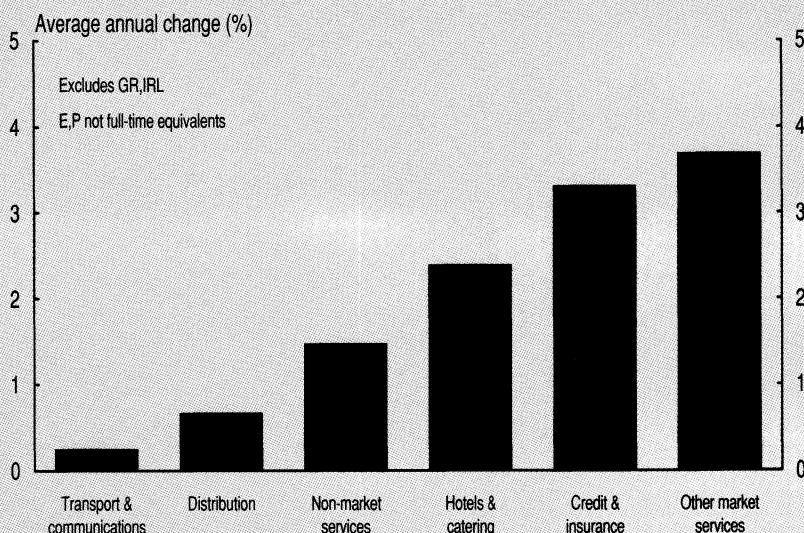
Over the 1980s, the different service activities in the Community showed very different rates of growth in employment. While employment in other market services and in finance and insurance increased by an average of over 3% a year between 1980 and 1989, employment in transport and communications and distribution grew by under 1% a year (Graph 63).

These relative rates of employment growth were broadly in line with the growth in value-added in real terms in the six sectors. For hotels and catering, however, employment grew by less in relation to value-added than in the other sectors (implying that the growth of labour productivity was higher) and for both other market services and non-market services, it grew by more (implying that labour productivity growth was lower than in other service activities).

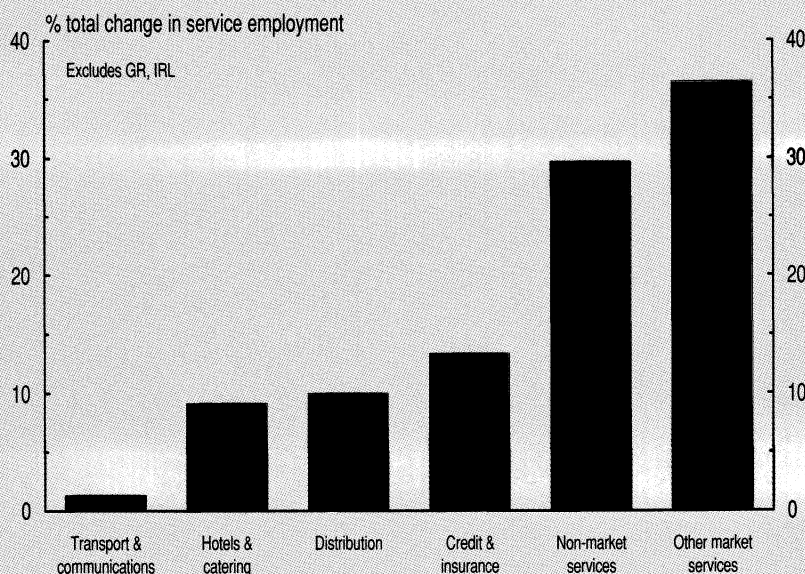
Of the total addition to service sector employment over the 1980s, other market services were responsible for 35% of the additional jobs created (in full-time equivalent terms) while non-market services accounted for almost 30%, despite its relatively low growth rate (Graph 64). On the other hand, finance and insurance, which grew by as much as other market services because of its small size, was only responsible for 13% of the increased employment.

This variation in growth rates is broadly repeated at the national level. In most Member States, the largest increases in employment

63 Growth of full-time equivalent employment in service activities in the Community, 1980-1989



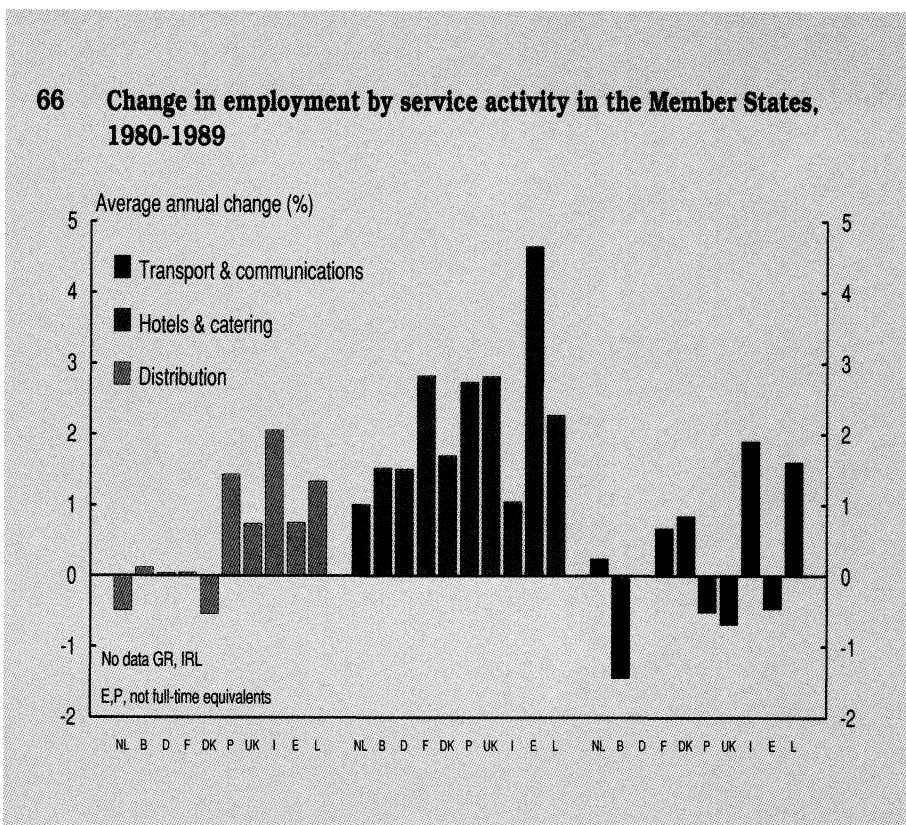
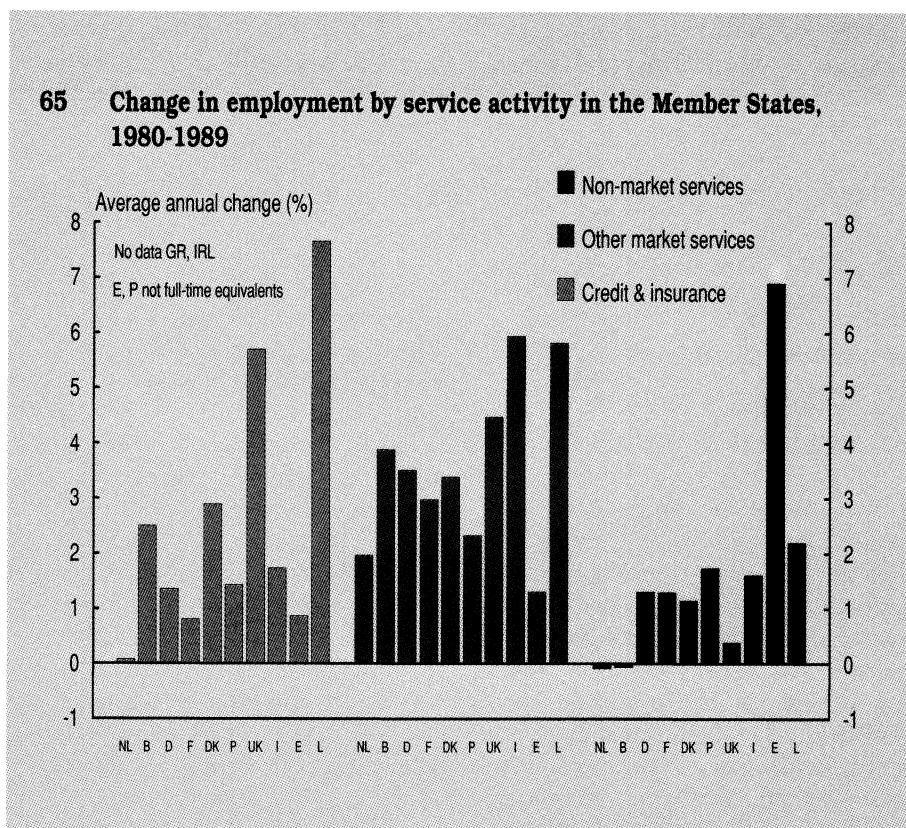
64 Contribution of activities to overall growth of employment in services in the Community, 1980-1989



between 1980 and 1989 occurred in other market services — although the growth rate varied from around 6% a year in Italy and Luxembourg to under 2% a year in the Netherlands and Spain (Graph 65, which orders countries in terms of the overall growth in service employment). In finance and insurance, where employment also rose relatively rapidly at the Community level, the growth was largely concentrated in the UK and Luxembourg (with rises of almost 6% and almost 8% a year). In six of the ten countries, the rise was under 2% a year and in three (France, Spain and the Netherlands) under 1% a year. As a result, Luxembourg and the UK especially, which already had a disproportionate share of Community employment in this sector, increased their share even further during the 1980s.

In non-market services, only Spain showed a rise in employment of more than 2% a year (as high as 7% a year), while in three countries — the Netherlands, Belgium and the UK — there were barely any changes at all. In the two sectors which had the smallest growth of employment over the 1980s in the Community, distribution and transport, only Italy, Luxembourg and Portugal — in distribution only — experienced a rise of more than 1% a year (Graph 66).

There is some evidence of a different pattern of employment growth between the South and the North of the Community (although the absence of data for Greece and Portugal limits the extent of the comparison). In Spain and Portugal, the main area of service sector growth in the 1980s was hotels and catering, as well as non-market services for Spain. In the North of the Community, the main



area of growth was other market services, and to a more limited extent, finance and insurance, both of which expanded comparatively slowly in Spain and Portugal over this period.

Transfers of activities from other sectors as an explanation of growth in services

It is sometimes argued that the growth of employment in services, especially in relation to employment in industry, partly reflects a shift of activities out of industry into services as the degree of specialisation in the economy increases. The argument is that, as economic development takes place and the scale of activity increases, it becomes more profitable — and

more efficient — for businesses to buy in services which they previously performed themselves from specialist companies. Alternatively, industrial companies might hive off activities into separate divisions or even separate companies. Either way, the result is that employment previously classified to industry becomes classified to services. On this reasoning, an observed growth in service employment relative to employment in industry might occur without there being any significant change in the activities performed within the economy.

It is difficult to distinguish shifts of this kind from “genuine” increases in service employment — i.e. those which involve a net addition to jobs and not simply a transfer. Some impression of the potential size of this effect can be gained, however, by identifying those activities within services which could plausibly have

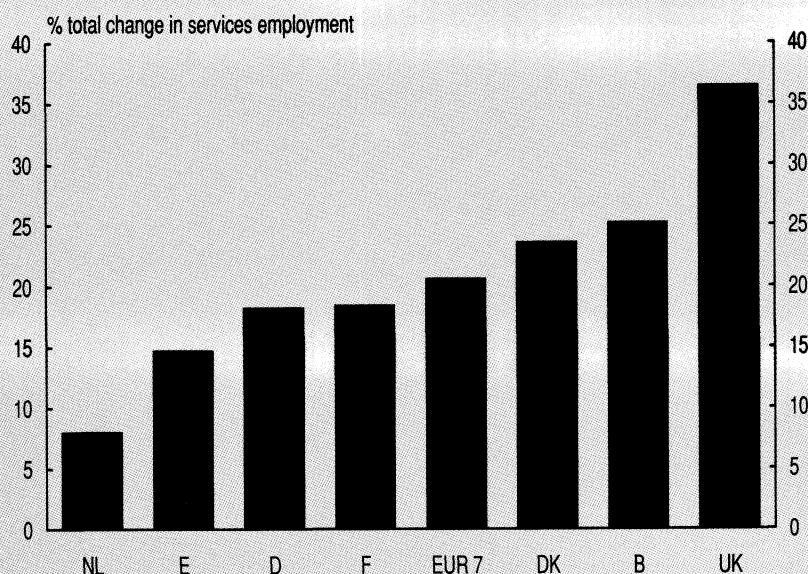
been previously performed in industry — or, indeed, agriculture. In practice, while there are a number of activities which are potentially transferable, including catering and road haulage, the great majority of services are very unlikely to have shifted from other sectors in recent years in an economy as developed as that of the Community.

The main group of activities which could feasibly have involved a shift of employment are classified to what is termed “services which are auxiliary to banking, finance and insurance” (NACE 83), which includes legal services, accountancy, advertising, market research, management consultancy, computer services and various other technical and business services. It also, however, includes many activities, such as those connected with real estate, which are unlikely to have shifted from non-service sectors.

For the seven Member States for which relevant data exist, this sector accounted, on average, for just under 8% of total employment in services in 1988, although for around 9% in the Netherlands and the UK and for around 5% in Spain and Belgium. Although these figures are small, implying perhaps that only around 3–4% of service employment is in potentially transferable activities, the rate of growth of employment in this sector was generally very high in the 1980s. Indeed, between 1980 and 1988, it accounted for some 20% of all the additional employment generated in services in these seven Member States and for over 35% in the UK (although for less than 15% in Spain and only around 8% in the Netherlands) (Graph 67).

These figures clearly represent the absolute maximum estimates of the

67 Employment growth in services auxiliary to banking, finance and insurance in selected Member States, 1980-1988



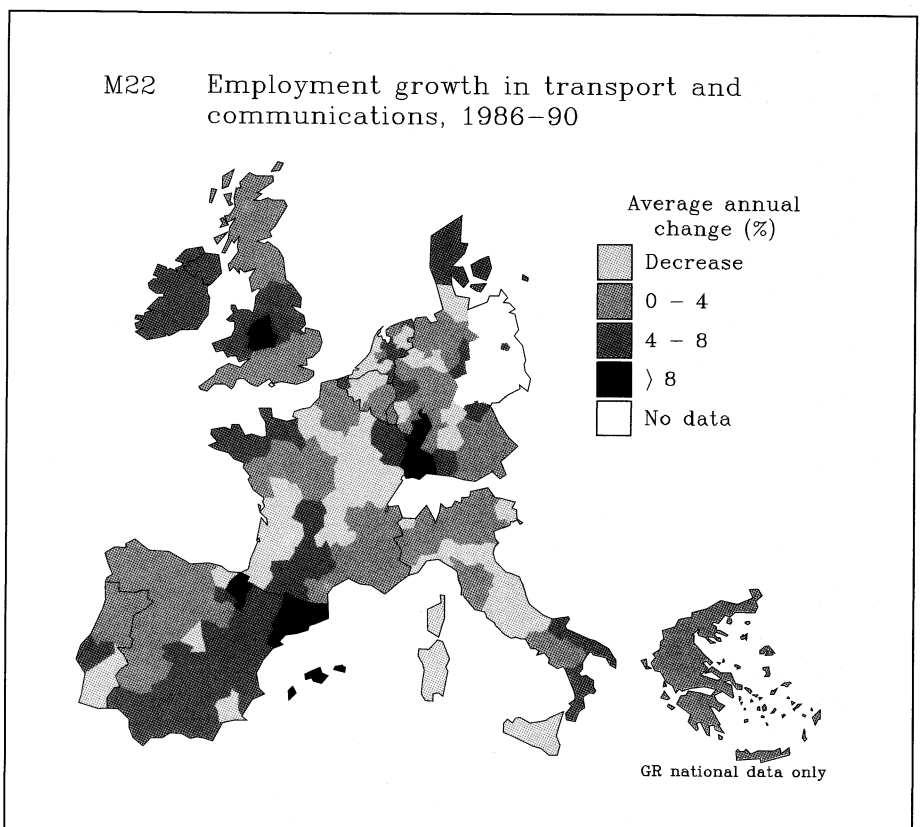
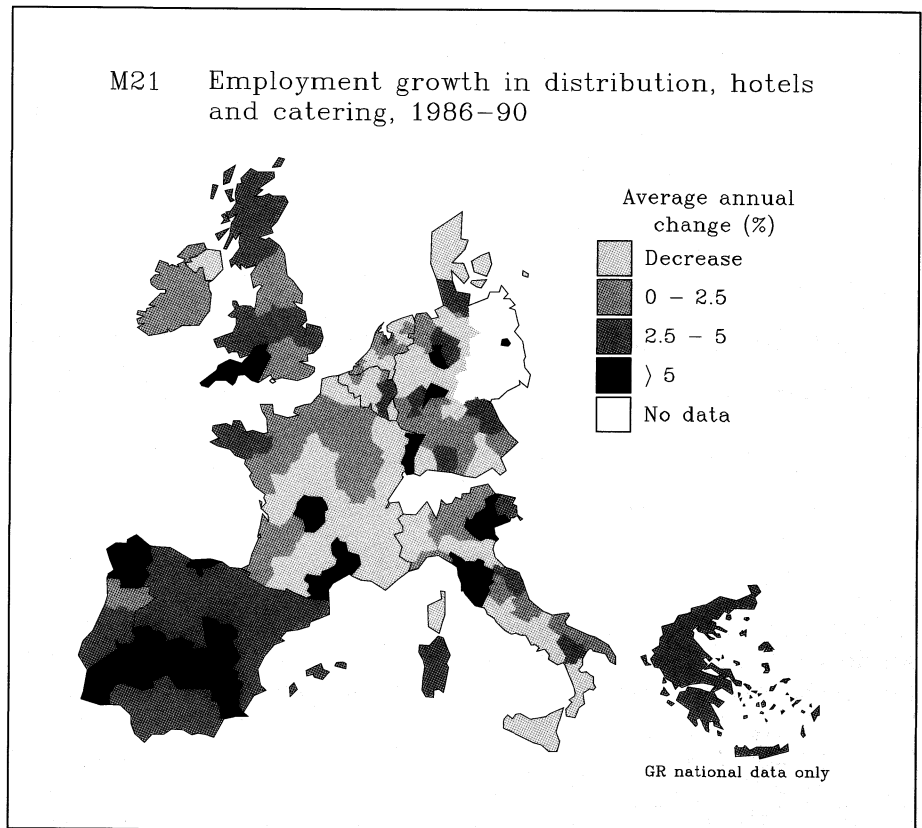
proportion of jobs which might have shifted between sectors over this period. More plausibly, the actual shift is likely to have been only a fraction of the additional employment arising in the sector identified. In practice, therefore, it seems likely that most of the increase in employment which occurred in services in the 1980s was the result of a net addition to jobs in the Community economy.

In any event, even if a number of jobs have effectively been transferred from other sectors to services, this does not necessarily mean that there has been no gain in employment in the economy as a whole. To the extent that such a transfer has been accompanied by an improvement in the efficiency of the overall production process and a corresponding growth of output, total employment in the economy may have been boosted rather than depressed.

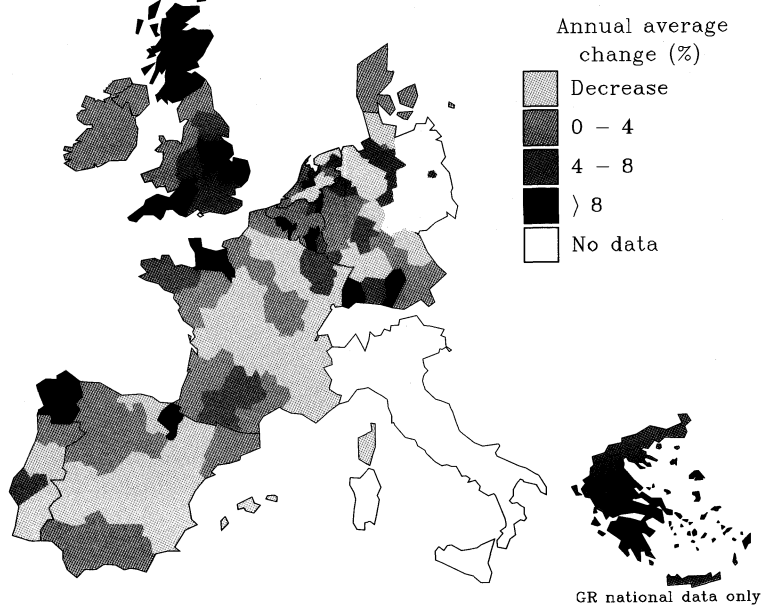
Regional growth of employment in different service activities

Unfortunately, given the data available, it is only possible to examine the growth of employment in the different service sectors at the regional level for the period 1986 to 1990. Although this was a period of relatively high growth, it is clearly too short to be able to draw any conclusions about long-term trends.

What the data do show, however, is that the change in employment in most service sectors varied considerably from one region to another, much more so than the variation between Member States. They also seem to indicate, in most cases, little tendency towards convergence



M23 Employment growth in credit and insurance, 1986-89

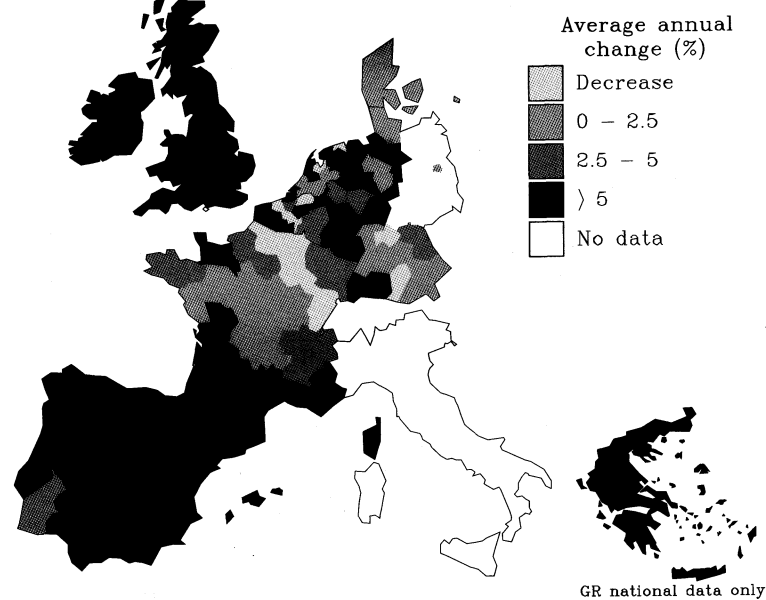


in the pattern of service employment across the Community.

In distribution, hotels and catering, a few regions, mainly in Spain, parts of Southern France and Northern Italy and South-West England — in many cases where the share of employment in this sector was already high — experienced growth in employment of over 5% a year between 1986 and 1990, although most regions experienced little increase or a decline (Map 21).

In transport and communications, while a large number of regions scattered across the Community showed a fall in employment, in many parts of Spain, the British Midlands, Wales, Ireland and Denmark, employment increased significantly (by over 4% a year) (Map 22). In a number of cases — Alsace in France, South-West Germany, the East Midlands in the UK and Cataluña in Spain — the regions concerned also experienced relatively high growth in employment in industry, while in parts of Central France, Central Italy and Southern Portugal, where employment in this sector declined, industrial employment also fell.

M24 Employment growth in other market services, 1986-90



In finance and insurance, despite the overall growth, many regions in Spain, France and Germany experienced a decline in employment over this period (Map 23). Significant growth was concentrated in comparatively few areas outside the UK where most of the country showed an above average increase in employment in this sector.

High employment growth in other market services was much more widely distributed across the Community (Map 24). In all regions of Spain, the UK and Southern France and in most regions of Northern

Germany, employment increased by over 5% a year. On the other hand, some areas of Northern France and Southern Germany experienced a decline in employment.

For non-market services, the picture is more varied, with many regions of the UK and Portugal and some areas of Northern Spain and France showing employment growth of over 5% a year, many other parts of France as well as Germany, the Netherlands, Belgium and Denmark experiencing a fall in employment and most regions of Italy showing a substantial decline — over 5% a year (Map 25).

Conclusions

The above analysis suggests that there is little indication of the significant growth in service employment coming to an end in the coming years. In terms of relative job numbers, the Community is still well below the level reached in the US, where there was no sign of any slowdown in the rate of expansion during the 1980s. While there may be scope for further employment creation, however, whether this is realised will depend on a number of factors, not least on the rate of economic growth achieved and the growth of real incomes.

The composition of the service sector has changed markedly over time and this is likely to continue in the future, with a shift from basic services, such as transport and distribution, towards more sophisticated activities, such as business services. This has implications for the nature of employment, for the educational and skill levels required of the labour force and, therefore, for training.

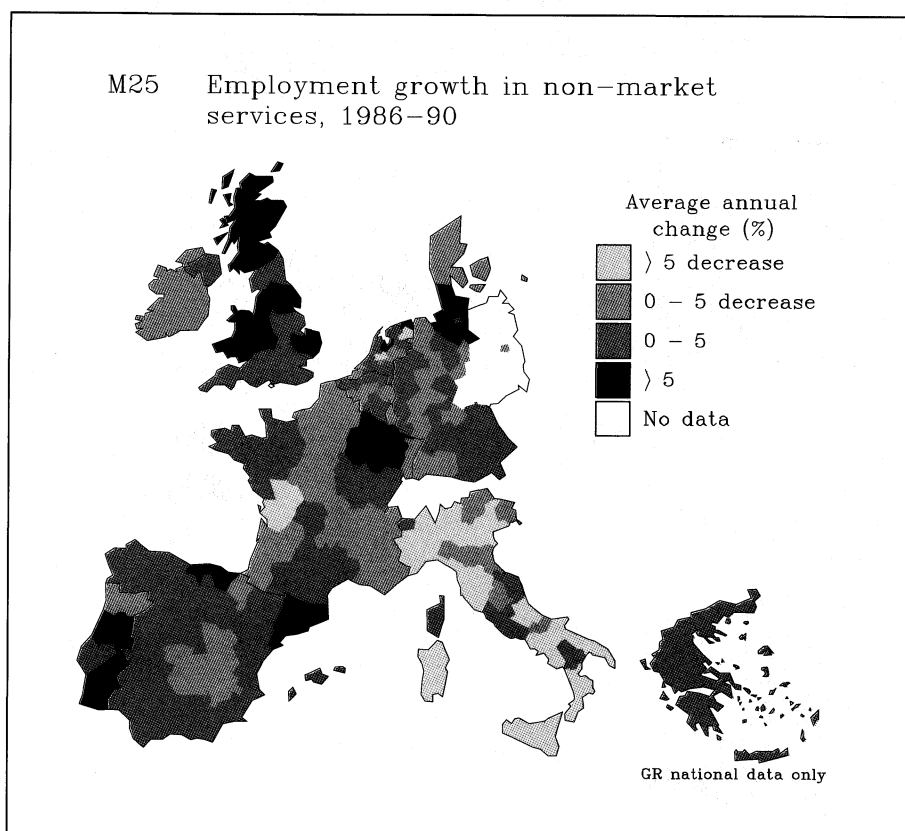
It is by no means certain that the growth of service employment will occur in the parts of the Community where the need for job creation is most acute. The evidence of the 1980s suggests that services have often expanded by most in regions where the loss of jobs in industry and agriculture has been relatively small, rather than in those areas where there has been a considerable reduction in employment in non-service sectors.

The evidence also suggests that the more advanced and dynamic service activities — finance and insurance and those included in the other services group — are far from being evenly distributed across the Community. Growth has occurred more in the North of the Community than in the less developed South, where the more basic services — hotels and cater-

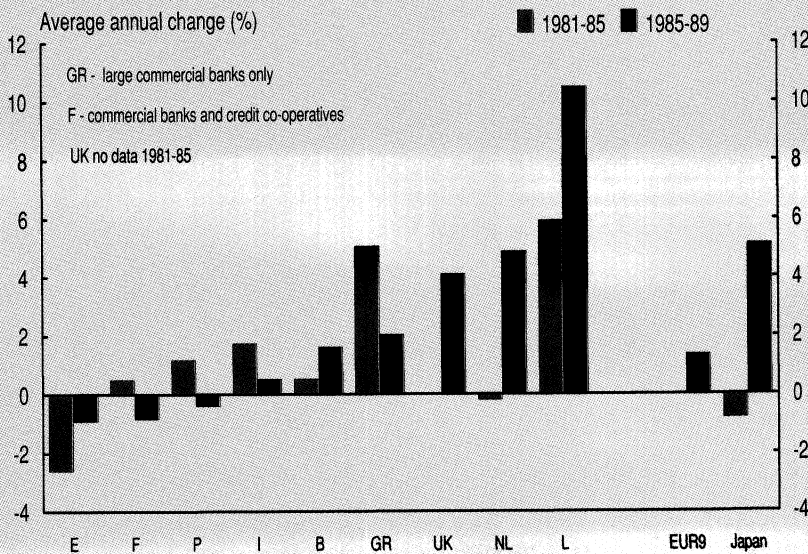
ing and other activities associated with tourism — have expanded by most.

Employment in banking — a case study

Because of its high rate of employment growth, the financial services sector was responsible for a significant proportion of the expansion in employment in the Community in the 1980s, even though it is relatively small in terms of the total numbers employed. It is open to question, however, whether this sector is likely to play a similar role in the 1990s and beyond. The spread of automation coupled with rationalisation, stimulated by increasing competition within the industry, could lead to reduced manpower needs and even a decline



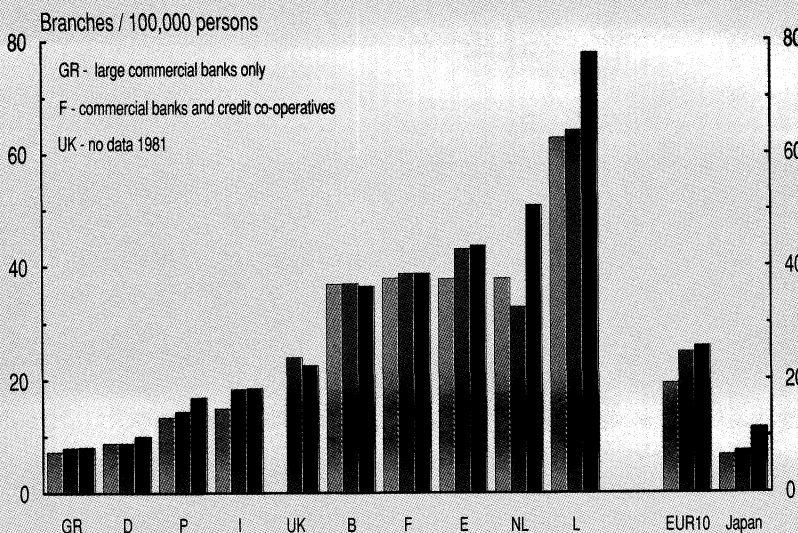
68 Change in the number of employees in commercial bank branches in nine Member States and Japan, 1981-1985 and 1985-1989



in employment in future years. On the other hand, the effects of the increasing demand for financial services which seems to accompany economic growth, and which was very evident in the 1980s, could outweigh these tendencies.

The change in employment in commercial banks over the 1980s does not show any close relationship to the change in employment in the financial services sector as a whole. While the overriding trend in financial services has been for some reduction in the rate of employment growth over the 1980s in most parts of the Community, there is no discernible uniform trend in bank branch employment (Graph 68). In Portugal, France and Italy, some trend towards a decline in numbers employed in commercial banks is apparent, while in the Netherlands, Belgium and Luxembourg, employment growth accelerated in the latter half of the 1980s.

69 Number of commercial bank branches relative to total population in ten Member States and Japan, 1981, 1985 and 1989



Numbers of branches and their average size

The number of bank branches in relation to population varies considerably across the Community. While in Luxembourg, there were over 75 branches per 100 000 people in 1989, and almost 50 in the Netherlands, there was an average of only 10 branches in Germany and less than 10 in Greece (Graph 69). There are no obvious reasons, other than differences in banking practice, which explain such wide variations.

While the number of branches increased significantly over the 1980s in Luxembourg, the Netherlands and Spain — the three countries which currently have the highest number of branches relative to population — it fell in the UK,

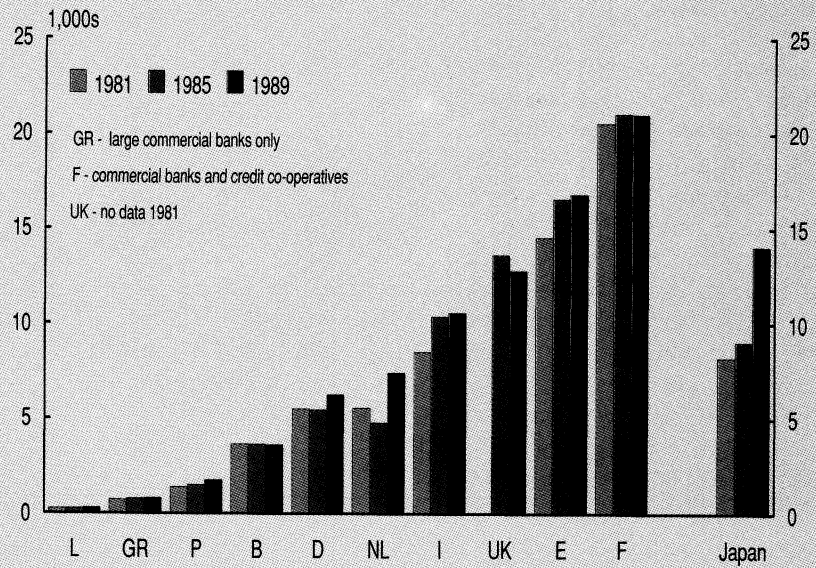
which has a below average number relative to population, and rose only slightly in Germany (Graph 70).

In a number of countries — Belgium, Greece, the UK and Luxembourg — the average branch size in terms of employment increased during the 1980s, while in others it declined (Graph 71). In all countries, there was an increase in automation in banking, reducing the numbers of employees required to undertake the normal activities of each branch, and raising productivity.

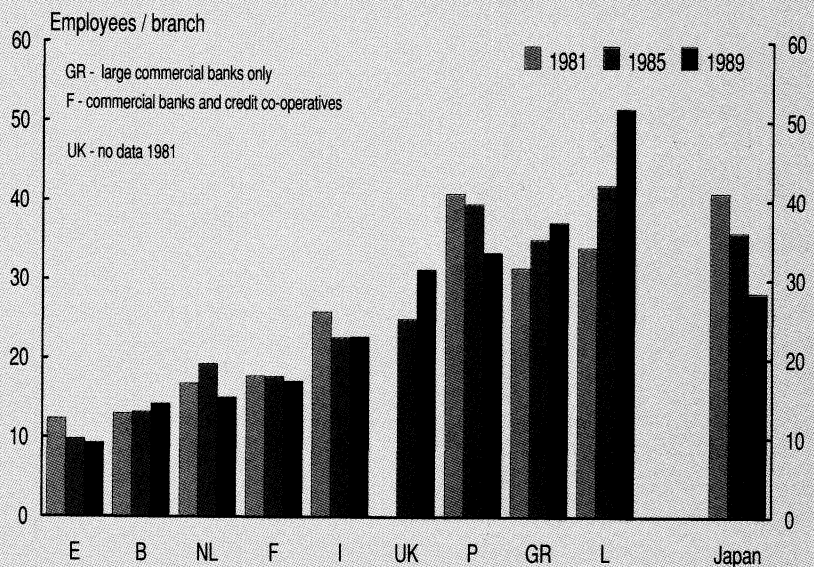
Even the decline in average branch size which occurred in many parts of the Community is not necessarily consistent with rationalisation having taken place. Within the context of the rapidly expanding demand for bank services, rationalisation does not require, within limits, that the average branch size be reduced. It can, for example, be achieved through transferring selected operations to regionally centralised locations, so that individual branches become regional centres for particular services.

The issue of branch size and branch numbers is therefore closely linked to the means chosen to accommodate rising demand. If there is sufficient local expansion of demand in areas where branches do not exist, or if deregulation or other institutional change legitimises the expansion into areas where demand already exists, then this may warrant a significant increase in branch numbers — as was the case in Portugal. If, however, there are already many small branches spread over the country, then increased demand may best be satisfied by an expansion of operations, and therefore employment, within existing branches. Indeed, new methods of working and new methods of

70 Number of commercial bank branches in ten Member States and Japan, 1981, 1985 and 1989



71 Average number of employees per commercial bank branch in nine Member States and Japan, 1981, 1985 and 1989



delivering services to customers made possible by computerisation may enable, or even require, branch numbers to be reduced.

New technology

The role of advanced technology, particularly with regard to the automation of many banking services to the consumer, has been significant in reducing the numbers employed in the banking sector. This is, however, by no means a recent phenomenon, having begun as early as the 1960s. It has been estimated, for example, that if all banking services in the UK were to be performed by human hand, the entire working population of the country would be employed in the sector.

As against this negative effect on employment, advances in technology have made possible an increase

in the range and diversity of services available as well as reducing costs and prices. The indications are that these factors go a long way towards offsetting the negative effects on employment.

Employment in major European banks

In an attempt to examine more up-to-date developments, data on domestic employment have been collected from a number of major European banks in the UK, Germany, France and Italy. Domestic employment in all of these banks increased steadily over the 1980s, more or less in line with the growth in the banking industry as a whole. There are some signs, however, not just of a slowdown in the rate of employment growth in 1990 and 1991, but in some cases of an absolute fall in the numbers employed,

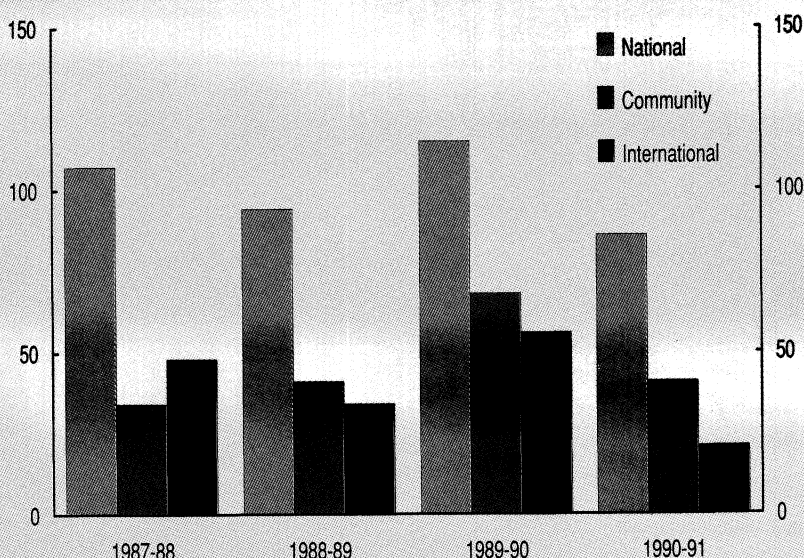
especially in the latter year. This is true of all three banks covered in the UK, of two of the banks covered in France and of one of the banks in Italy. Whether this is the beginning of a downward trend in employment in banking or merely reflects the downturn in economic activity in 1991 remains to be seen.

Mergers and acquisitions

Mergers and acquisitions are one means either of facilitating rationalisation, especially if they occur between banks in the same country, or of enabling banks to extend their sphere of operations, especially if they are between banks from different countries. In the latter case, they may well lead to increased competition for domestic banks which might previously have enjoyed a measure of protection.

Motivated in part by the deregulation associated with the Single Market Programme, transnational merger activity between banks from different Member States has increased in importance in recent years, the predominant direction being from North to South, as banks in the North of the Community have sought to position themselves to take advantage of the potential opportunities offered by underdeveloped financial systems coupled with the possible scope for higher economic growth. Between 1987-88 and 1990-91, there were large numbers of mergers in the Community between banks and an increasing proportion of these were transnational in character (Graph 72). In 1990-91, 28% of all deals were between banks from different Member States. Nevertheless, over half of all mergers and acquisitions were between domestic banks, opening the way for possible rationalisation of operations and increased unification of activities.

72 Annual mergers, acquisitions and joint ventures in the Community banking sector, 1987-1991



Prospective developments

Although increased competition will bring with it increased pressure for improvements in efficiency — which will almost certainly lead to reductions in employment per unit of value-added — it does not necessarily follow that the numbers employed in the sector are likely to increase less rapidly than in the past, still less to decline. This will depend on whether the growth in demand for financial services which was strong in the 1980s continues, which in turn is likely to depend on the overall rate of economic growth.

There are grounds for believing, however, that the rationalisation process which seems to be underway will continue, possibly at an increasing pace, in the 1990s, as the protection in local markets afforded by the legal and institutional arrangements is reduced and, ultimately, eliminated.

At the same time, as restrictions are removed, semi- and non-bank institutions (such as building societies, life insurance companies and other financial institutions) are increasingly expanding into

banking in some parts of the Community. Similarly, and partly as a competitive response, banks in these places are diversifying their product range to include insurance, mortgages and asset management. The same kinds of tendency are likely to occur in the rest of the Community as liberalisation of financial activities takes place.

As a result of this increased competition, the price of services and the rate of return on deposits can be expected to become increasingly important factors in attracting new business, rather than the range and quality of services which in the past have tended to be dominant, and which in some countries may have resulted in an overexpansion of bank branches.

Forecasting employment trends in sectors is fraught with uncertainties. At the beginning of the 1980s, there were ostensibly sound reasons for believing that employment in financial services would increase, at most, by very little during the decade. Those reasons are much the same as those being adduced to support a similar view at present. Now, as then, there is a danger of leaving the potential growth of demand out of account.

Chapter 5 Employment Developments in Central and Eastern Europe

There is no turning back on market reform. The current, and expected effects on employment, however, are traumatic.

Introduction

Political and economic reform is proceeding at a rapid pace in most parts of Central and Eastern Europe. In a short space of time, old systems of central planning have been dismantled and the legal and institutional foundations laid for the development of market economies.

It was inevitable that these changes would have damaging effects on output and employment in the short term — the complete replacement of one economic system, however inefficient, by another could not possibly be achieved without transitional costs. The scale of the fall in output and employment which has occurred throughout the region has been greater, however, than most people in the countries concerned expected, or were led to expect. Moreover, the effects have resulted mostly from reductions in internal and external demand rather than major shifts in activity.

Establishing viable systems of production and distribution capable of achieving sustained economic development and high levels of employment will take some time. Major economic restructuring still largely remains to be done — with the need to shift resources from old,

declining sectors into new areas to meet consumer demand; to abandon polluting activities and clean up the environment; and to create enterprises which are profitable and which can compete on world markets.

Policy responses

The scale of the recession in Central and Eastern Europe poses problems for governments in the region. It has weakened popular support for reform programmes which the governments are endeavouring to carry through, making it more difficult to create a viable market structure; it has increased poverty and social deprivation; and it has reduced the finance available to fund both economic and social programmes.

Governments are attempting to strike a delicate balance between, on the one hand, pressing ahead with the reform process — removing controls and giving freer rein to market forces — and, on the other, avoiding unacceptable rises in unemployment and extensive social deprivation. The privatisation of state enterprises poses a particular dilemma. Establishing a competitive market environment where unprofitable firms are driven out of business is a key element in the transition, yet the corollary is ine-

vitably large-scale job losses and higher unemployment, given the high level of company indebtedness and widespread over-manning which exists.

These problems have repercussions on neighbouring regions, including the Community. Economic and political stability in Central and Eastern Europe is important for the long-run development of Western Europe as well as for the East.

Outline

This chapter examines developments in Central and Eastern Europe since the process of reform began, but focuses on changes in employment, unemployment and real incomes in 1991 — the first full year of reform in a number of countries. It outlines the factors which have combined to cause recession, reviews the transition process so far, describes labour market developments and the measures taken to combat rising unemployment and increasing poverty, and considers the prospects for output and employment during 1992.

The focus of the analysis is on the five Central and Eastern European countries for which it is at present possible to collect reasonably reliable data — Bulgaria, Czechos-

The process of reform

The reform process, in terms of establishing the legal and institutional framework for a market economy, is well advanced in all five countries. However, there are important differences both in the conditions which existed beforehand and in the length of time over which the process has taken place. This has influenced what has happened over the last two years, especially as regards the pattern of inflation and the movement of output. In Hungary, the foundations were laid progressively over many years and, by 1989, much of the legal and institutional framework was in place. In Poland, most basic reforms were implemented in 1989 and 1990, while in Czechoslovakia, Romania and Bulgaria, this did not occur until at least a year later — especially in Bulgaria where important gaps were only closed in early 1992. For these latter three countries, 1991 was the first year of reform and economic and employment developments during the year have special significance.

In all countries, the reforms have consisted of:

- the removal of controls on a wide range of prices in all countries (only a few basic products and charges remain subject to controls, and the removal of these is planned);
- internal currency convertibility;
- the liberalisation of foreign trade;
- the legalisation of private business;
- the relaxation of restrictions on direct investment from abroad;
- the sale of state property and land to private buyers or, in many cases, restitution to their former owners;
- the creation or modification of welfare systems to provide basic social protection;
- the creation of basic instruments of monetary policy and credit control;
- the relaxation of controls on employment and on the workings of the labour market.

In all countries, in addition, large state monopolies have, for the most part, been broken up into smaller units and the process of privatisation, starting at the smaller end of the scale, has either begun or is planned. State enterprises, however, still account for the major share of production and it will be some time before the larger production units pass into private hands. At the same time, the private sector, though expanding rapidly, consists predominantly of very small firms which, in total, represent a relatively small proportion of the labour force.

lovakia, Hungary, Poland and Romania. The sources of the data in each case are officials in Statistical Offices and Ministries of Labour in the countries concerned.

The economic situation before reform

Developments since Central and Eastern European countries embarked on the reform process have to be considered in relation to the economic situation which prevailed beforehand. While the countries vary in terms of their economic and labour market structures and their levels of development, they share a number of similar features:

- all, with the partial exception of Hungary, had economies in which the structure of production and distribution of employment was geared towards material production and heavy industry;
- in all the economies much of production was concentrated in large, inefficient state enterprises which employed outmoded technology and which had a high level of overmanning; in consequence, while there was no open unemployment, labour productivity was very low and employment very high relative to the output produced;
- all had largely neglected environmental protection in the interests of maximising production and had severe problems of pollution in a number of areas;
- all had extensive controls on prices and wages which were

fixed by criteria which were as much social or administrative as economic and which bore little relationship to the underlying patterns of supply and demand; as a result, except for Hungary where price controls were less extensive, they were characterised by repressed inflation which manifested itself in shortages and queues, and by an inefficient deployment of labour including the misuse and under-development of specialist skills;

- all, with the exception of Hungary and to some extent Poland, had virtually no market sector, formal or informal, and therefore had limited experience of how markets — and competition — work;
- all were locked into the COMECON trade system, dominated by the former Soviet Union; as a result, export production was geared towards satisfying this largely unsophisticated market;
- after sustaining relatively high growth during the 1970s, all experienced low growth during the 1980s, especially in the years immediately prior to the start of the reform process; this helped to create the economic conditions for reform, it also meant that there was relatively little to fall back on in the event of a decline in economic activity;
- partly because of low output growth, all had accumulated high levels of external debt which, in a number of cases, continue to pose acute servicing problems; for all the countries, gaining access to additional foreign credit has meant agreeing internal economic policy

with the World Bank and in some cases the IMF.

All Central and Eastern European economies are relatively underdeveloped in terms of economic structure. Most still have large agricultural sectors and, in terms of the income per head, even the most prosperous parts are more comparable with the poorer regions of the Community than with the Community as a whole.

Nevertheless, there are important differences between the countries of Central and Eastern Europe in terms of their economic base and their productive efficiency which have affected the extent to which they are able to secure finance from external sources (Bulgaria and Romania have been much less successful in this aspect than the other three countries).

These characteristics have affected what the different countries could have been expected to achieve in the initial stages of transition. They also indicate that the achievement of a sustainable pattern of economic development and employment creation has to be considered very much as a long-term process. In the event, external events have conspired to lower expectations even further and have added greatly to the problems which the countries already faced.

External developments

The beginning of the reform process coincided with the breakdown both of the COMECON system of managed trade which governed a major proportion of each country's exports and of the Warsaw Pact which sustained a high level of military expenditure and production. It also

coincided with the collapse of the former Soviet Union and the shrinkage of its market which, for all countries (especially Bulgaria and Romania) was the principal source of export earnings.

The reduction in trade between Central and Eastern European countries has greatly affected export industries, and reduced what each country could afford to import. It has accelerated the search for alternative export markets and has intensified competition for those markets. Although all countries have expanded exports to countries in the West, especially Hungary and Poland, none has succeeded in compensating for the enormous loss of export earnings — or import credits — from COMECON trade and most have experienced a worsening of already severe foreign debt problems. In 1991, the reduction in exports to the former centrally-planned economies amounted to over 40% in the case of Poland, for example, and over 20% in the case of Czechoslovakia, while for Bulgaria, the level of exports to these countries was around 60% lower than had been expected at the beginning of the year.

After years of selling into protected markets, all Central and Eastern European countries face the problem of trying to produce goods and services which are both competitive on world markets and not subject to import quotas (agricultural produce, textiles and clothing, which tend to feature prominently in their exports, tend also to be limited by quota arrangements). At the same time, growth in the Community as well as in the rest of the world has slowed, depressing the potential size of export markets open to them.

The countries in the region have also had to contend with the Gulf

War and its repercussions on the energy market. For Bulgaria and Romania, which had special agreements on energy supply with Iraq, this has been especially damaging.

These developments would have been sufficient in themselves to depress economic activity in Central and Eastern Europe. In practice, they have reinforced the deflationary impetus of restrictive fiscal and monetary policies and the dislocation of the established system of production which the reforms have entailed. Through the close trade linkages between the countries, they have both deepened and helped to spread the recession.

Economic policy

Economic policy in all of the countries has been dictated largely by the reform process and the worsen-

ing external situation. Fiscal and monetary policy emphasis has been on restraining demand in order to contain the increase in prices as controls were removed and to limit the deterioration in the external balance as exports have declined — or ideally to achieve a trade surplus in order to service foreign debt.

On the monetary side, interest rates were increased in 1991 throughout the region and maintained at relatively high levels in nominal terms so as to restrict the expansion of credit, to as high as 54% in Bulgaria, although they remained negative in real terms. Even where there was some easing of policy during the year, it was not sufficient to counter the recessionary impetus. In Czechoslovakia, for example, although interest rates were reduced from 24% to 17% after the first quarter of 1991 and credit controls were eased, the knock-on

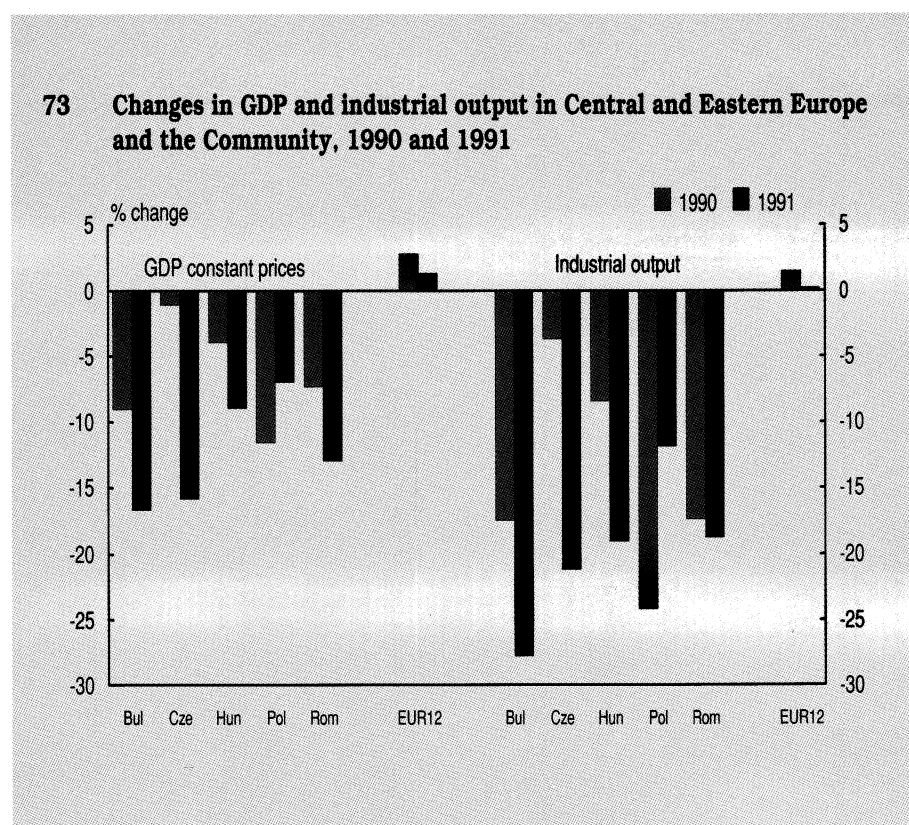
effects of the initial restriction led to an accelerating decline in output during the year.

On the fiscal side, the common aim has been to reduce the budget deficit and government borrowing, or at least to prevent them increasing significantly. This has been combined with the additional aim of reducing the burden of taxation (around 35–45% of GDP overall — low by Community standards) especially on profits — in order to improve incentives. As a result, the burden of adjustment has been thrown largely onto public expenditure, reinforcing the case for reducing subsidies on prices and assistance to non-profit making enterprises.

At the same time, the fall in real income and the rise in unemployment has reduced tax receipts and increased the pressure on public spending. This has affected public sector pay as well as programmes of income support and the relief of poverty — essential not only to minimise social deprivation but also to maintain support for the reform process itself. The finance available for measures aimed at strengthening the economy and increasing the rate of job creation — such as support for investment, the creation of new enterprises or training and retraining schemes — has, therefore, been severely limited.

Output developments

GDP has declined considerably in all Central and Eastern European countries. Throughout the region, the fall in GDP between 1989 and 1991 was around 20% or more. Moreover in all countries, with the partial exception of Poland, where the decline in both years was



broadly the same, GDP fell by significantly more in 1991 than in 1990. In none of the countries was the fall in 1991 less than 10% and in Czechoslovakia and Bulgaria, it reached 16–17% in this year alone (Graph 73). There are, however, signs in some sectors of a slowdown in the rate of output decline in 1992.

Within GDP, the largest falls have been in industrial production. In 1990, the fall was 17% or more in three countries — Poland (where it reached 24%), Romania and Bulgaria — 8% in Hungary and a modest 4% in Czechoslovakia. In 1991, apart from Poland (where the fall was reduced to only 12%) all countries experienced an even larger reduction, of around 20% or more.

The decline in output has been largely concentrated in manufacturing throughout the region, with, for example, electrical engineering, non-ferrous metals and clothing showing falls of around 40% in 1991 alone in Czechoslovakia and with steel as well as electrical engineering showing falls of a similar size in Bulgaria.

Although less hit by recession than industry, agricultural production has also tended to decline in most countries, by, for example, 2% in Poland in 1991, 10% in Czechoslovakia and 15% in Bulgaria (although some of this decline is the result of transfers of activity from this sector to others).

The decline in output, as noted earlier, has been partly due to external factors. Recent movements in the value of trade flows tend to be misleading, however, because of the large shift from essentially barter to hard currency trade within the region itself, and between the countries in the region and the new

republics of the former Soviet Union. Nevertheless the figures indicate that in two countries, Czechoslovakia and Romania, the dollar value of exports either fell in 1991 or remained roughly unchanged, while Poland and Hungary experienced growth of exports and an even bigger increase in imports, despite the large reduction in internal demand.

Indeed in all countries, although much less in Czechoslovakia (where imports were kept down by a very low exchange rate, taxes and quotas) than elsewhere, imports have grown considerably as a share of domestic expenditure. This, however, has added to the pressure on exporters and could create much greater financing problems when output in these countries begins to recover.

Large and small enterprises

The fall in GDP has been concentrated in the state enterprises which, in all countries, are still predominantly responsible for industrial output. Although the private sector has expanded rapidly since the reforms began, in none of the countries (not even in Hungary and Poland where it has grown by most) has its growth been sufficient to compensate by more than a relatively small amount for the decline in the output of state enterprises. In Hungary, for example, where the number of private (limited liability and joint-stock) companies increased to around 53 000 in 1991 from only 15 000 in 1989, it is estimated that private sector growth moderated the decline in output in 1991 — which amounted to some 13% — by only about 2–3%. In Czechoslovakia, where expansion of the private sector was even more dra-

matic in 1991, estimates of its contribution to growth are very similar.

The limited contribution of small firms to output reflects the fact that, in all countries, the private firms which have been established are mostly very small. In Hungary, 73% of all enterprises in 1991 employed less than 20 people and in addition there were another half million businesses, with probably no or few employees, with no legal status. In Czechoslovakia, there were 1.3 million small private firms registered by the end of 1991, yet only 900 000 of these were really trading and half of the owners involved worked only part-time (even so a million new full-time jobs were created in just one year). In Romania, there were around 900 000 employed in the private sector, under 10% of the total work force at this time, while in Bulgaria there were 199 000 firms which employed just 280 000 people in total and which for the most part had not yet started trading.

While some of the finance for creating private firms came from abroad in all countries, the influx of foreign capital in most areas of the region, partly depressed by recession in the West, has been relatively small so far — especially in Bulgaria and Romania — even though there are a number of examples of high-profile joint ventures in all countries.

Neither the creation of private companies nor the inflow of capital from abroad has succeeded, however, in preventing fixed investment, which is of critical importance for restructuring, from declining by more than GDP (and by more than consumption). In Hungary, the decline between 1989 and 1991 was over

25%, in Czechoslovakia over 30%, and in Romania almost 60%.

Employment

Assessing employment developments involves an element of uncertainty in all Central and Eastern European countries. Although there is complete data on employment activity in the state sector — which is, however, contracting — this is not the case for the expanding private sector, where collecting details of the numbers employed is much less straight-forward. All countries have established sample surveys to deal with the problem and are in the process of implementing labour force surveys. Until the results of these come available, however, the figures inevitably involve a variable, and largely unknown, margin of error

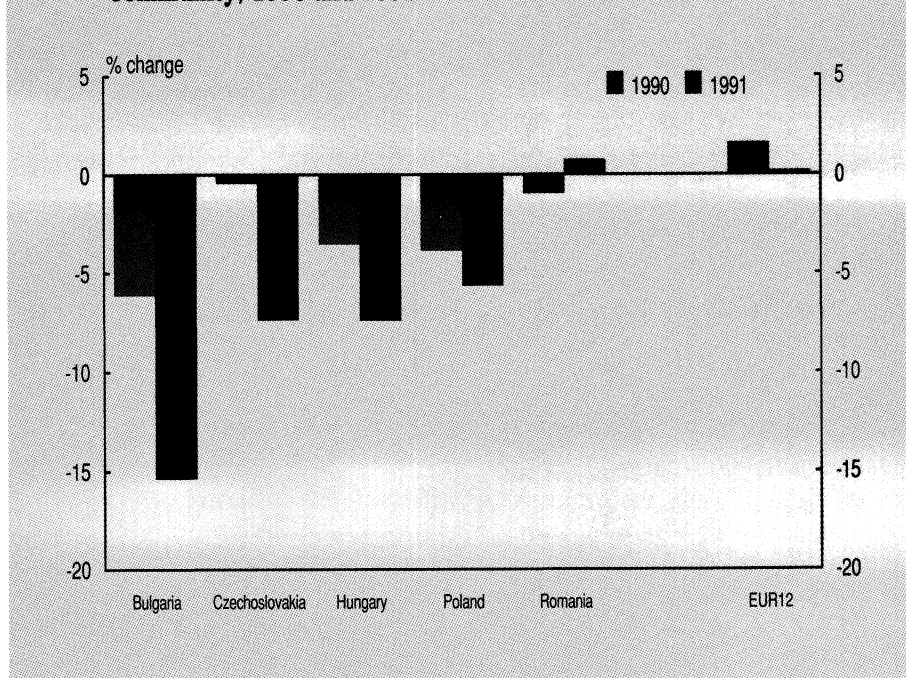
(although this affects the quarterly more than the annual data). Sample surveys, however, will not pick up people working in the informal economies of these countries, who in most cases seem to have become much more numerous since the transition began.

Whatever the estimation difficulties that exist, it is clear that the fall in output has reduced employment significantly throughout the region. Moreover, with the possible exception of Poland, where the rate of decline has been relatively stable, the reduction seems to have increased as the transition has progressed. Thus, in Poland and Czechoslovakia the numbers in employment fell by some 8% between 1989 and 1991, in Hungary by around 10% and in Bulgaria by as much as 20%. In Romania, where there was a small rise in employ-

ment in 1990, employment fell by just over 1% in 1991 (Graph 74).

Virtually all of the reduction in employment has been the result of job losses in state enterprises. In Hungary, for example, employment in firms with more than 50 employees — which are predominantly state-owned — fell by 16% in 1991. In Czechoslovakia, employment fell by 15% in state and co-operative concerns employing over 100 workers. Although there has been an expansion of employment in the private sector — and although probably understated in the official statistics — it has not been nearly enough to offset the decline in the rest of the economy, even in the two countries where the private sector is most important. In Poland, for example, the numbers employed in private companies rose by around 563 000 during 1991 — an increase of some 30% — but this compares with an overall reduction of over one and a half million in state and other organisations. Similarly, in Hungary, the additional jobs created in the private sector amounted at most to 20–25% of the reduction elsewhere in the economy.

74 Changes in employment in Central and Eastern Europe and the Community, 1990 and 1991



Manufacturing employment

As would be expected from the fall in output, the major loss of jobs has been in manufacturing, where employment in 1991 declined by around 10% in Hungary, Czechoslovakia and Bulgaria and by only slightly less (7–8%) in Poland and Romania (Graph 75). Moreover these figures probably understate the real decline since manufacturing is defined to include a number of service activities, such as repair and maintenance, which are increasingly carried out by small private firms and which are likely

to have shown an increase in employment.

Nevertheless the fall in employment in manufacturing in 1991 as in 1990, though substantial, was significantly less than the fall in output in all the countries. The clear implication is that the reduction in jobs was the result of falling production and not of an improvement in the efficiency of employing labour. Indications are, therefore, that the considerable over-manning which is a feature of most of these economies has not been greatly reduced. Since, however, employment always tends to lag behind output changes, which have been substantial throughout the region, it may be that a major part of the adjustment of employment to lower output is still to occur.

Agricultural employment

In Czechoslovakia and Hungary, the reduction in employment in percentage terms to have been even greater in agriculture in 1991 (20% in the first, 13% in the second) while, in Bulgaria, although lower, it was still substantial (13%). However, these figures — especially in the former two cases — significantly overstate the fall which has undoubtedly occurred because part of the reduction results from the statistical reclassification of manufacturing and service activities (especially repairs) from agriculture to these other sectors. In Poland, employment declined by slightly less than the fall in manufacturing in both 1990 and 1991 while in Romania (where the policy of returning land to former owners, combined with fewer jobs in industry, seems to have had an effect) it remained more or less unchanged.

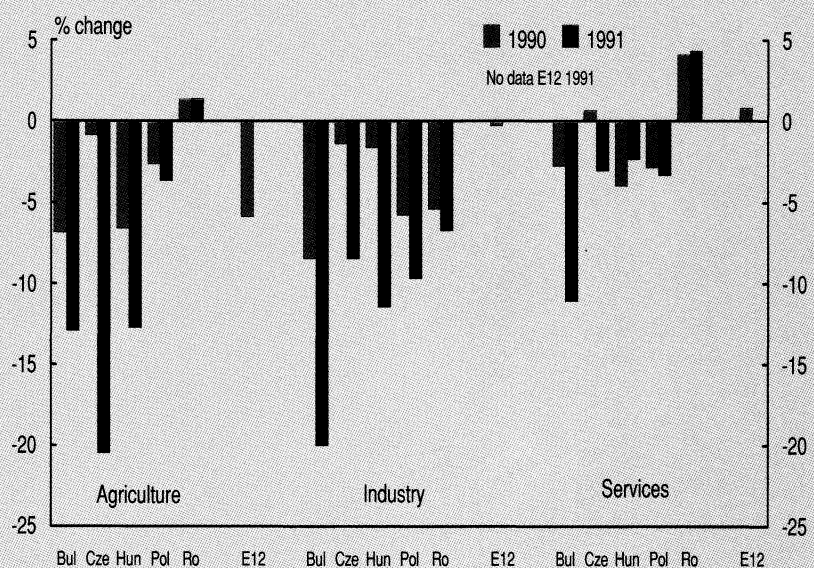
Service employment

The loss of jobs in industry and agriculture does not appear to have been compensated by job creation in services — a sector which, under the former economic regime, was significantly under-developed. While employment in this sector either rose slightly or remained broadly unchanged in 1990 throughout the region, according to the official statistics it fell in all countries in 1991 — by 11% in Bulgaria, 5% in Poland and 2.5–3.5% in Romania, Czechoslovakia and Hungary. These figures, however, should be treated with a good deal of caution. Since private sector activity tends to be concentrated in this area, data problems are most acute in that an unknown, but possibly significant, proportion of employment in unregistered businesses as well as the informal

economy goes unrecorded. Nevertheless the figures may be at least indicative of no great upsurge in service employment.

There are, however, apparent differences in trends within the service sector, as well as some differences in experience between countries. Thus financial services, which are under-developed throughout the region, show increased employment in all countries where data are available, and transport, distribution and catering show a decrease (although the reliability of the data is probably at its worst in this area given the comparative ease of setting up business). In health and education, the experience is mixed — with Poland and Romania showing an increase in employment in both 1990 and 1991, with the other three countries showing a small decline (2–3% between 1989 and 1991).

75 Changes in employment by broad sector in Central and Eastern Europe and the Community, 1990 and 1991



Differences exist as regards public administration. Bulgaria in particular is showing a considerable reduction (almost 20% between 1989 and 1991) while Czechoslovakia, Poland and Romania are showing some increase (around 12% between 1989 and 1991). The figures, however, except for Bulgaria, include armed forces which have declined everywhere, but not by enough in the latter three countries to offset the rise in public administration proper. While there might seem to be some scope for employment reductions in this area as a result of the dismantling of the apparatus and bureaucracy of a control economy, there has at the same time been a significant development of regional authorities as part of decentralisation, and an increased need for the administration of new systems of taxation, social welfare programmes and employment services.

Sectoral share of employment

The share of services in total employment increased in all countries between 1989 and 1991. With the exception of Poland and Romania, moreover, the increase was significantly greater than the average growth that had occurred in the 1980s, before the reform process started (Graph 76). As is clear from the above, however, this increase in share is more the result of the fall in employment in other sectors than an acceleration in the rate of job creation in services.

This fall in industrial employment was also largely responsible for the share of employment in agriculture increasing in the three countries in which it was already highest — Poland, Bulgaria and Romania — between 1989 and 1991, so revers-

ing the trend decline experienced in the 1980s.

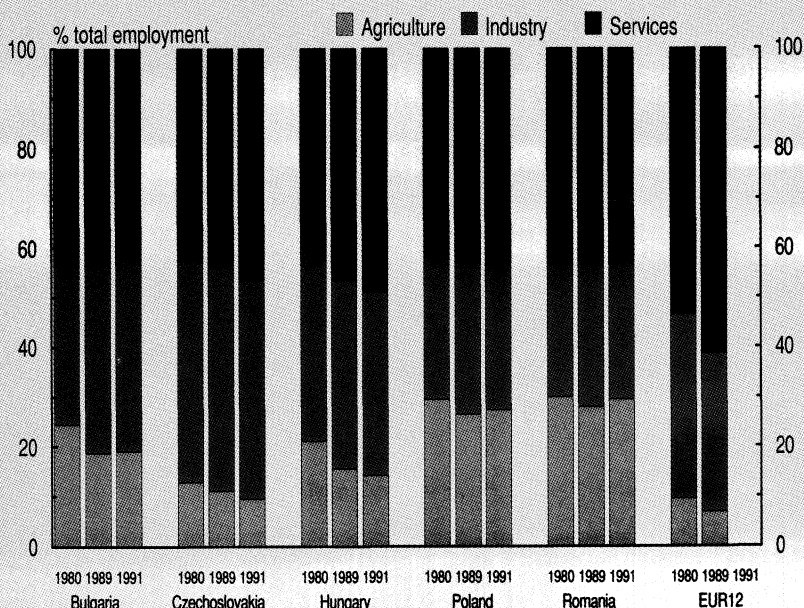
Compared with the Community as a whole, the share of employment in services remains low in all Central and Eastern European countries. This is especially true of Romania, where services account for less than 30% of employment. If comparison is made with two of the less developed Community States — Portugal and Greece — the difference is less marked. Indeed, in both Hungary and Czechoslovakia, the share of employment in services (at 49% and 47%) was about the same as Portugal and only slightly less than Greece.

Women in the labour market

Women have occupied, and continue to occupy, a more important position in the workforces of most Central and Eastern European countries than is the case in the Community. Unadjusted data on activity rates, however, tend to overstate the difference, partly because in Central and Eastern Europe the figures for employment include women on maternity and childcare leave, irrespective of how long this lasts (it can be up to three or more years in some countries). It is also because a significant number of women over retirement age, who are not included in working-age population — defined as all those between school-leaving and retirement age — remain in employment.

The second of these two factors is difficult to allow for, though it also affects the Community figures defined in this way. In Czechoslovakia, for example, around 10% of women in the labour force were over retirement age — 55 — in 1989, as compared with 9% aged 55 and over

76 Sectoral distribution of employment in Central and Eastern Europe and the Community, 1980, 1989 and 1991



in the Community. Once account is taken of the first factor, the difference between the Community and Central and Eastern Europe is narrowed and, in some cases, disappears completely.

Thus in the Community, just under 65% of women of working-age (here defined as those between 15 and 55 — the same definition as for the Central and Eastern European countries) are officially recorded as part of the labour force (in the sense of either being in work or seeking employment). This is almost the same as in Poland and Czechoslovakia (where as noted below the proportion has recently fallen). In Romania, Hungary and Bulgaria, however, activity rates of women are much higher at around 81–82% in the first two countries and 74% in the third (Graph 77).

These higher rates of participation partly reflect the situation under the former regimes, especially in Romania and Bulgaria, where, in general, all people capable of work were expected to contribute to the productive effort. However, they also reflect economic and social systems geared to facilitating the employment of women, not only through the provision of support services but also through providing easier access to job opportunities.

Since the reform, a significant reduction in activity rates among women is evident in Bulgaria, Czechoslovakia and Hungary, perhaps in part as a result of women over retirement age having more difficulty in remaining employed, but also because fewer young women are recorded as active, since they have no incentive to register as unemployed (see below). In Poland and Romania, on the other hand, activity rates have risen slightly.

Men in the labour market

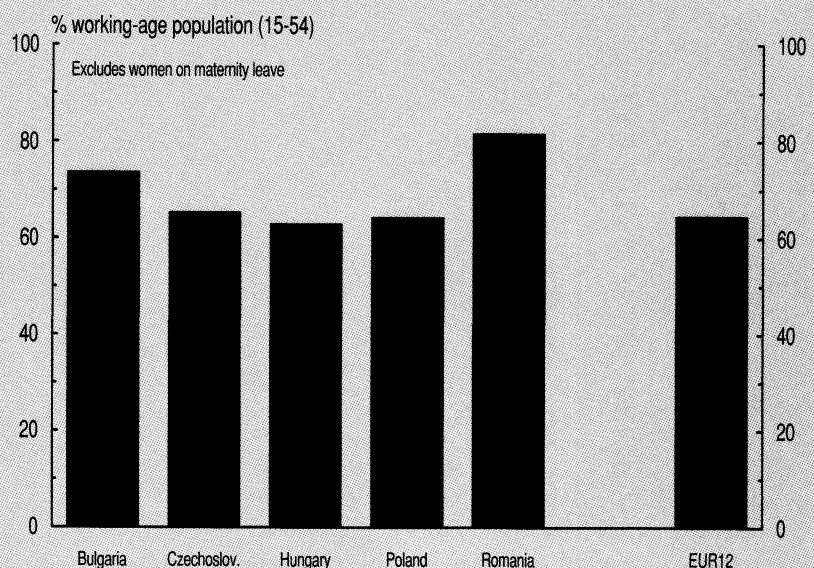
For men, activity rates have fallen since 1989 in all countries, although the falls have been relatively small (except in Bulgaria, where the rate seems to have fallen from 83% to 68%). To some extent, this general fall is a consequence of men disappearing from the employment statistics as they lose their jobs in the state sector. In some cases, they may move into jobs in the private sector which are not recorded because the employing firm concerned is not registered (which is a means of avoiding tax and social contributions). In other cases, they may be genuinely out of work although not considered as available for employment, and thus not counted in the unemployment figures, or recorded as being active, because they do not register.

In yet other cases, they may be working abroad, legally or illegally, but again not counted in any statistics. In Czechoslovakia, for example, of the fall in the recorded male labour force of 300 000 between 1989 and 1991, some 50 000 are estimated to be working abroad legally, mainly in Germany and Austria, while a further 100–200 000 are thought to be working abroad illegally.

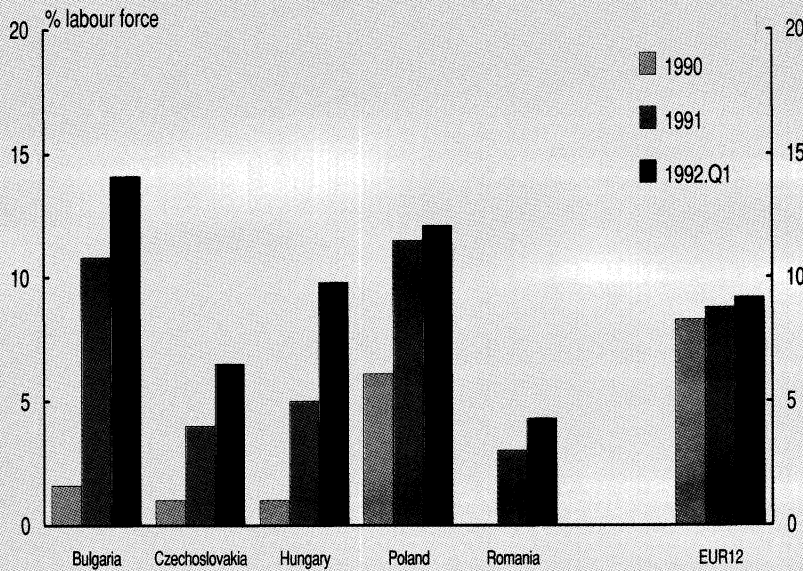
Unemployment

Unemployment, the inevitable consequence of the transition to market economies, has risen rapidly and continuously throughout the region as employment has declined. For similar reasons as in the Community, this rise in unemployment is not always fully reflected in the registered unemployment figures. Nevertheless, the registration

77 Activity rates of women in Central and Eastern Europe and the Community, 1991



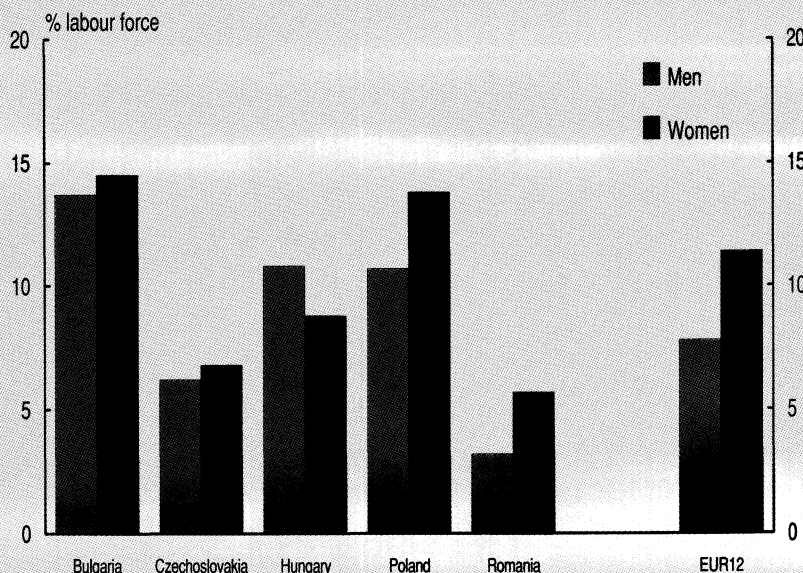
78 Registered unemployment rates in Central and Eastern Europe and the Community, 1990, 1991 and March 1992



figures do show unemployment reaching 14% in Bulgaria and 12% in Poland by March 1992, almost 10% in Hungary and 6½ in Czechoslovakia (Graph 78). Although the rate in Romania was still under 5% at this time if only marginally — this figure almost certainly understates the true position. It leaves out of account not only the substantial numbers thought not to register, but also around 1 million employees, some 10% of the work force, who were given 2–3 months leave (termed “technical unemployment”) at 60% of their wage in 1991.

Unemployment in the region as a whole has, therefore, risen from virtually zero at the beginning of 1990 in Poland and at the end of 1990 in the other four countries (unemployment in three of them, Czechoslovakia, Bulgaria and Romania, not being officially recognised as such before then) to levels which are similar to or above those prevailing in the Community in a remarkably short space of time. Moreover, except in Czechoslovakia where unemployment fell in the first few months of 1992, recent figures show little tendency for the rate of increase to slow.

79 Registered unemployment rates of men and women in Central and Eastern Europe and the Community, March 1992



The rise in unemployment is predominantly the result of a reduction in employment and owes little to any imbalance between the skills offered by the people out of work and those required by employers. As the numbers of unemployed have increased dramatically, the numbers of job vacancies have declined at a similar rate and are now at minimal levels — only 2–3% of the number of unemployed — throughout the region. Although the figures for notified vacancies are far from comprehensive, covering only a fraction of vacant jobs in the private sector, they are nevertheless indicative of the gap which has

opened up between the supply and demand for labour.

Although an imbalance in the skills on offer by those out of work is not a major cause of unemployment, it remains the case that, the less skilled the individual, the more difficulty they have had in finding employment. Thus the unemployment rate for unskilled workers is significantly higher than for skilled workers or professionals throughout the region, even though in some countries, such as Hungary, there are now more skilled workers out of work — because of job losses — than unskilled. In Czechoslovakia, whereas the unemployment rate among university graduates was just under 4% at the end of 1991, it was 16% for skilled workers with only a school-leaving certificate. Similarly, in Bulgaria, specialist people with higher education accounted for only 7% of the total unemployed in March 1992 as opposed to 16% in December 1990.

In all countries in the region, with the exception of Hungary, unemployment among women has risen to a higher rate than for men (paralleling the situation in the Community) although the difference, at around 1%, is smaller (Graph 79). It is not clear whether this reflects the relative importance of women in activities in which employment has declined most, or whether it reflects a greater willingness on the part of employers to make women redundant.

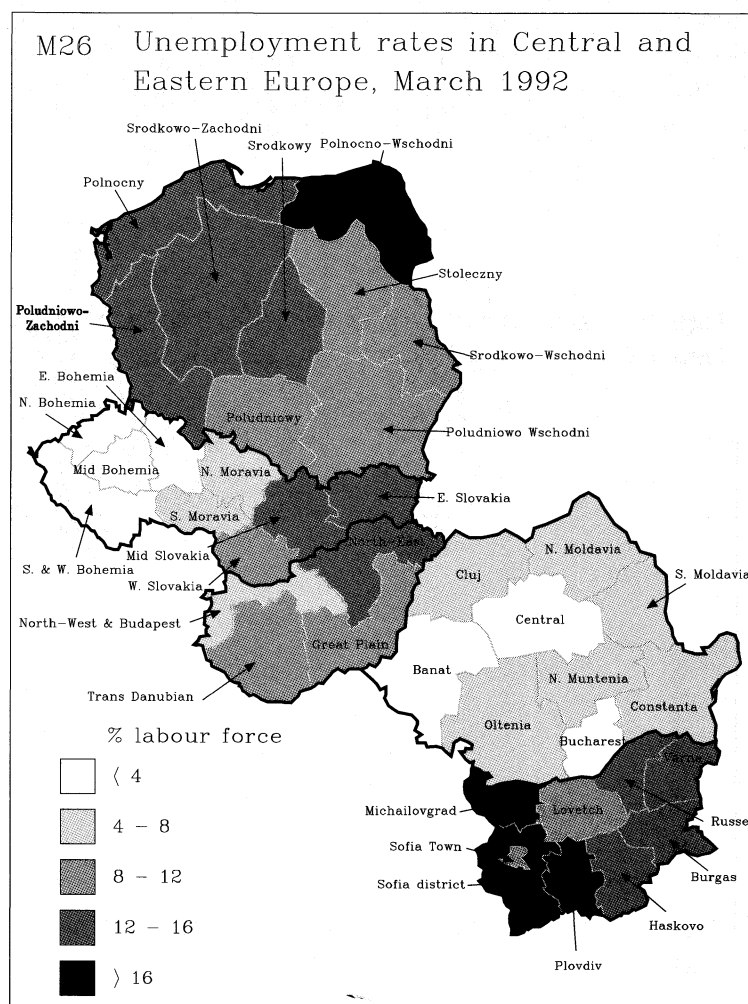
Young unemployed and long-term unemployment

Young people have been most affected by the reduction in employment opportunities throughout Central and Eastern

Europe, especially those joining the labour market for the first time. As in the Community, the unemployment rates for young people under 25 are in many areas in the region twice, or more, the rate for the rest of the workforce. In Czechoslovakia, for example, the rate for those under 20 years old was 31% at the last count while, for those aged between 20 and 24, it averaged 11%. This compares with a rate of around 5% for the rest of the workforce.

In Poland, the rate for under 25s at the end of 1991 was well over double the rate for older age

groups. Moreover, these figures almost certainly understate the true extent of unemployment among the young in a number of cases. This is because they relate only to those registering, and because — since a lower proportion of the young are eligible for benefits than is the case for older age groups, because they have not previously worked — the incentive to register is less. The reason for the disparity between youth and adult unemployment rates is straight-forward — if fewer new jobs are being created, those coming onto the labour market for the first time tend to be hit hardest.



Moreover, the longer job creation remains low, the longer people will tend to remain unemployed and the greater, therefore, the rise in long-term unemployment. This is beginning to be a feature of all countries in the region, even though the period since unemployment emerged as a problem is short.

In Hungary, those unemployed for more than 360 days increased from only 7% of the total in July 1991 to 15% in March 1992. In Czechoslovakia, where unemployment began to emerge only just over a year previously, the number unemployed for more than a year stood at over 5% in the same month, while those out of work for more than 6 months had reached over 35%. Similarly in Bulgaria, at the end of January 1992, 24% of the unemployed had been out of

work for more than 6 months and 7% for over 9 months.

Among the long-term unemployed, a 'hard-core' has emerged consisting of people who pose special employment difficulties, such as the handicapped or gypsies, as in the Community. It is these people, who were absorbed into employment under the former system because of acute labour shortages, who were among the first to lose their jobs and who face the biggest problems in finding new ones.

Regional unemployment

Although unemployment is a general problem in most countries, some regions have been much more affected than others. These are predominantly regions in which agriculture accounts for a high share of activity, or in

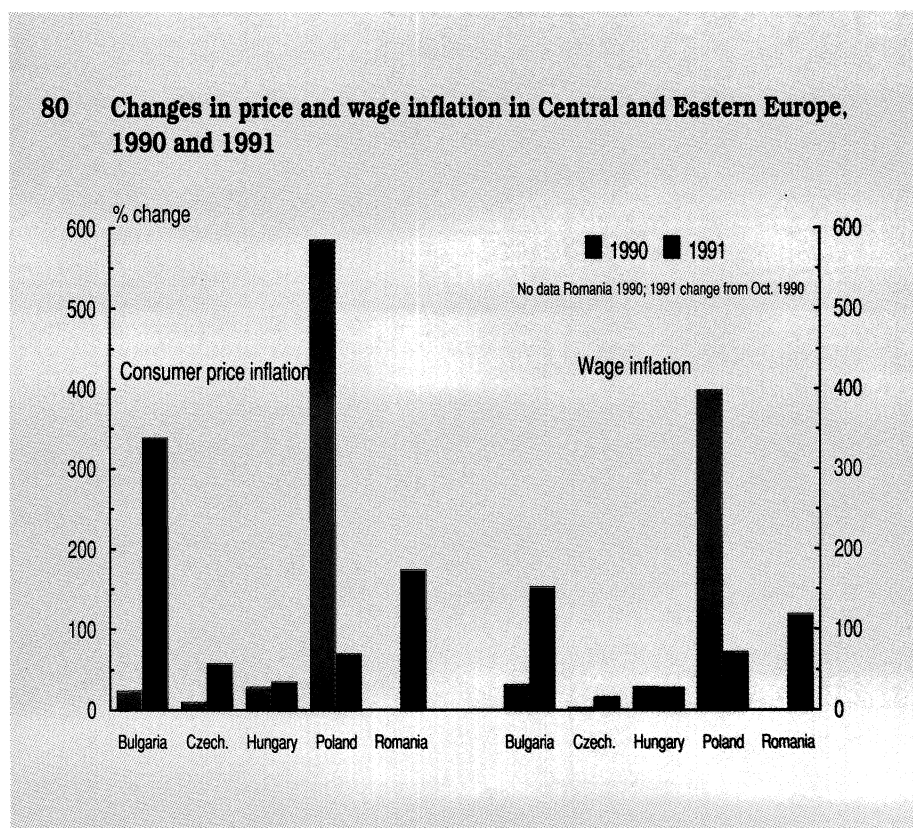
which heavy industries or basic industries such as textiles are in decline. By contrast, capital cities and the regions surrounding them, where services are relatively important, tend to have relatively low rates.

In Poland, unemployment rates are highest in the North and West: in Polnocno-Wschodni, which is predominantly agricultural and which had unemployment of almost 17% in March 1992, and Srodkowy, where traditional textile industries are important and where the rate was 16% (Map 26).

In Czechoslovakia, unemployment generally increases the further East one goes. Thus in Slovakia — where the level of economic development is lower than in the Czech republic and where a high proportion of production is in agriculture and basic industries — unemployment averaged 12–13% in March 1992, as compared with West Bohemia where it was 3% and Prague where it was only just over 1%.

In Hungary, rates are highest at around 15% in the industrial North-East and lowest, below 6%, in the North-West around Budapest, with its high concentration of service industries.

In Romania, as in Czechoslovakia, unemployment is highest in the East, in Northern and Southern Moldavia, which are predominantly rural with relatively few productive activities offering job opportunities, where it was around 7% in March 1992 and where the migration of labour to other regions has declined significantly. It was lowest, at under 4%, in Bucharest and the Central region, again reflecting the importance of services.



In Bulgaria, it is the South-West regions of Plovdiv and the Sofia district — with rates of 19% and 16% in March 1992 — and the North-West region of Michailovgrad (16%), which have the highest unemployment. Sofia, itself, has the lowest rate (9%).

Certain areas within regions are even more affected. In Bulgaria, for example, there are municipalities in the South-West of the country where unemployment was over 30% at the beginning of 1992, while in some districts of Slovakia, the rate reached 20%.

Real wages and inflation

The upsurge in inflation which has occurred in all countries as price controls were removed has eroded real incomes and created major problems for governments seeking to protect those most affected. The timing, pattern and scale of the increase in inflation, however, has varied significantly between countries, depending on the timing of price liberalisation, the extent to which prices were already influenced by market forces and prevailing economic conditions.

In Poland, after price controls were removed, inflation increased to an average of just under 600% in 1990 while, in Bulgaria, it rose to over 300% in 1991 and in Romania to around 200% (Graph 80). By contrast, in Hungary, where the liberalisation process started earlier and was spread over a longer period of time, inflation has remained below 40%, and in Czechoslovakia the increase has been limited to below 70%, despite liberalisation taking place more quickly. In all countries, inflation fell after the initial removal of the

majority of controls and, at the beginning of 1992, was continuing to decline towards more acceptable levels throughout the region with the possible exception of Romania (where the data are relatively uncertain), although it remains high everywhere (although there are signs of inflation moving towards single figures in Czechoslovakia).

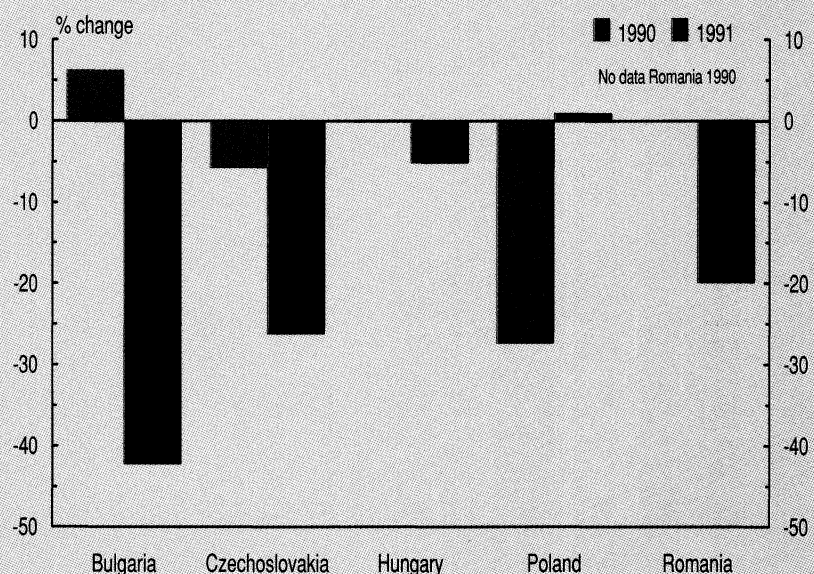
Although all governments in the region attempted to protect real wages from the worst effects of price increases by allowing nominal wages to rise, they all accepted the need for real wages to fall. This was seen as necessary in order to reduce excess demand in the economy once goods and services became available for purchase, and so to contain the inflationary spiral and the growth of imports. However, the rise in inflation was much greater — except possibly in

Hungary — than was expected. Moreover, the fall in output was also much greater, so reducing the finance available for protecting real incomes.

Average real wages, therefore, declined by an estimated 27% in Poland in 1990 — though they rose slightly in 1991 — by 26% in Czechoslovakia in 1991, by around 12% in Romania and by over 40% in Bulgaria (Graph 81). In Hungary, on the other hand, where the peak in inflation has been less, but had existed for longer, the fall in real wages was only around 5% in 1991 (though 8% between the end of 1990 and the end of 1991). This came, however, after several years of little, or no, growth in average real wages.

Certain points can be emphasised. Firstly, the movement of real wages over the recent period is not necess-

81 Changes in average real wages in Central and Eastern Europe, 1990 and 1991



arily a good indicator of changes in economic well-being in Central and Eastern Europe because of the severe shortages of goods and services which existed in many countries — Hungary and Czechoslovakia are exceptions — which existed before the reforms started. People may have suffered a substantial erosion in the real value of their measured income but, at the same time, had a greater chance of spending what money they had. (This, however, is of little consolation to the many who cannot afford to buy the new goods appearing in the shops.)

Secondly, average figures conceal major variations. Many people will have suffered even larger reductions in real wages than the average, especially those employed in parts of the state sector. Others may have experienced much smaller falls or even

increases, especially those with income from abroad, those working in the informal economy or those newly employed in the private sector, where average wages are estimated, in many cases, to be at least double those in other parts of the economy. This disparity in experience, which is in stark contrast to the stable pattern of wage relativities in the years before the reforms, threatens to become more important in the future.

A third point, of unknown importance, is that all the countries, although to markedly different extents, have informal economies which potentially provide an additional, unmeasured, source of income to a number of people. This is particularly the case for Hungary and Poland, but much less true of Bulgaria and Romania. It is difficult to judge the extent to which infor-

mal activities have moderated the decline in real incomes, though it is unlikely that income from informal sources has remained unaffected by the scale of reduction in measured GDP which has occurred.

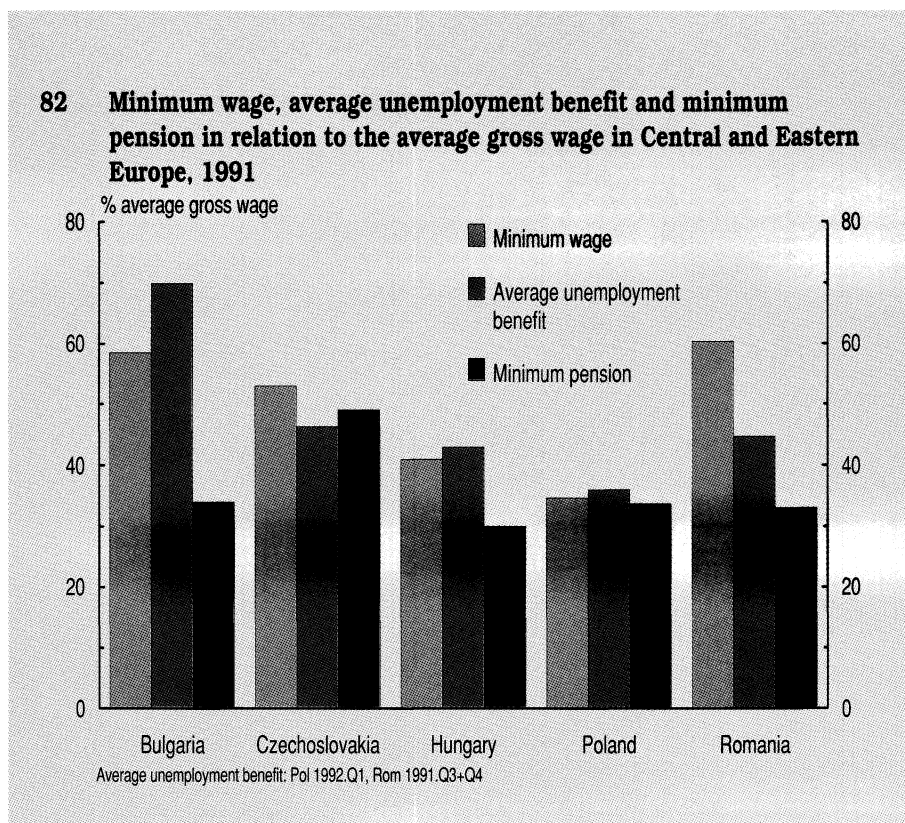
The people suffering the biggest falls in real income, however, are in the main those who have lost their jobs and become unemployed and those in retirement.

Systems of social protection

All the countries in the region have had to modify, and extend, their systems of social protection to take account of new circumstances. In all countries, the development of an effective social safety net to prevent widespread poverty has been seen as a key element in — and even a condition of — implementing the economic reforms required for transition.

In particular, governments have set minimum wage levels for those in work and have introduced entitlement to benefit for those affected by unemployment (although in Hungary, a system dates back to 1986 when a re-employment benefit scheme was introduced). In general, the systems of unemployment benefit adopted have related the amount of benefit receivable to the last monthly wage earned when in work, with the rates tending to be around 50–70% of this. For those not previously in work — because they have just left school or university — benefit has been linked to the minimum wage.

There has also been a general tendency to seek to reduce benefit expenditure as unemployment increased and as the financial



positions of governments have deteriorated. Eligibility criteria have been tightened, the period of entitlement to benefit shortened, and effective rates of benefit reduced in most countries (Graph 82).

In Hungary, for example, insurance principles were introduced in March 1991 to relate benefit entitlement to previous contributions, while at the beginning of 1992, the period of entitlement was reduced by 25%. In Poland, a uniform rate of cash benefit, equal to around 36% of average earnings, was introduced in March 1992 in place of the previous range of earnings-related rates, reducing the average amount paid significantly. In Czechoslovakia, in January 1992, apart from graduates, eligibility was restricted to those who had genuinely lost their jobs and were actively seeking another, and the period of entitlement to benefit was halved. As a consequence there has been a substantial reduction in the numbers registered at labour offices and the numbers eligible for benefit.

This tightening, however, has not prevented acute financial problems emerging as regards the funding of payments to the growing numbers of unemployed. In three countries — Poland, Hungary and Bulgaria — special funds financed by levies on employers and those in work — or just on enterprises in the case of Bulgaria — have been established to meet the cost of unemployment. But, as the cost has risen, finance has proved inadequate necessitating the diversion of revenue from other programmes — especially active labour market measures — or, in the case of Bulgaria, increases in the rate of contribution required of those paying into the fund.

As the recession persists and the average duration of unemployment increases, governments in the region are facing a new problem — how to support people whose entitlement to benefit has ended. In Bulgaria, for example, in the first quarter of 1992, the proportion of those registered as unemployed who were entitled to benefits fell from around 60% to 39% simply because their period of entitlement had ended. Such cases could become increasingly numerous and the scale of income support could decline markedly.

Other measures of social protection have also come under closer scrutiny as the recession has continued. In most countries, however, governments have tried hard to contain the rise in poverty resulting from the decline in national real income by uprating minimum wage levels and pensions so as to prevent them being eroded by inflation. However, while the minimum wage level in relation to the average wage has been progressively increased in Poland during the period of transition, from 12% in 1989 to 36% in 1991, and in Hungary it remained broadly constant in 1990 and 1991, the level in Czechoslovakia was reduced from 60% of the average wage at the beginning of 1991 to 44% by the end. In Romania, it was reduced from 63% to 51% and in Bulgaria from 75% to 42% over the same period. In the latter case, it has resulted in incomes well below basic subsistence level.

Partly because of the higher than expected inflation, the minimum level of pension declined relative to the average wage during 1991 in all countries, except for Romania where it started off low. Given the substantial fall in the real value of average wages dur-

ing 1991 in all countries apart from Poland, it is clear that pensioners as well as the unemployed and those on minimum wages have been especially hard hit in most parts of the region over the past year.

Active labour market measures

All governments have introduced active labour market measures in response to rising unemployment in addition to passive payment of unemployment benefits. The most common action has been to set up training or retraining programmes. However, the problem faced in every country is not only that of finding sufficient funds and enough qualified people to execute the programmes, but just as importantly determining what kind of training should be given. Although it is clear that retraining of many of the unemployed is essential if they are to find work, and if the productive potential of the economy is to be improved, the critical question of what kind of skills to provide remains unresolved.

With only hazy, and general, ideas about the skills which will be required in the future as the transition — and economic recovery — proceeds, targeting training is difficult. In practice, the tendency is to provide basic training courses of benefit only to those with very low skill levels. A further problem is that, because of the acute shortage of jobs, there is the probability that those who undertake a course of training may be no more likely to find employment at the end of it than before.

As a result of these various problems, only a small proportion of the unemployed have undergone

retraining. In Czechoslovakia, Bulgaria and Romania, only around 5% of those registering as unemployed in 1991 went through a training course.

Other measures which are common throughout the region are:

- support to help and encourage aspiring entrepreneurs, especially those who are unemployed, to set up businesses;
- the creation of socially, or publicly, useful jobs;
- subsidies to employers to encourage them to employ young people, especially graduates (in Romania, for example, 60 or 70% of their wage is covered by the State, although under 8% of those graduating were helped by this measure in 1991);
- subsidies for the employment of handicapped workers;
- encouragement for people to retire earlier.

Less common measures include; subsidies to promote part-time employment (in Hungary — where this measure will receive increased emphasis in 1992); the subsidisation of short-time working in enterprises experiencing temporary sales problems (in Czechoslovakia).

Varied as these measures are, they have helped only a small proportion of the unemployed, partly because the scale of expenditure which has been possible is small in relation to the scale of the problem. Because the growing numbers out of work require income support, the funds which governments have been able, or willing, to devote to active labour market measures are small relative

to payments to the unemployed. In Czechoslovakia, for example, income support for the unemployed amounted to 0.45% of GDP in 1991, compared with 0.14% of GDP for expenditure on active measures. This ratio of spending between passive and active measures — around 3:1 or 4:1 — seems to be similar in Hungary and Poland, while in Bulgaria over 90% of all expenditure on the labour market in 1991 was absorbed in paying unemployment benefit.

These figures are lower in both cases than the averages for the Community (see Chapter 7). Here, in 1990, income support for the unemployed for all Member States, except Italy, averaged just under 1½% of GDP (as against around ½% of GDP in Central and Eastern Europe in 1991). At the same time, a slightly higher proportion of labour market expenditure goes on active measures (around a third on average as opposed to a quarter or less). On the other hand, if comparison is made with the lower income countries of the Community, with Portugal and Greece, the level of income support is more comparable (it was just under 0.5% of GDP in Greece in 1990 when unemployment was 7%, about the same as in Czechoslovakia) though relative expenditure on active labour market measures tends to be much higher in these two countries.

Although all countries seem to be planning to shift the balance of spending more towards active measures in 1992, their success depends critically on how much further unemployment increases and how much, therefore, needs to be paid for income support. At the same time, it is clear that if output and employment continue to fall as over the recent past, active measures in themselves can only

have a very limited impact on unemployment.

Developments in 1992

Data for the first quarter of 1992, in many cases provisional, indicate that output has continued to decline, employment to be reduced and unemployment to rise in most parts of the region.

Although for most countries there are no quarterly figures available for GDP, estimates of industrial production show a fall of around 20–25% in Czechoslovakia, Bulgaria and Hungary between the first quarter of 1991 and the first quarter of 1992, while in Romania, the decline was 13% and in Poland 9%. Only in Poland and Czechoslovakia is there any sign of a moderation in the rate of decline in industrial output.

Employment has also continued to fall. In Bulgaria and Czechoslovakia, the numbers employed in the first quarter of 1992 were 18–19% less than a year earlier. Although the figures relate solely to those employed in the state and cooperative sector, expansion of employment in the private sector could not feasibly compensate for a fall on this scale. In Czechoslovakia, however, there appears to have been very little fall in employment between the last quarter of 1991 and the first quarter of 1992, which is not necessarily a favourable sign given the significant over-maning which still exists in the state sector.

In the other three countries, the fall in employment in the first quarter of 1992 as compared with a year earlier was less pronounced, at around 4–6%.

The continuing decline in employment was accompanied by a further rise in unemployment in all countries, apart from Czechoslovakia where there was a marginal reduction in the rate (a decline in the rate for women more than offsetting a small rise in the rate for men). The rise in the first three months of 1992 was especially marked in Bulgaria and Hungary, at over 2 percentage points, though in the former, this represented a fall in the rate of increase. In Romania, the rate of increase was much greater than during 1991, suggesting perhaps the beginning of convergence to levels of unemployment in the rest of the region.

On the inflation front, the rate of increase in consumer prices in the first quarter of 1992 seems to have slowed throughout the region, in Bulgaria and Czechoslovakia considerably (the rate in the latter falling to just over 16% on a year earlier as against a rate of 53% in the last quarter of 1991). This was accompanied by a general moderation in the rate of wage inflation. At the same time, however, the fall in real wages in most countries — Poland is an exception — either slowed or was reversed. In Bulgaria and Czechoslovakia, average real wages in the first quarter of 1992 were seemingly higher than a year earlier.

Employment prospects

In all countries, the general expectation is that employment will continue to decline and unemployment will continue to increase in 1992. Even in Czechoslovakia, where the out-turn for the first quarter was relatively favourable, the expectation is for more job

losses to occur in the state sector as privatisation proceeds.

In all countries, the main thrust of policy will remain as before with the emphasis on the continued restraint of inflation — especially given the widespread plans to reduce further the remaining subsidies on prices and to loss-making state enterprises (in Hungary price controls have already been completely removed), and on avoiding increases in both budget and external deficits. While governments express their intention of giving more emphasis to the stimulation of output and employment, efforts in this direction are conditional on their success in maintaining — or achieving — financial stability and on funds being available for action programmes.

The continuation of the privatisation process, and even its acceleration, is planned in all countries. In many cases, the extension of sales, or leasing, of state enterprises from the small to the medium and larger sized units is foreseen. The pace at which such programmes are implemented, however, will continue to depend on economic performance and will be influenced by movements in employment and unemployment. A major problem is that the short-term effect of privatisation is likely to be to increase job losses and push up unemployment even more as the enterprises involved seek to reduce over-manning and other inefficiencies in pursuit of profitability.

A further problem is that privatisation, in itself, does not guarantee increased production or even improved efficiency. These depend ultimately not on the ownership of the businesses, but on how they are organised and managed. In agriculture, in particular — where the sale

and/or restitution of state holdings is planned in Hungary and Bulgaria, and has already occurred in Romania — privatisation could well lead to smaller units and less productive use of land. In industry, the break-up of large State enterprises, although it might improve the use of labour, might also make it more difficult to realise economies of scale, or achieve effective competition on world markets, in some cases.

There are, however, some favourable signs for some countries, as noted above. Inflation is coming down and most, if not all, price controls have already been removed, thereby eliminating the inflationary threat from this source. Some countries — Hungary and Poland especially, and to a lesser extent Czechoslovakia — have managed to achieve a significant shift in trade from COMECON to the West and there is the possibility of some recovery in world trade growth in 1992. Government finances, although under immense strain, have largely been kept under control. Investment from abroad, although small, is increasing.

On the other hand, over-manning remains widespread throughout the region, and the full repercussions on employment of the substantial fall in output are still to come. Moreover, the official forecasts for GDP are, at best, for little fall in 1992 (in Hungary and Poland) or for a lower rate of decline than in 1991 — in Czechoslovakia, where the official estimate is of 3–6% fall in GDP, and in Bulgaria, where the fall is only expected to be 10%. Unemployment is, therefore, likely to continue to increase in all countries at least during 1992, though possibly at a slower rate than at the beginning of the reform process.

The longer-term outlook, however, depends largely on the success of these countries in establishing efficient enterprises which are competitive on world markets. Investment from abroad is likely to be an important factor here — as is technical and financial support from the Community and elsewhere through measures such as the PHARE programme. The growth of inward investment and external support, however, is linked not only to economic recovery in the West, but even more to the continuation of the reform process. In a very real sense, therefore, though the transitional costs might be high, there is no turning back for any of the countries in the region.

Chapter 6 Men and Women in the Community Labour Market

Labour market equality is a long way off. More women now work, but still in lower-paid jobs in a limited number of sectors.

Introduction

Women make up 51% of the working-age population in the Community, but account for only 39% of employment. Men make up 49% of the working-age population but account for 61% of employment. This is despite the fact that over the past 20 years the participation among men in the youngest and oldest age groups has declined and women have filled the major proportion of new jobs created. With a low or static growth of the working-age population in prospect throughout the Community, however, the position of women in the labour market stands to become ever more important in the years to come if present trends continue.

This chapter seeks to describe the relative position of men and women in the labour market across the Community from the available data and to see how far differences have narrowed — or widened — over the recent past, especially over the 1980s.

Various aspects of employment are examined. The first aspect concerns the differences in activity rates between men and women and the factors — such as changes in family

structures, in attitudes towards work and in women's education levels — which can explain recent trends. This chapter also explores the extent of differences in activity rates between different age groups in order to identify reasons for variations in overall participation.

A second aspect concerns employment patterns — in particular, the extent to which men and women work in different areas of economic activity across the Community. One objective is to see how far men and women tend to be employed in different industries and services, and whether the tendency over time, with the increased participation of women in the labour market — coupled with the growth of service activities and the decline of heavy industry — has brought about convergence or divergence in employment patterns.

A related issue concerns the relative importance of part-time working by men and women. In several Member States in the North of the Community this is a major feature of women's employment and has a bearing on the quality of jobs occupied by women and the terms and conditions of employment attached to them.

There are a number of questions to be explored in this regard — how far increased part-time working is a general feature of recent economic developments; how far it is the result of the growth of particular trades; how far it affects men as well as women.

A further range of issues concerns the relative importance for men and women of different types and forms of employment — temporary as opposed to permanent jobs; family working as opposed to employment outside; self-employment as opposed to paid employment. An important question is how far the growth of women's employment has been associated with a change in the pattern of work in these respects. Another is to see how far the prevailing pattern in the less developed, mainly Southern parts of the Community — where family working, in particular, has been a structural feature of the labour market — is tending to converge towards that in the more developed areas.

A final aspect addressed concerns wages and salaries. Lack of suitable data is a major constraint, but the aim is to identify the extent to which rates of pay for men and women

differ across the Community and whether differences have tended to widen or narrow over the recent past.

The conclusions that can be drawn from the analysis are often not clear cut, to a large extent because of shortcomings in the data which are available. The overall impression, however, is that the increasing role and importance of women relative to men in terms of employment does not appear to be reflected in greater equality or less segregation on the labour market in all parts of the Community. On the contrary, the evidence is consistent with the view that the labour market for women differs in a number of respects from that for men. To remove these differences and achieve full equality of treatment and opportunity is one of the key challenges for the future.

Activity rates of men and women

Activity rates for women have increased significantly over the past 20 years in the Community. Moreover, in some of the less-developed regions, where female activity rates were very low, they have increased faster than elsewhere. In Spain and Greece the increases in the 1980s — of the order of 25 percentage points — were markedly higher than in the 1970s, and substantially above the Community average. In Italy, on the other hand, the rate of increase seems to have slowed since 1980 and was below that in the rest of the Community. In Ireland, while some acceleration in the rate of increase is apparent, the rise was also less than elsewhere.

Between 1985 and 1990, 60% of the additional jobs created in the Com-

munity were taken by women either entering the labour market for the first time or after an interruption. Despite this increase, however, there are still fewer women than men who participate in the labour market in the Community. This is true for all Member States and all age groups. The extent of the difference, however, varies greatly between countries and between age groups.

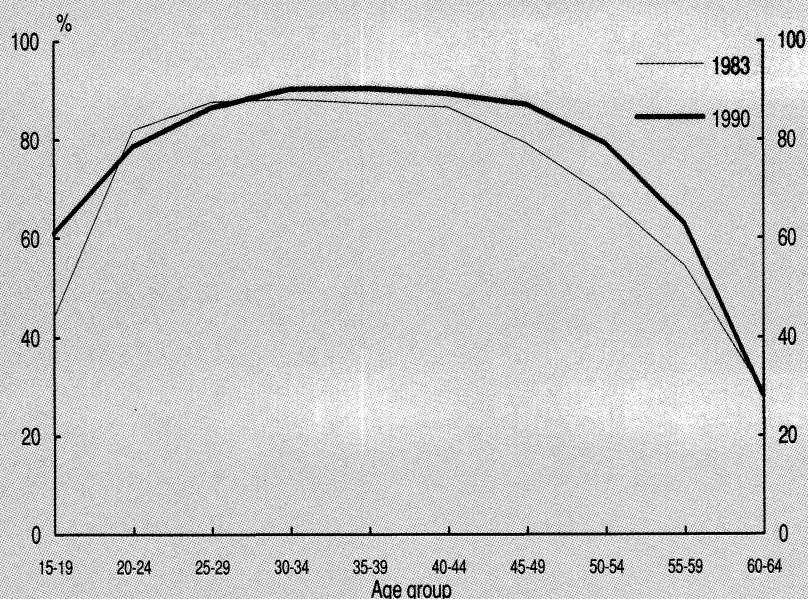
So far as the comparison between men and women is concerned, these differences reflect the different patterns of activity at different ages in the different countries. Typically, male participation rates rise up to the mid-twenties, remain stable until the mid-fifties, and then decline. Although these patterns are changing to some degree, the inverted 'U' shape predominates.

Female activity at different ages, however, varies much more widely between countries. In two countries, Denmark and, to a lesser extent, France, the pattern is very similar to the U-shape for men, with participation rates being very similar for all ages between 25 and 50 and then progressively declining (Graph 83).

In several other countries, female activity is characterised by an 'M'-shaped curve, with women in the middle age-groups having stopped work to bring up children and older women whose children have grown up having resumed work again. This is typically the case in Germany, the Netherlands and the UK (Graph 84).

In the remaining countries, women typically work between the ages of 20 and 25, and then stop work at various ages thereafter depending largely on when they start having children. In these countries, activity

83 Activity rates of women by age group in Denmark, 1983 and 1990

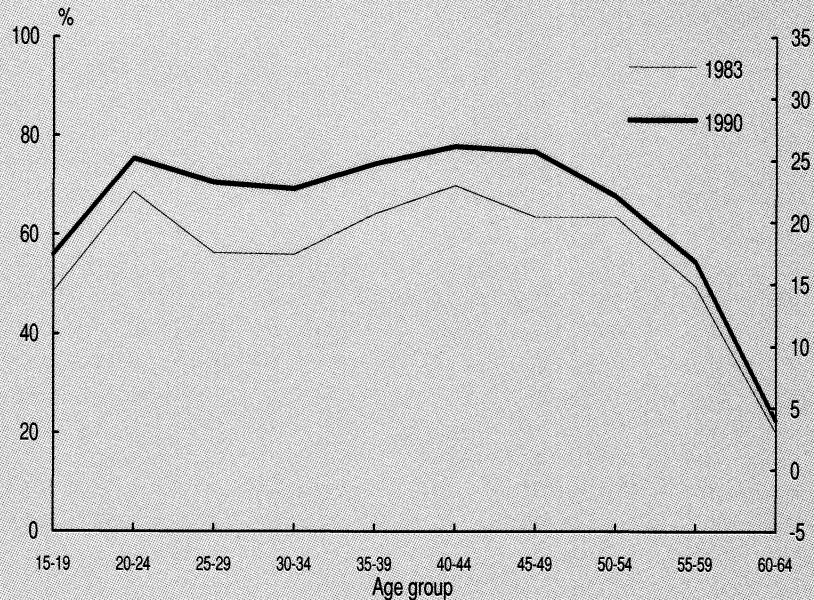


rates of women decline sharply, and fairly continuously, after the age of 25 or 30. In Ireland, Spain and Luxembourg, activity rates drop off sharply and remain low after 25 or 30 (Graph 85). In Belgium, Greece, Italy and Portugal, the curve drops off less steeply initially as the period of inactivity is postponed until later in life (Graph 86). In Belgium the activity rate for the 50–54 age group in 1990, at only 30%, is only around half the rate for the 40–44 age group. Indeed, Belgium has the lowest activity rates in the older age groups in the Community.

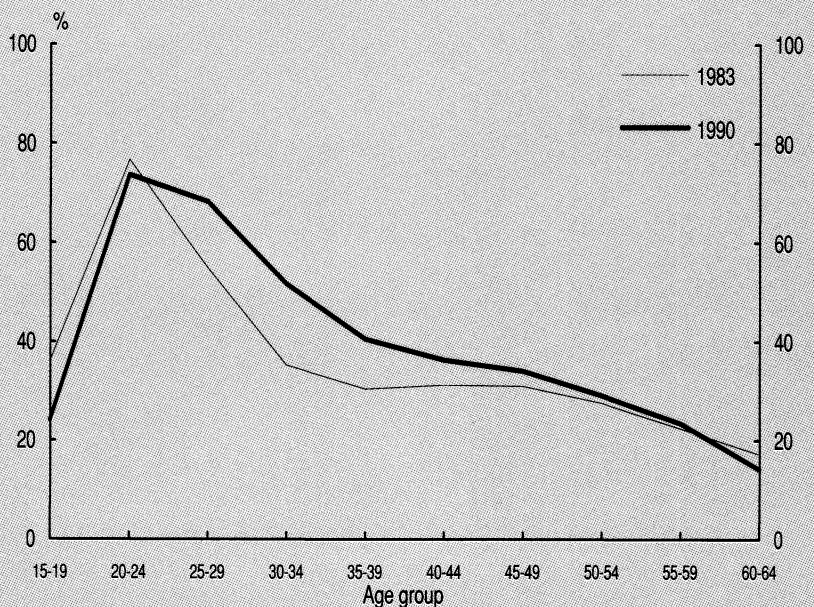
Although it is tempting to do so, it is important not to interpret these activity rate profiles as depicting the typical participation in the labour force of an average group of women as they go through life. In fact they describe the position at a given point in time (1990) for women of different ages, born at different times and therefore of different generations. It is not necessarily the case that as women in any particular age group progress to an older age group they will tend to have the same average activity rate as women at present in that age group.

In all Member States, activity rates in most age groups have increased in recent years, in some cases significantly. This is consistent with a general rise in participation among women of most ages. It is also consistent with a generation effect — of younger women being increasingly more willing and/or able to join the work force than their predecessors, with the result that activity rates for all age groups up to retirement age are observed to increase over time. Indeed even over the comparatively short period between 1983 and 1990 — the longest period for which comparable data for detailed age groups are available —

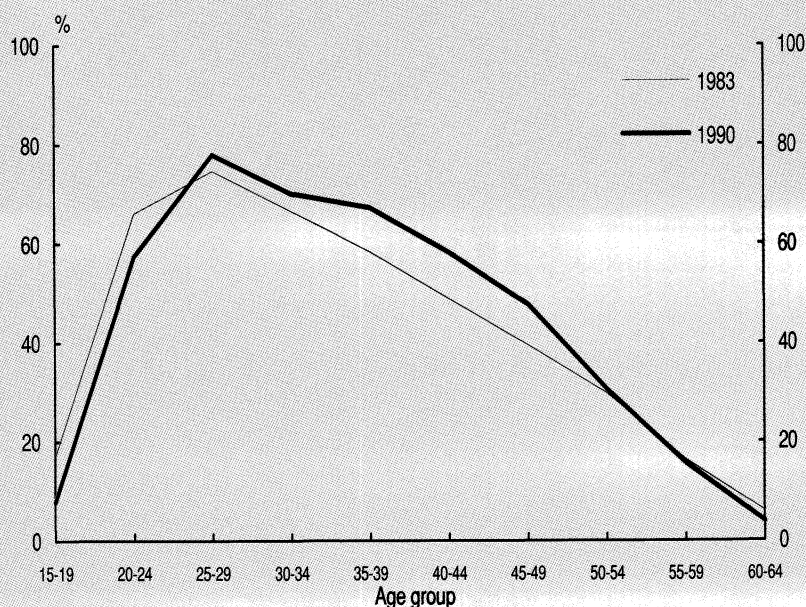
84 Activity rates of women by age group in the United Kingdom, 1983 and 1990



85 Activity rates of women by age group in Ireland, 1983 and 1990



86 Activity rates of women by age group in Belgium, 1983 and 1990

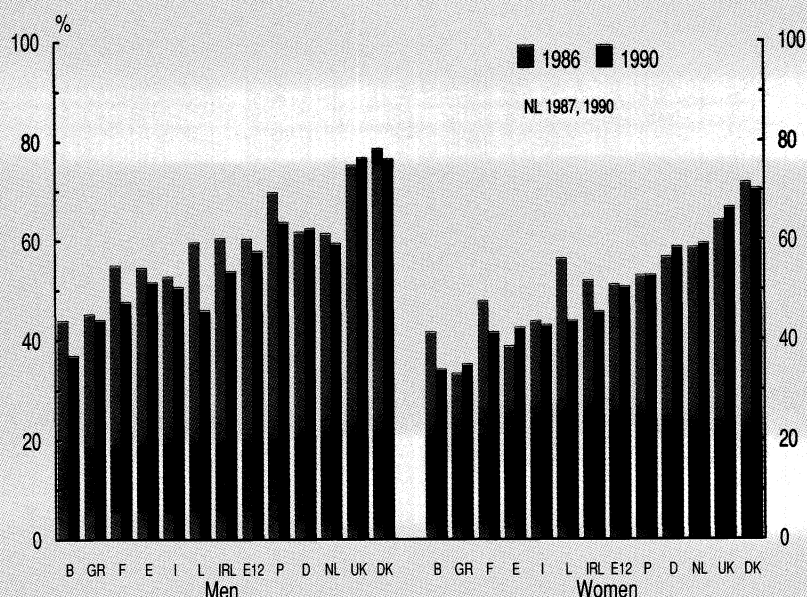


the activity rate profile for women in many Community countries has changed markedly as rates have risen so that the typical patterns described above are less pronounced than they were 7 years ago (Graphs 84–86).

What is not yet clear is whether the changes which have occurred presage a move towards a uniform pattern in the Community and a general narrowing of the still substantial differences in participation rates between men and women in most Member States.

In the younger age groups, those under 25, activity rates for men and women are naturally at their closest. Nevertheless, the activity rate for men aged between 15 and 24 in the Community as a whole in 1990 was still on average around 7 percentage points higher than that for women (58% as against 51%). The gap ranges from around 9 percentage points or more in the three Southern Member States of Portugal, Spain and Greece as well as — contrary to the general pattern — in the UK, to less than 3 percentage points in the case of Belgium, the Netherlands and Luxembourg (Graph 87).

87 Activity rates of young men and women aged 15-24 in the Member States, 1986 and 1990



In this age group, activity rates are generally much higher for married than for single people. In 1990, the activity rate for married women under 25 in the Community was 61% as compared with 44.5% for single women, with only Denmark showing similar figures for both and Germany where the activity rate for single women was higher than for married women. For men the proportions were 94% for married men and 51% for single men. This almost certainly reflects differences in the participation of married and single people in higher education, and the

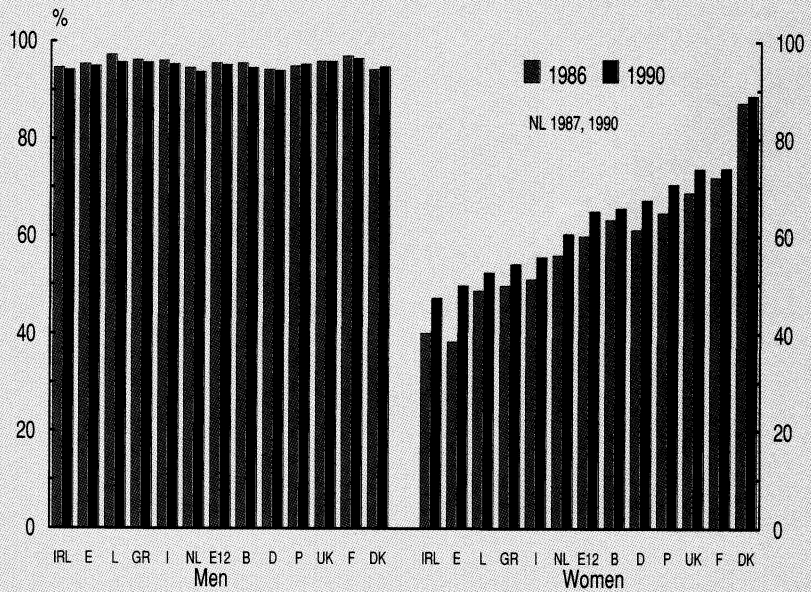
corresponding differences in their need and capacity to earn income.

In the middle age group of 25-49, the difference between activity rates for men and women widens sharply. With the exception of Denmark, where the difference was only 5 percentage points in 1990 (94% for men, 89% for women) the activity rate for men in this age group was more than 25 percentage points higher than that for women in all Member States (Graph 88). In Greece, Spain, Ireland and Italy, the difference was 40 percentage points or more (94-96% for men, 47-56% for women).

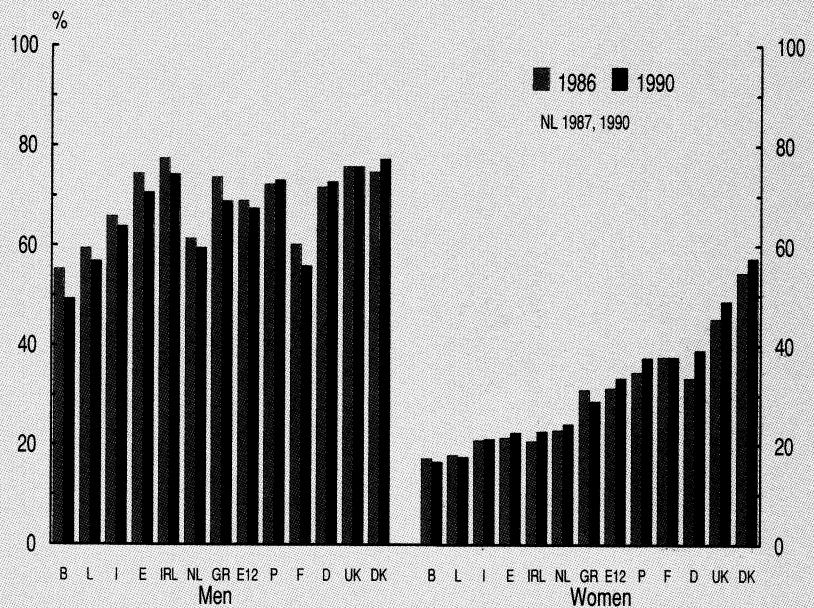
For those aged 50 and over, activity rates decline for both men and women, but the differences between them are even more pronounced, reflecting in part the tendency for women in most countries to retire earlier than men, even though they live longer. Over the Community as whole, the activity rate for men in this age group was around double that for women in 1990 (67.5% as against 33.5%). Only in Denmark, France and the UK was the difference less than 30 percentage points (Graph 89). In Ireland and Spain, the rate for men was around 50 percentage points higher than for women (71-74% as compared with 22-23%).

The current low activity rates for women in the older age groups reflect social attitudes that were formed in early life. For older generations in most countries it was not generally socially acceptable for women to work at all, or to work only as long as it was judged necessary to earn income. As younger generations of women grow older, activity rates are likely to increase in the older age groups.

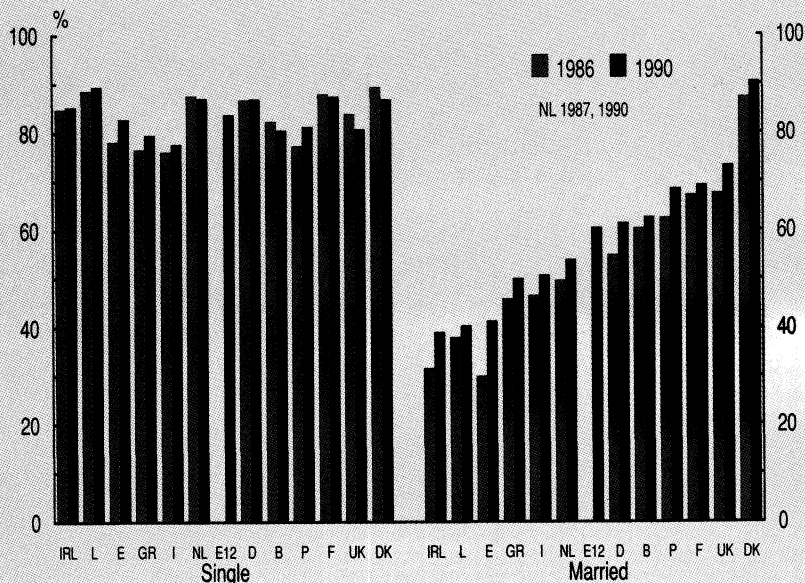
88 Activity rates of men and women aged 25-49 in the Member States, 1986 and 1990



89 Activity rates of men and women aged 50-64 in the Member States, 1986 and 1990

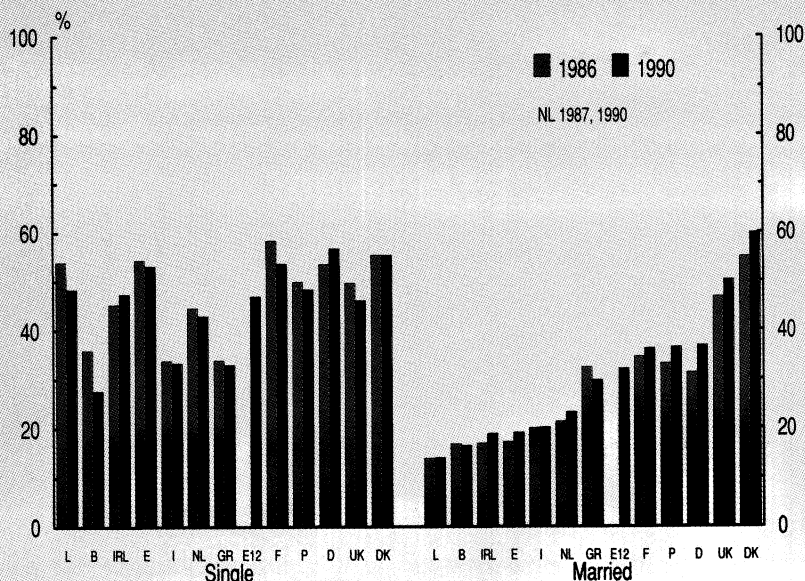


90 Activity rates of single and married women aged 25-49 in the Member States, 1986 and 1990



Much of the difference in the participation of men and women in the 25-49 prime working-age group arises because married women — who represent the majority of women in this group — have low rates of activity, especially in the less developed parts of the Community. In 1990, the activity rate of married women was around 40% in Spain and Ireland and some 50% in Italy and Greece (Graph 90). These low rates do not necessarily indicate that women were not working, rather that they may reflect a failure on the part of the Labour Force Survey to identify all those who were employed within the family on an unpaid basis. Rates were also relatively low among married women, however, in a number of more developed, Northern areas, such as the Netherlands (54%) and Luxembourg (40%).

91 Activity rates of single and married women aged 50-64 in the Member States, 1986 and 1990



Activity rates for women in the over-50 age group also vary markedly between married and single women. Over the Community as a whole, the activity rate for single women in the 50-64 age group is 15 percentage points higher than that for married women (47% as against 32%) and in Spain and Ireland, the difference is around 30 percentage points or more (Graph 91). Only in Denmark and the UK is the rate higher for married than for single women.

Taking care of children is only part of the explanation of why activity rates for married women are less than those for single women. In half the Member States in 1990, there was no significant difference between the average activity rate for women in the 25-49 age group with children and those without — indeed in some countries, the activity rate was higher for those with children (Graph 92).

The six Member States where this was the case consist of all the Southern European countries plus Denmark and Belgium. In the remaining countries in the North of the Community, the activity rate for women with children under 15 was between 10 (France and Luxembourg) and 20 (Germany and Ireland) percentage points below the average rate for those without.

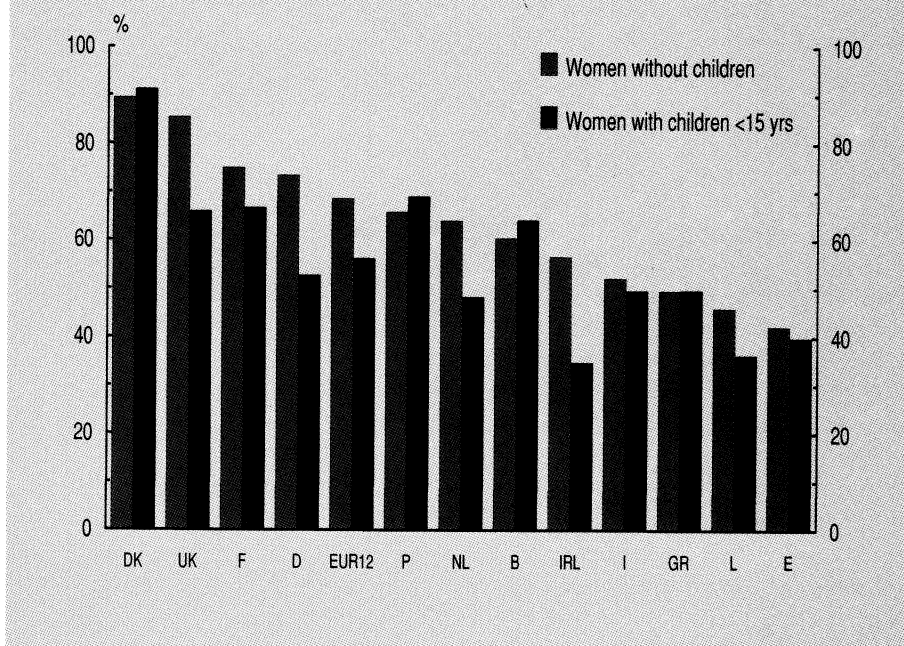
Activity and family

Most women who want to work face the continuous challenge of reconciling family responsibilities and obligations with pursuing a career. The increases in activity rates which have occurred throughout the Community in recent years suggest that women have become more able to participate in the labour market — whether because they are better equipped to do so than previously and/or because better support arrangements have made the task easier.

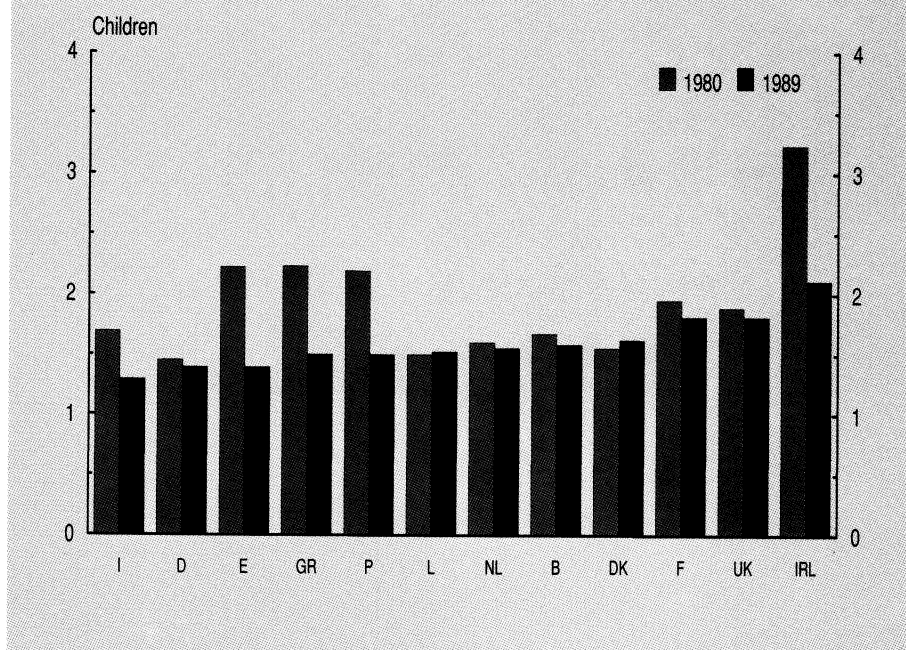
It is true that family structures have undergone far-reaching changes in recent years. In particular, fertility rates (the number of children per woman of child-bearing age) have fallen in almost all Member States (Graph 93). The effect of this on labour force participation, and vice versa, is, however, unclear. Women in Denmark, for example, who have the highest rate of activity in the Community, have a fertility rate similar to that of women in the Netherlands, who have one of the lowest activity rates.

The increased availability of child-care facilities might appear to be one of the factors underlying higher activity among women, although the levels of provision continue to vary significantly between countries. Denmark has by far the highest level of provision, with

92 Activity rates of women aged 25-49 with and without children in Member States, 1990



93 Average numbers of children per woman of child-bearing age in the Member States, 1980 and 1989



France and Belgium some way behind. The lowest overall levels of provision are in Ireland, the Netherlands and the UK. While these differences are to some extent reflected in the differences in activity rates between women with and without children (the latter three countries with Germany have the widest differences), it is nevertheless the case that women in the 25-49 age group with children in the UK have similar rates of activity to their counterparts in France and Belgium (although many more of these women in the UK work part-time than in the latter two countries). On the other hand, the activity rates of women in the Netherlands and Ireland are well below those in other Northern European countries.

This suggests that the availability of childcare facilities is only part of the explanation for activity rate

differences. It does not explain, for example, why the UK has a relatively high rate of activity among most women with or without children or why activity rates are generally low in the South of the Community. Other factors, including social attitudes and conventions, the availability of suitable work at acceptable rates of pay and conditions and the prevalence of part-time working are also important, as well as regulations governing employment which might limit the possibility of part-time working.

While the increase in activity among working mothers suggests that these factors are changing, it remains open to question whether and to what extent this increase will continue in the future and whether the wide gap which still exists between activity rates of women in different parts of the Community

will progressively narrow. A further question of no less importance is whether such a narrowing can be achieved without women having to accept jobs of low quality with poor pay and conditions — in other words, whether it can be combined instead with improvements in the position of women in the labour market.

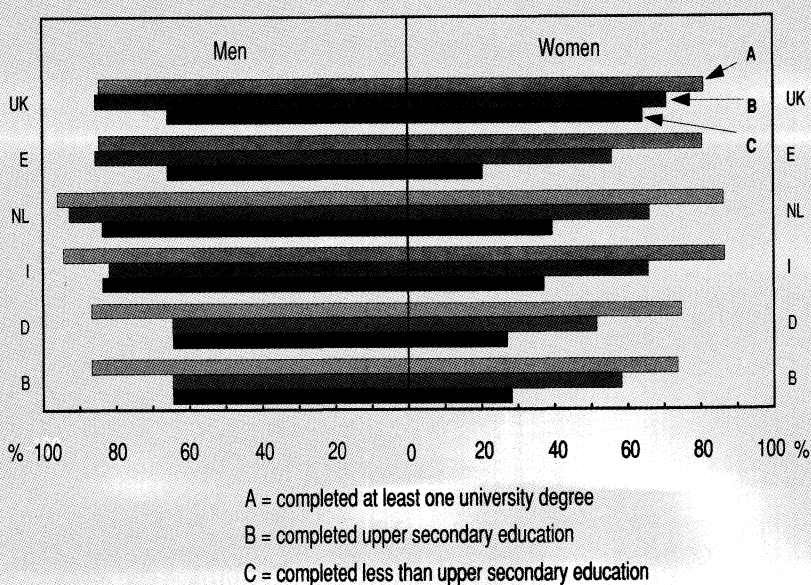
Activity and educational attainment

Evidence from several Community countries suggests that the level of activity rates for both men and women is positively related to educational attainment. Activity rates for people who have completed higher education courses tend, in general, to be higher than for people with a lower level of educational achievement (Graph 94 — note that although the general form of the relationship between education and activity may be similar, the educational attainment levels depicted in the graph are not necessarily comparable between countries).

Although this relationship is continuous, and consistent, between countries, it is much stronger for women than for men. In the Netherlands, for example, whereas the rate of activity for men varied only slightly, the rate for women ranged from under 40% for those with the lowest level of educational attainment to 84% for those with the highest level. A similar difference exists in Italy, Germany and Belgium, while in Spain it is even wider.

This may reflect the greater ease with which well-educated women can return to professional careers after a break. It may also reflect the fact that well-educated women may have career aspira-

94 Activity rates of men and women by level of educational attainment for selected Member States, 1988



tions and activity patterns similar to those of men — that is to say, continuous careers which are not interrupted by the birth of their children. This may be due in part to the greater costs they face relative to other women if they do interrupt their career. Less well-educated women, on the other hand, may find it more difficult to reconcile family responsibilities with their careers, and/or may find it harder to find suitable jobs with pay and conditions which make it attractive to work.

Men and women in higher education

Whatever the extent of discrimination in employment, the position of men and women in the labour market and the choice of job open to them depend to a large degree on the level of education attained and the qualifications achieved.

Over the Community as a whole, the number of women in higher education in 1989/90 was slightly lower than the number of men, accounting for just under 48% of the total number of students (Graph 95). In most Member States, the proportion of women was either around this figure or slightly higher — in France, Spain and Denmark, women represented just over half of all students in higher education. The main exceptions were the Netherlands, where the proportion of women was 44% of the total, and, in particular, Germany, where the proportion of women was only around 40%.

With the single exception of Germany, all countries in which women represented a low proportion of higher education students

in the mid-1970s — well under 40% in most cases — have shown a significant and fairly continuous increase in their share since. In Germany, however, the proportion has risen only marginally (from 38% to 40%) and appears to have fallen since the mid-1980s.

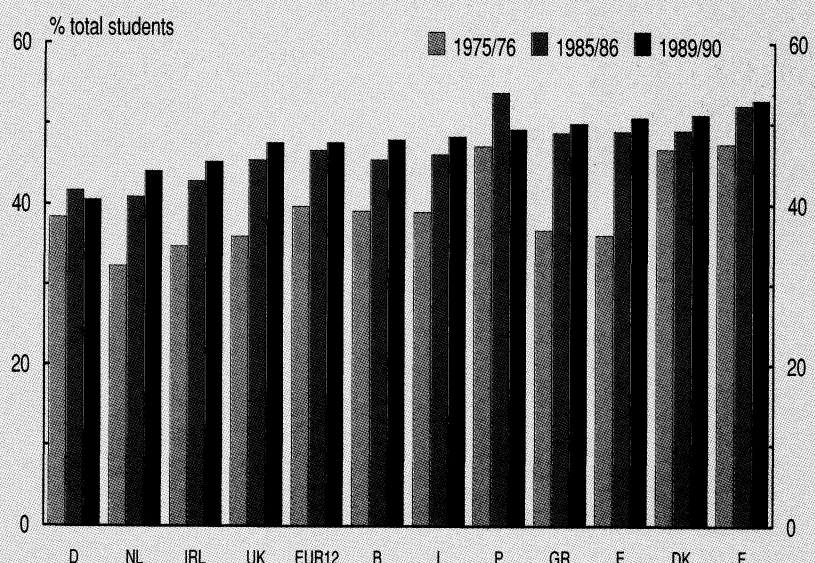
Employment and unemployment

Female activity has not risen just because attitudes have changed or because support arrangements have improved. Substantial numbers of additional jobs have been created to provide employment for increasing numbers of women. Over the past 15 years, however, job creation has failed to keep pace with the growing proportion of women who want to work and significant numbers have had to accept

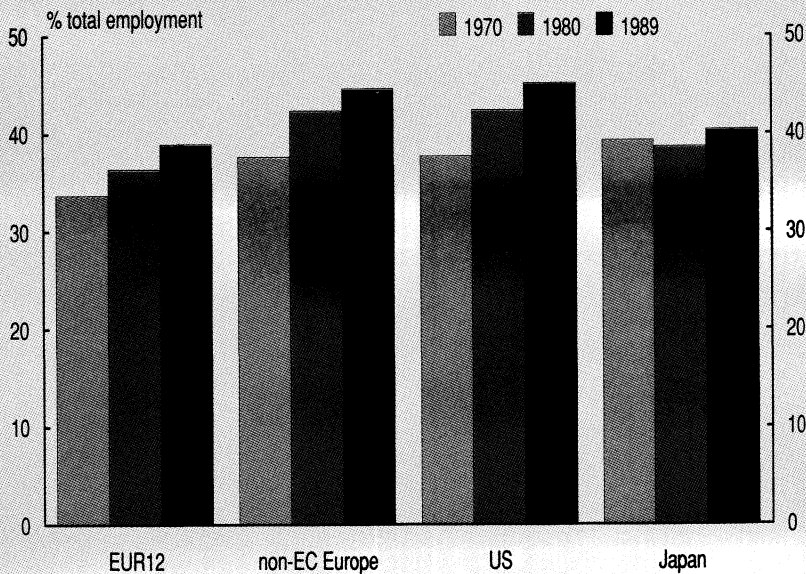
unemployment. Moreover the vast majority of new jobs created have been in a limited number of sectors where women were already concentrated and a high proportion have been part-time rather than full-time.

These parallel developments can be seen from two perspectives. From one side, women's employment has increased because there were more women who wanted to work. From the other side, it has increased because the jobs created were predominantly jobs for women rather than men, in activities which have traditionally been performed by women and, in some cases, with the pay and conditions attached which more women than men were prepared to accept. The evidence on both the pattern of employment and relative rates of pay is consistent with either point of view.

95 Share of women in higher education in the Member States, 1975/76, 1985/86 and 1989/90



96 Female share of employment in the Community, non-EC Europe, US and Japan, 1970, 1980, and 1989



Unemployment

Although women have lower levels of labour force participation than men, they have higher rates of unemployment. Over the Community as whole, the average rate of unemployment for women in 1990 was almost 11% of the labour force compared with around 6.5% for men (see Chapter 1 of this report). In seven of the Member States, the rate for women was at least double that of men. This difference is common to all age groups — to young people under 25 as well as to those older — and to all Member States — both those with high overall unemployment and those with low overall unemployment.

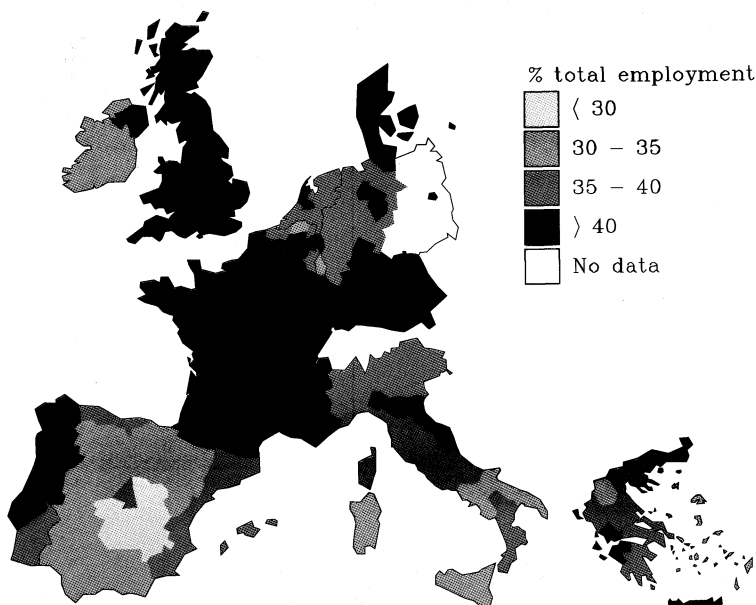
This also means, of course, that employment rates for women, i.e. the numbers of women in work as a percentage of the female working-age population, are even lower relative to those of men than are the activity rates — which include both the employed and the unemployed as a percentage of the working-age population.

In other Western European countries, the US and Japan, the difference between the unemployment rates of men and women is much less than in the Community. Moreover, over the 1980s, the difference in the Community has widened rather than narrowed from around 3 percentage points in the early part of the decade — 12% for women, 9% for men in 1983 to the 4 to 5 percentage points of today.

Men's and women's employment

Although the share of women in total employment in the Community rose from 33% to 39%

M27 Female share of employment, 1990



between 1970 and 1989, this share remains lower than in other parts of Western Europe and the US where women currently account for around 45% of employment (Graph 96).

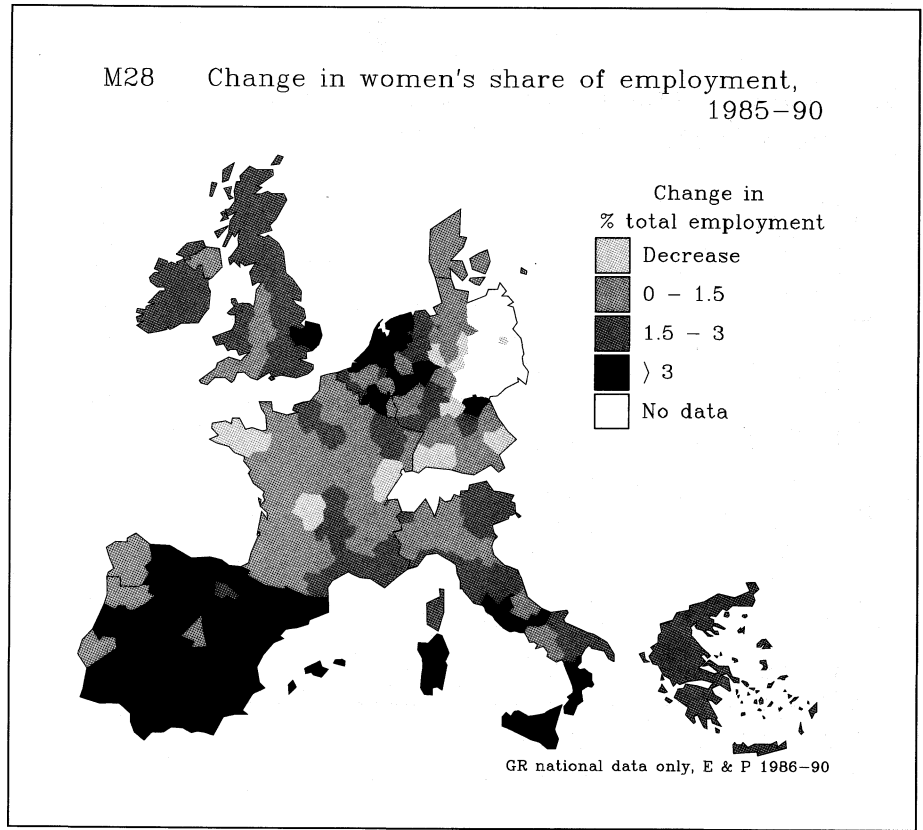
The share of employment accounted for by women varies markedly, however, across the Community, reflecting the differences in rates of activity. Thus, while women represented over 40% of the numbers in employment in Denmark, the UK, France, Southern Germany and Northern and Central Portugal in 1990, they accounted for less than 35% in Ireland and over much of Spain and Southern Italy (Map 27).

Most regions of the Community have seen a rise in women's share of employment in recent years. Although the rise has not been general, still less uniform, there is some evidence of a tendency towards convergence of shares. Between 1985 and 1990, the rise was especially marked — over 3 percentage points — in the South of the Community, in Spain and parts of Southern Italy where the women's share in employment is relatively low, as well as in Portugal (Map 28). The share also went up significantly in the Netherlands and a few Western regions of Germany where the share was also low relative to other Northern parts of the Community.

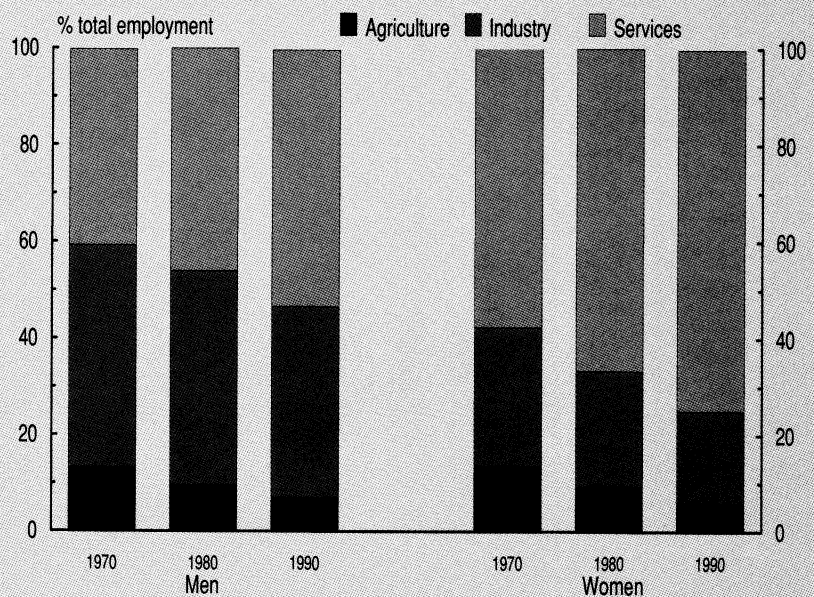
At the same time, there were parts of France — Brittany for example — and of Germany where the women's share of employment declined over this period.

Employment of men and women by sector

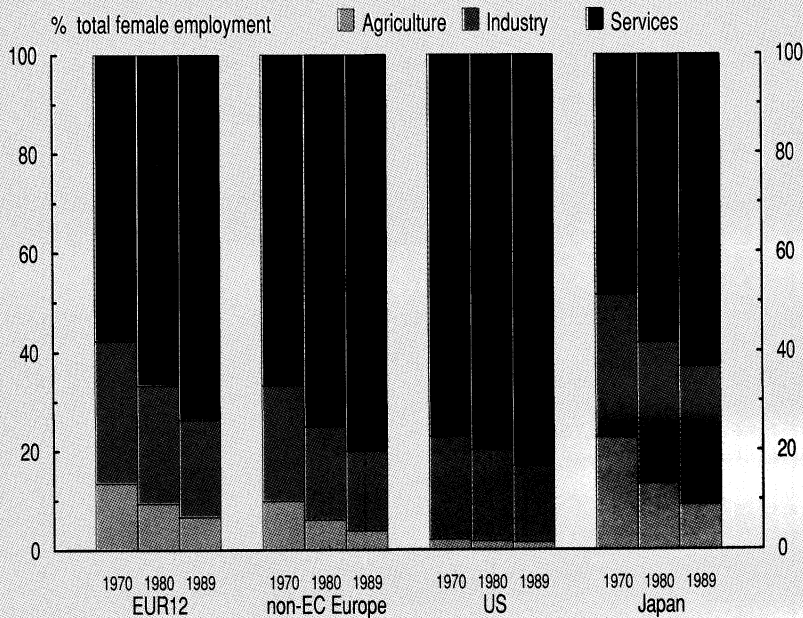
Employment of women and men is concentrated in different sectors. A much higher proportion of women



97 Sectoral distribution of employment of men and women in the Community, 1970, 1980 and 1990



98 Sectoral distribution of female employment in the Community, non-EC Europe, US and Japan, 1970, 1980, and 1989

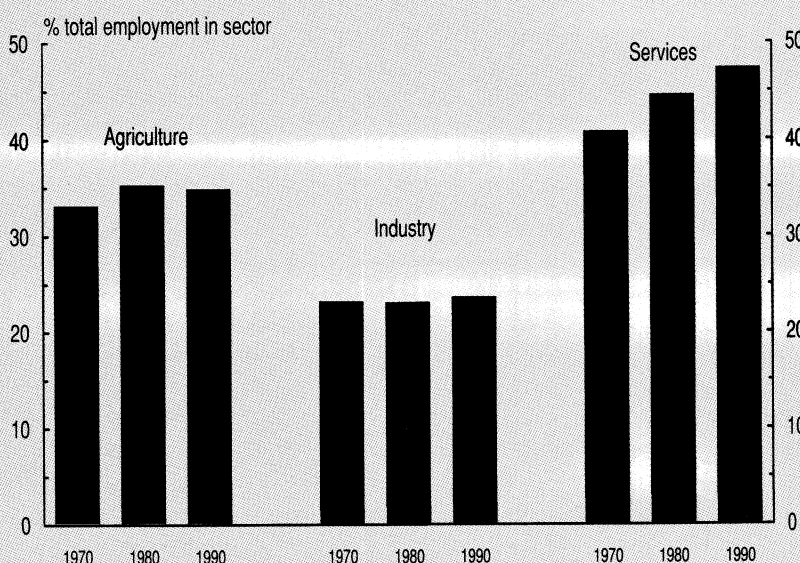


in employment work in services compared with men and a correspondingly lower proportion work in industry. In 1990, 75% of all women in work were employed in services as against only 19% in industry, whereas 51% of men worked in services and 42% in industry (Graph 97). Nevertheless, in the Community as a whole, more men are working in services than women — around 44 million as against 39 million — reflecting the lower numbers of women in employment generally.

The proportion of women working in services in the Community, though high, is significantly lower than in other parts of Western Europe and the US (Graph 98).

For both men and women, the proportion employed in services has increased markedly over the post-war years, as services have expanded relative to other sectors (see Chapter 4). Much the same tendency is also apparent in other developed countries. However, the number of women working in services has grown consistently at around twice the rate for men, with the result that women's share of service employment has risen from 41% in 1970 to 47% in 1990. By contrast, in agriculture and industry the female share of employment has not changed much over the past 20 years (34% and 23%) — at least at Community level — despite the changes which have occurred in both sectors (Graph 99).

99 Share of women in employment by sector in the Community, 1970, 1980, and 1990



Job losses in both agriculture and industry — over 50% in the former between 1970 and 1990 and 12% in the latter — have, therefore, affected both men and women equally. In other words, the growth of employment of women relative to men, over both the long- and short-term, has not been at the expense of

men working in industry or agriculture but is entirely attributable to the growth of service employment.

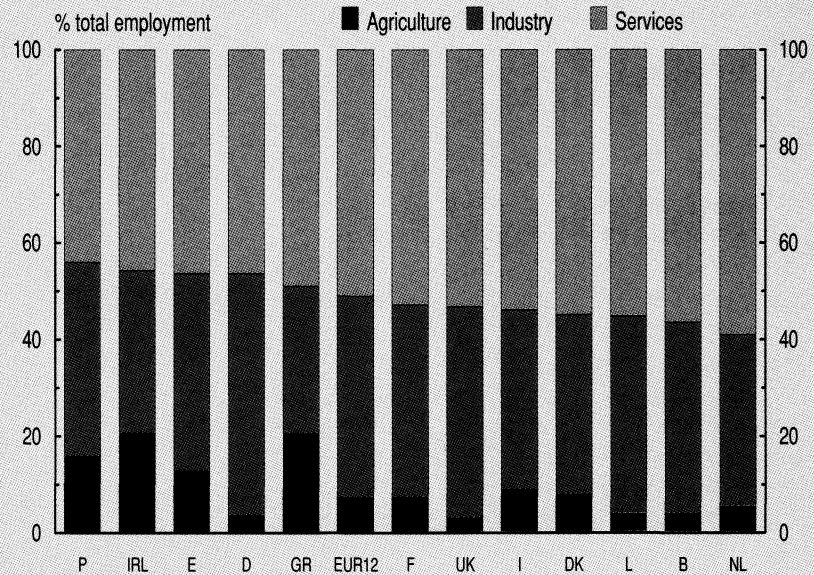
Employment by sector in Member States

For both men and women, the distribution of employment between the three broad sectors largely reflects the relative importance of these sectors in the local economy. Where agriculture is important, such as in Portugal or Greece, the proportion of both men and women employed in this sector is relatively high (20% in Greece, 30% in Portugal in 1990). Where industry accounts for a high share of economic activity, such as in Germany, higher proportions of both men and women work in this sector than elsewhere (Graphs 100 and 101 — the countries are ranked in both graphs in terms of the proportion employed in services; differences in the ordering of countries therefore reveal differences in the relative distributions of men's and women's employment).

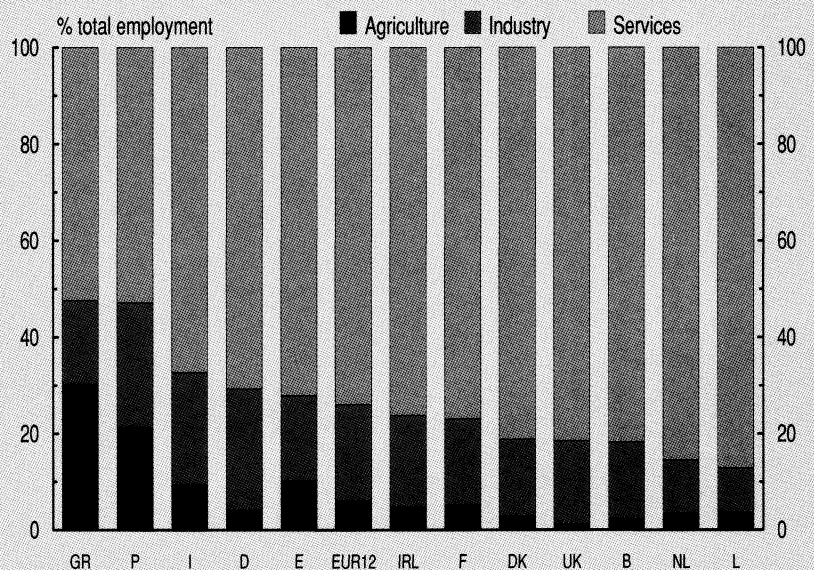
The overall pattern is not uniform, however. In both Greece and Portugal, agriculture provides significantly more jobs for women than would be expected given its relative importance. Thus, in 1990, women accounted for 45% of total agricultural employment in Greece and 50% in Portugal as against a Community average of 34%. The same is true for Germany, where women represented 44% of agricultural employment (Graph 102).

In the two other countries where agriculture still accounts for a significant part of economic activity, the opposite is true. In Ireland only 10% of jobs in agriculture are taken by women and in Spain, only 27%. In both these countries the overall

100 Sectoral distribution of male employment in the Member States, 1990



101 Sectoral distribution of female employment in the Member States, 1990



rate of activity for women — in comparison with Portugal especially — is also low. Since agriculture is often the main route into employment for women in these countries, it may be that some women who are recorded as inactive are in reality working in agriculture without receiving pay and without necessarily being labelled as family workers.

By contrast, the relative proportions of men and women employed in industry are similar between Member States. Only in Portugal, where women account for 32% of industrial jobs, and in the Netherlands and Spain, where the women's share is only 16–17% (although in Spain in 1991, the women's share of industrial employment seems to have risen to 20%), does the importance of women in industry relative to men vary significantly from the Community average (23%). While these dif-

ferences, such as they are, owe something to differences in industrial structure — and in particular to the relative importance of light industry — they are not wholly explicable in these terms, as shown below.

Variations between the Member States in the relative importance of services as a source of employment for men and women do follow a fairly uniform pattern. In general, the more developed and prosperous the economy, the greater the importance of services and the higher the proportion of women employed in this sector. Thus, in the Northern Member States (apart from Ireland and the Benelux countries where the participation of women in the labour force is still relatively low) women accounted for over half of employment in services in 1990. In Spain and Ireland, women represent less than 45% of service

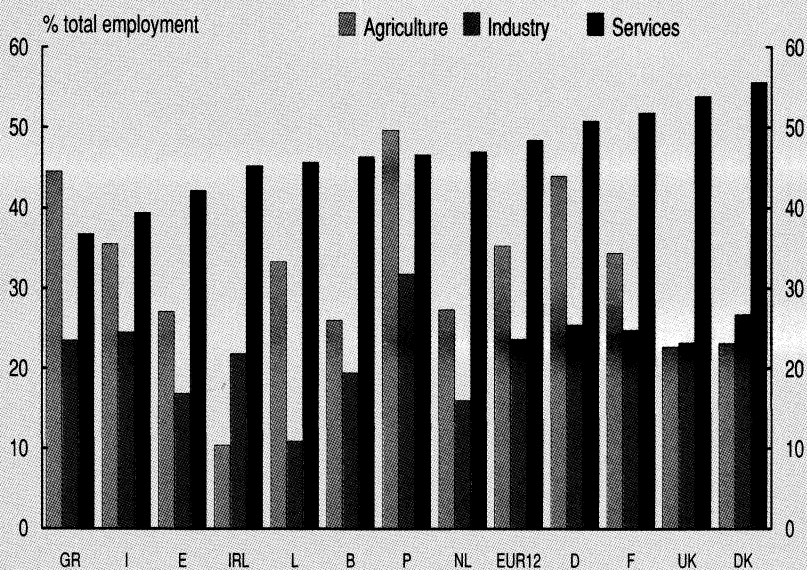
employment, and in Greece and Italy (which because of the special economic characteristics of the Southern part of the country has some characteristics of a less developed country) less than 40%. Portugal, with its relatively high rate of female activity, does not wholly conform to this general pattern, however, with the women's share of service employment being close to the Community average.

The steady growth in the services sector and the increase in activity among women are thus closely linked. Most of the jobs created in the 1980s were in services, and most of these jobs were taken by women. While this represents one of the major sources of employment opportunities for women, it may also represent a strengthening of the established pattern of occupational segregation of women. Since many of the jobs created in services have pay and employment conditions inferior to those in industry, the further concentration of women in this sector may be linked, as noted earlier, to their availability at low wages and to their willingness to work part-time.

Countries with the highest rates of female activity — Denmark and the UK — are the countries where women account for the largest shares of service employment (but not the largest shares of agricultural or industrial employment), while the reverse is broadly true of countries with the lowest rates of female activity — Italy, Greece, Ireland and Spain.

On the other hand, it is not necessarily true that high rates of activity among women are required in order to sustain a large service sector. The three Benelux countries have among the largest service sectors in the Community, but at the same

102 Share of women in employment by sector in the Member States, 1990



time have relatively low rates of female activity. In each of these countries, however, those women who are at work are predominantly employed in services — around 85% on average — more so than in other Member States (Graph 101).

Employment by subsector

Women's employment is not only concentrated in a single sector — services — much more than men's, but it is also concentrated in a limited number of individual industries or trades. This is revealed very clearly by the data available, although it is only possible to examine the distribution of employment of men and women in any detail in six Member States (Germany, France, the UK, Spain, Belgium and Denmark). While these six Member States together accounted for 72% of total employment in the Community and 73% of service employment in 1990, there is clearly no way of being sure that they are representative of the pattern and change over recent years for the Community as a whole.

In 1990, almost one third of women in employment worked in just three NACE-2 subsectors (retailing, health services and education). Six of the 58 subsectors which it is possible to distinguish separately (the first three plus public administration, other services — activities ranging from social services and cultural and recreational services to hairdressers and laundries — and activities auxiliary to banking, finance and insurance) accounted for over half of all employment of women in these six Member States. Another 8 subsectors accounted for another 20%. In all, 75% of women were employed

in only 14 subsectors (Graph 103). All but three of these subsectors are service trades.

Men's employment is concentrated in different areas and is more evenly distributed between subsectors. The "top" six subsectors (construction, public administration, retailing, wholesaling, activities auxiliary to banking, finance and insurance and education) accounted for under 40% of the employment of men in 1990, while the top ten were responsible for just over half of men's jobs (Graph 103). Five of these subsectors were industrial, five were service trades.

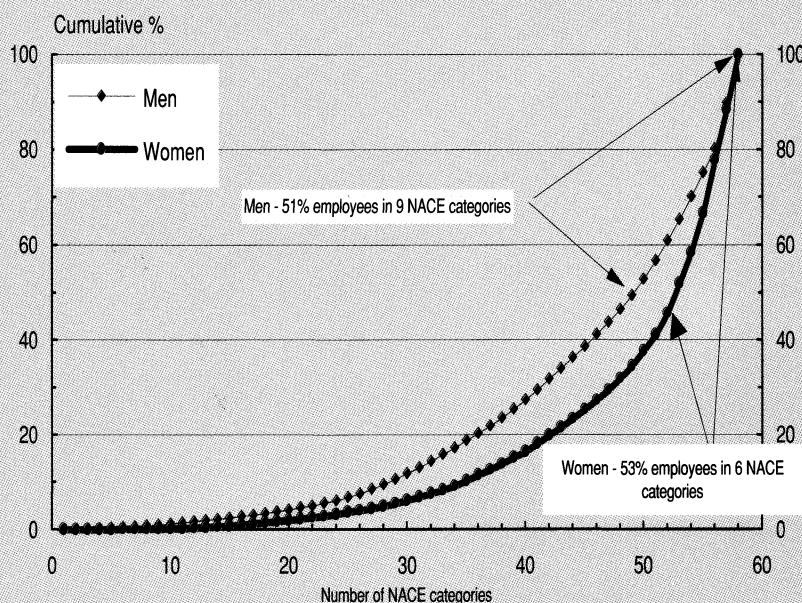
The high degree of concentration of women's employment does not, however, mean that only women are found in such sectors. Most of the sectors which are the most important employers of women are also

major employers of men. The main exceptions are health services, in which 12% of all women were employed but only 2% of men, and other services, which employed just under 7% of women but less than 2% of men.

In the sectors where women's and men's employment is comparable, however, it is likely that they fill different occupations within that industry. Although lack of comparable occupational data prevents a detailed analysis, the figures on pay disparities between men and women described below are at least indicative of men and women filling different types of job in these sectors.

The evidence available suggests that the concentration of women's employment in particular subsectors seems to have increased rather than diminished over the

103 Distribution of men and women employees between NACE 2-digit categories in EUR6 (B,DK,D,E,F,UK), 1990



1980s. Between 1980 and 1990, the proportion of employment in the top six sectors rose from 50% to 53%. However, although the composition of these six sectors remained the same, their relative importance changed, with retailing, which had previously been the largest sector, falling to second place in 1990, overtaken by healthcare.

The concentration of men's employment remained virtually unchanged over the 1980s, although there were changes in the composition of the largest six sectors. Two industrial sectors (mechanical engineering and metal manufacture) were displaced by two service sectors (auxiliary financial services and education). The clear tendency, therefore, is for the sectors in which men are predominantly employed to become more similar

to those which are the major employers of women. This is not because of any change in policy on the part of employers in the largest sectors, i.e. there is no indication of men replacing women, but simply because of their overall employment growth. Again, of course, this does not mean that the additional men and women employed were recruited to the same kinds of jobs.

Employment by subsector in Member States

The degree of concentration of both men's and women's employment varies between Member States, though much more for women than for men. The pattern at the Community level, however, of most women working in comparatively few sectors is repeated

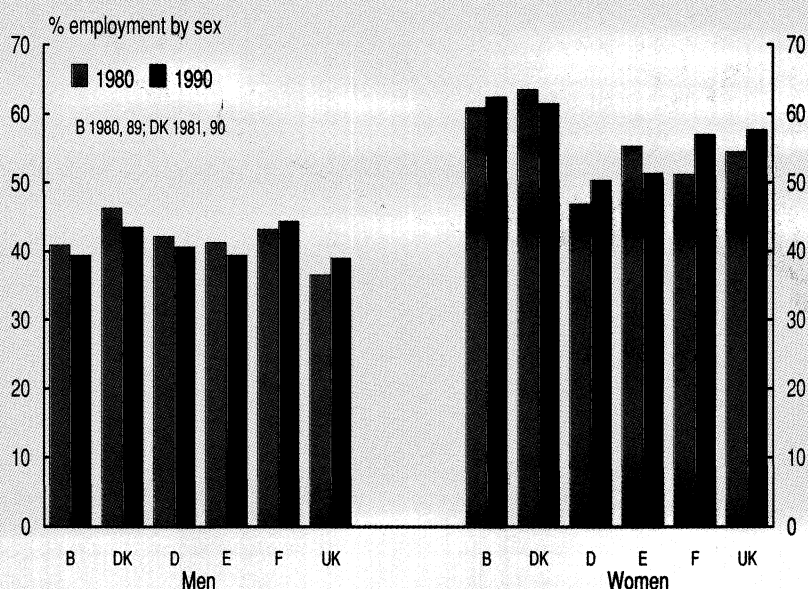
in all countries. Moreover the sectors concerned are virtually the same in each case.

In Belgium and Denmark, six sectors accounted for over 61% of all women's employment in 1990, in France and the UK, the figure was around 57% and in Germany and Spain, 50% (Graph 104). Differences in these proportions seem largely to reflect variations in the relative importance of services in these countries. The level of economic development also appears to have an influence, however, in that Spain — the only Southern European country included in the analysis — is the only country for which more than one of the largest six sectors employing women is not also one of the largest six at the Community level.

Spain is also the only one of the countries in which a manufacturing industry — clothing and footwear — features as one of the largest six sectors. Apart from this, a higher proportion of women are employed in domestic service — historically and still the largest employer — and hotels and catering than in other countries, though hotels and catering is also an important sector in the UK and domestic services in Belgium.

Over the 1980s, the concentration of women's employment increased in four of the six countries, Spain being the only country in which the largest six sectors employed significantly fewer people in 1990 than in 1980, partly because of the relative — though not absolute — decline in domestic service employment. The composition of the largest six sectors altered very little in any of the countries, the main change being the growth in the importance of services auxi-

104 Share of employment accounted for by the 6 largest NACE 2-digit categories, 1980 and 1990



liary to banking, finance and insurance.

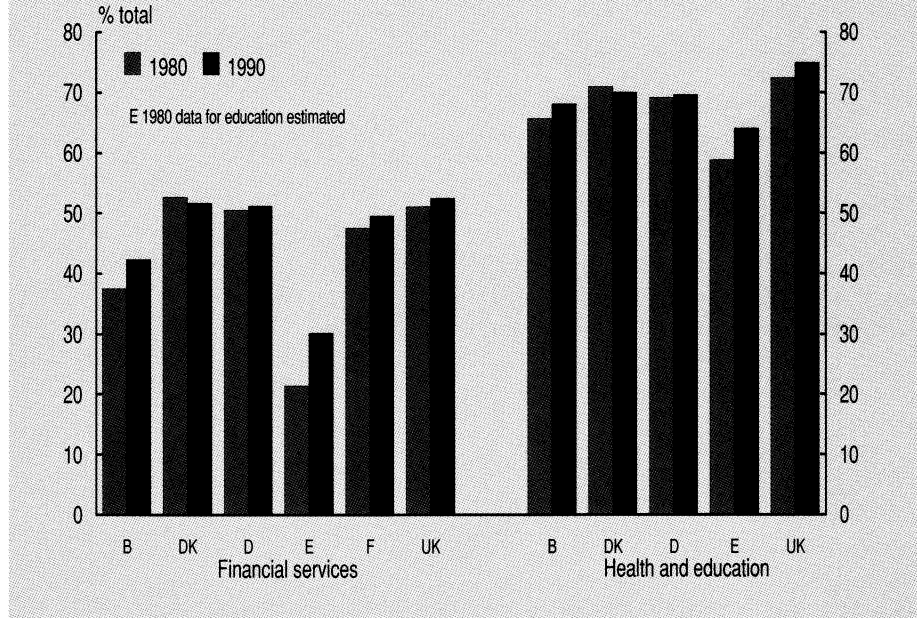
In the case of men, the largest six sectors were responsible for around 40% of employment in each of the countries in 1990. The composition of these six, however, differed much more than for women, although two sectors — construction and public administration — were among the largest three sectors in all cases. Apart from these, only retailing and wholesaling were among the largest six sectors in more than half of the countries. Germany was the only one of the countries in which more than one manufacturing sector (in its case, four) featured in the top six.

Over the 1980s, in contrast to the employment of women, four of the six countries showed a decline in the concentration of men's employment.

The increase in the concentration of women's employment partly reflects the relative expansion of sectors — healthcare and education, in particular — in which women account for a relatively high share of total employment. In the main, however, it is the result of the number of women employed in these sectors increasing relative to the number of men employed.

In both market and non-market services, the proportion of jobs occupied by women increased over the 1980s in all the Member States for which comparable data are available. Taking two groups of activities — healthcare and education and financial and business services — as examples, although there is some difference between countries in the number of women employed relative to

105 Share of women in employment in health and education and financial services, 1980 and 1990



106 Share of women in employment in the clothing and footwear, textiles, food, drink and tobacco sectors, 1980 and 1990



men, the share of women in employment rose between 1980 and 1990 in each country apart from Denmark (Graph 105).

In manufacturing, in contrast to services, there seems to have been little change in the proportion of jobs occupied by women over the 1980s in most Member States. There is evidence, however, of some variation between industries. In both clothing and footwear and textiles, in which there was a significant fall in total employment, the number of women employed declined by more than the number of men in each of the six countries (Graph 106). On the other hand, in food, drink and tobacco, in which total employment generally declined by much less, the number of women employed increased in five of the six countries while the number of men employed fell. In Spain, the

only country in which the share of women declined, there was a substantial reduction in total employment in this industry.

Men and women in part-time work

Changes in the sectoral composition of employment is partly related to changes in employment conditions, particularly the spread of part-time and temporary work. In 1990, in the Community as a whole, less than 4% of men with a job worked part-time compared with 28% of women.

Almost half of the men working part-time in the Community live in just two Member States — the UK and the Netherlands — which together account for under 23% of total Community employment of men. The Netherlands alone is responsible for 19% of male part-

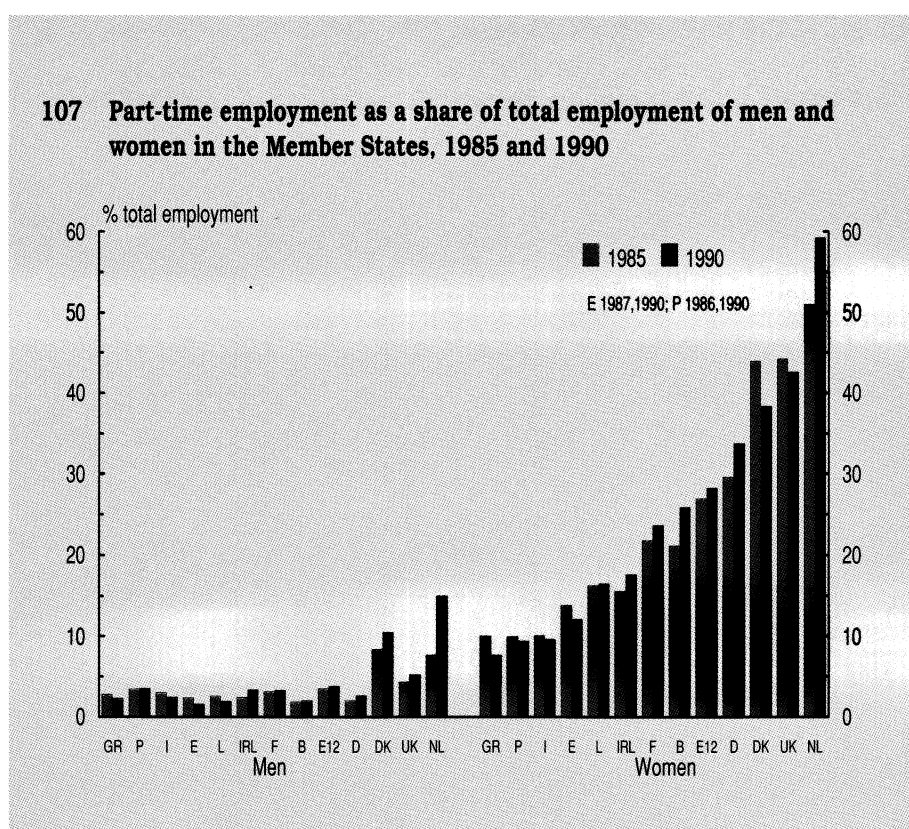
time working but for only around 4% of total male employment.

These two countries also account for a substantial proportion of part-time working among women in the Community — 42% in 1990 — though in this case the UK alone accounts for a third of the Community total. In the UK, 43% of all women in employment work part-time and in the Netherlands, 59%, compared with less than 10% in Italy and Greece (Graph 107).

In both these countries, therefore, part-time working is a general feature of the labour markets for both men and women, in contrast to other parts of the Community.

The relative volumes of employment of men and women can be estimated by adjusting the numbers in employment to take account of differences in part-time working and, more generally, in average hours worked. On this basis, the share of employment carried out by women in 1990 is 36% compared with their 39% share of the number of jobs. The difference is particularly striking, of course, for countries with high levels of part-time working. For the Netherlands, for example, the shares in terms of numbers and volume are, respectively 38% and 32% — close to the Community average and well below — and for the UK, 43% and 38% — well above and only just above the Community average.

Part-time working tends to be more important in parts of the Community where the number of women in work is relatively high — although not invariably so, France being an exception. In consequence, regional variations in the relative share of total employment volume carried out by women are reduced once differences in hours of work



are allowed for. The pattern of variation, however, remains much the same.

There are a number of potential reasons why a significant proportion of women work part-time. One is that the jobs on offer tend to be part-time rather than full-time. There is evidence from the UK, for example, that a number of large companies, particularly in the service sector, have a policy of employing women on a part-time basis, and that this policy has spread to smaller firms as well as to the public sector. Such a policy might reflect, in turn, a desire to minimise their costs of employment (e.g. by reducing their social contributions), reduce the constraints on hiring and firing, and increase their control over working time, or simply reflect conventional practice.

On the other side, many women might prefer working part-time to full-time. They also may find it easier in some countries — the UK and the Netherlands, in particular — to reconcile the conflict between family responsibilities and their working careers by so doing. In the Netherlands, for example, according to a recent survey, almost half of women working part-time were doing so because of family commitments.

Although part-time working has tended to increase in the Community as a whole, the rise has by no means been universal. In the UK and Denmark, where part-timers account for a relatively high proportion of the total employment of women, their relative importance declined between 1985 and 1990. On the other hand, in all the Southern countries, where their proportion was already relatively small, their relative importance

also declined, whereas in all the other Northern countries, apart from Denmark and the UK, it increased. There is, therefore, little sign of any convergence in the relative importance of part-time working across the Community.

Part-time working by sector

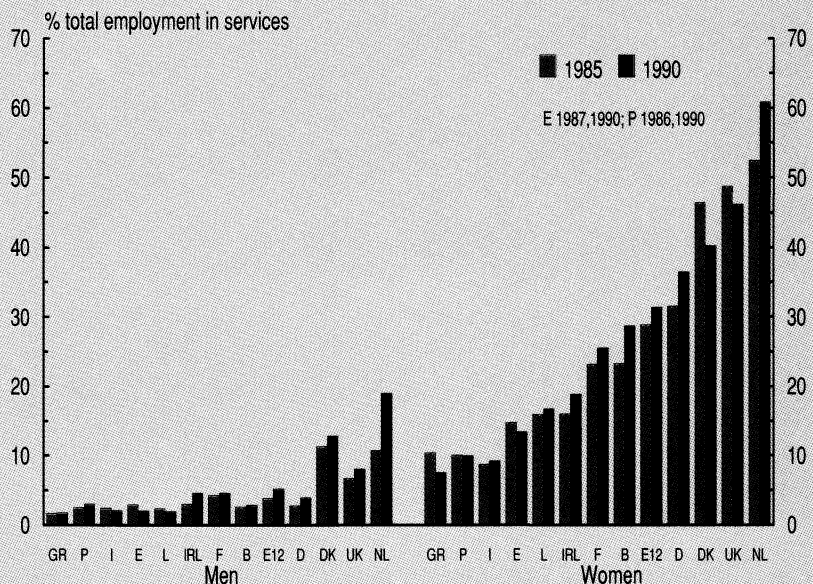
Part-time working is closely linked to the sector of activity. As far as agriculture is concerned, the figures for part-time working derived from the Community's Labour Force Survey are considered to give a misleading picture of the relative importance of part-time working across the Community. The LFS suggests that only 24% of women and 7% of men were employed on a part-time basis in 1990 in the Community as a whole, and that, in Southern Member States, the pro-

portion was for the most part under 15% for women. Data from the Community Farm Structure Survey, however, suggest that 30% of farm holders had another occupation outside farming, and that a substantial proportion of the remainder as well as the great majority of family workers (especially in the South — 90% in Greece and Italy) worked less than full-time (see *Employment in Europe, 1991*, Chapter 5).

In industry, around 18% of women worked part-time in the Community in 1990 as against under 2% of men, with the figure for women ranging from 44% in the Netherlands and 28% in Denmark to under 7% in all of the Southern Member States.

In services, where 80% of all part-time workers are employed in the Community, 31% of women worked on a part-time basis in

108 Part-time employment as a share of employment in services for men and women in the Member States, 1985 and 1990



1990, as compared with only 5% of men (Graph 108). The proportion of women working part-time was as high as 60% (77% in the case of married women) in the Netherlands and 46% (53% for married women) in the UK, but under 10% in Italy, Greece and Portugal (with no discernible difference between married and single women). For men, only in the Netherlands (19%) and Denmark (13%), was the proportion of part-time workers more than 10%, while in Italy, Spain and Greece, it was 2% or less.

Regional variations

As compared with the variation between countries, the importance of part-time working varies relatively little between different regions within Member States. The proportion of women employed part-time is high in all

parts of the Netherlands, the UK (although slightly lower in Scotland and Northern Ireland than in England and Wales) and Denmark, and low throughout Southern Europe (Map 29). This suggests that the prevalence of part-time working has much more to do with national characteristics — whether these be social attitudes or tax and social security regulations — than with local characteristics.

In services in particular, the proportion of women working part-time has tended to increase over time in most parts of the Community. Between 1985 and 1990, however, although the average over the Community as a whole increased from 29% to 31%, the proportion declined in five Member States: in Greece, Spain and Portugal, where the figures were already low, as well as in the

UK and Denmark, where it was high.

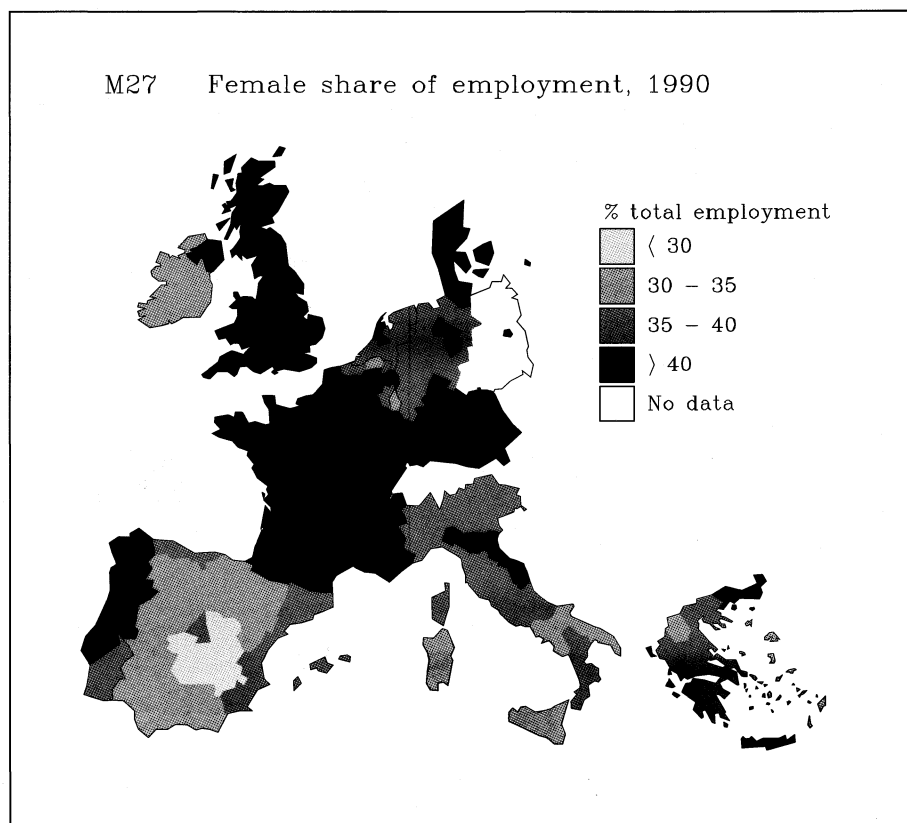
Part-time working and age

The prevalence of part-time employment varies markedly with age, but in different ways for men and women. While part-time working of men is much more important for those of 65 and over — which, in most countries, is above the official retirement age — part-time employment of women tends to increase progressively with age. It remains the case, however, that a far higher proportion of women than men work part-time at all ages.

In 1990, only 2% of men aged between 25 and 49 were employed part-time in the Community as a whole, as compared with 35% of those of 65 and over (and 44% of those of 70 and over). By contrast, 49% of women aged 65 and over worked part-time as against 35% in the 50–64 age group, 29% in the 25–49 age group and 17% in the under 25 group (Graph 109). This pattern of variation by age is apparent in most Member States.

Permanent and temporary employment contracts

Indications suggest that women are more likely than men to be employed on temporary rather than permanent contracts. However, the available data are not ideal. The Community Labour Force Survey — the only comprehensive source of information — distinguishes between people employed on fixed-term contracts



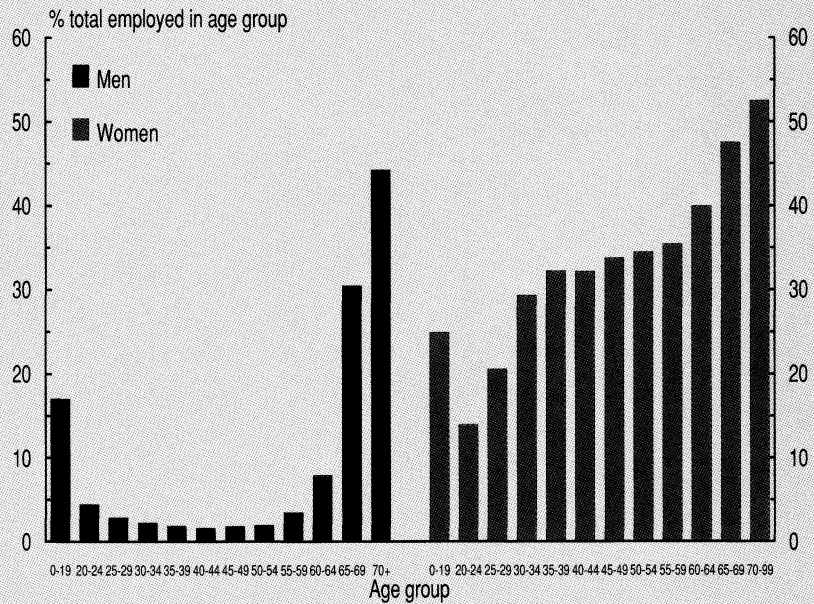
from others. However, there are problems of both interpretation and coverage which affect comparability because employment practices, and terminology, vary somewhat between Member States, and because respondents to the survey do not always know the precise terms of their employment. Moreover, because the survey is generally conducted outside the period when most seasonal work occurs, the importance of temporary jobs is probably understated.

The available data nevertheless suggest that around 12% of women and 8% of men were engaged on fixed-term rather than open-ended contracts in the Community in 1990; that this type of working arrangement was most important in Spain, Greece and Portugal; and that the proportion of women in temporary jobs was greater than for men in all Member States, apart from Greece (Graph 110).

Around 40% of women on fixed-term contracts in 1990 were employed on a part-time basis — a significantly higher proportion than in the case of permanent jobs. This compares with some 20% of men — a proportion which is even higher relative to those in permanent jobs. Apart from women, young people up to the age of 24 are also more likely to be employed in this way, regardless of gender. After this age, however, the paths diverge, and temporary working declines among men but persists among women.

The development of temporary work has not progressed in the same way in all the Member States. It increased sharply in France, Ireland and the Netherlands over the period 1985 to

109 Age distribution of men and women part-time workers in the Community, 1990



110 Men and women on fixed term contracts as a share of employment in the Member States, 1985 and 1990



1990, while it has remained unchanged or declined elsewhere.

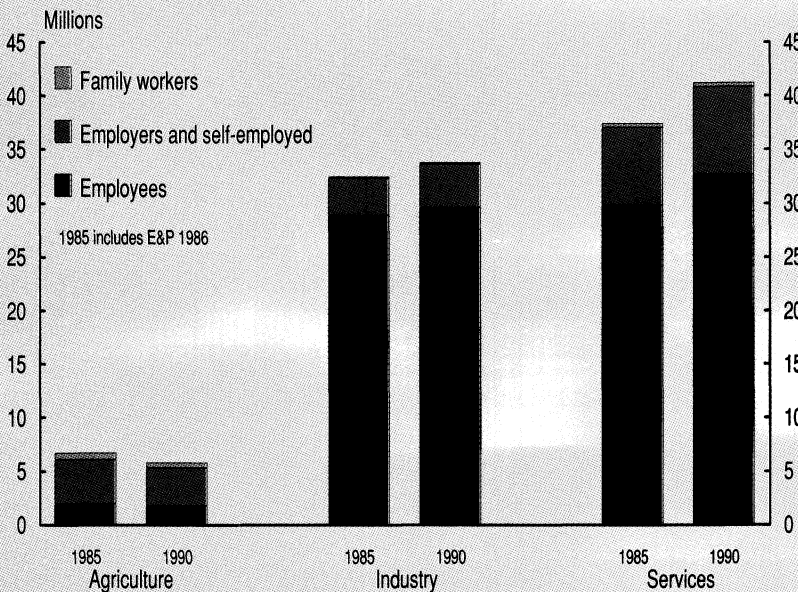
Family working

The number of women classified as family workers greatly exceeds the number of men. 73% of all family workers in the Community in 1990 were women and although the numbers of such workers have fallen significantly over time, they still represent 5% of total female employment (as against only just over 1% for men)(Graphs 111 and 112). However, only in Greece — where family workers accounted for 27% of all women in work in 1990 — and to a much lesser extent in Spain (11%) — is the proportion much higher than this.

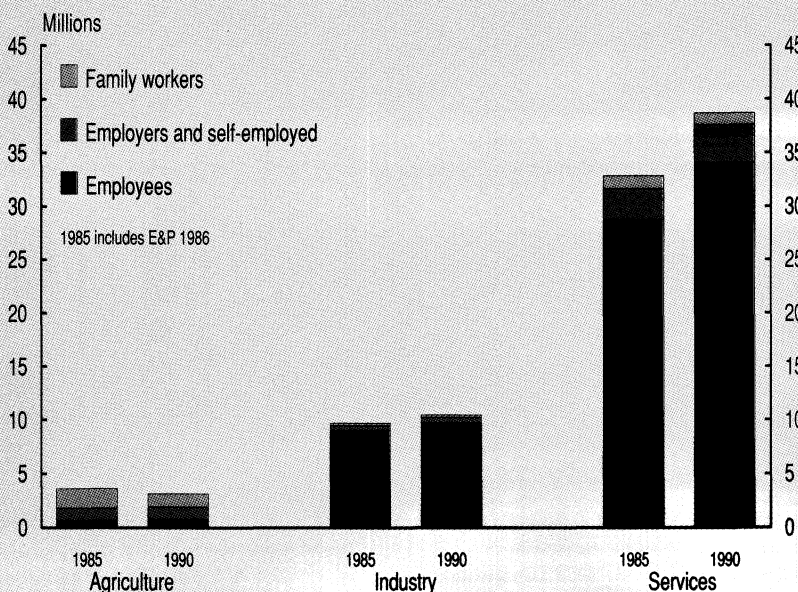
To a large extent the decline in the importance of family working (from 7% to 5% of employment between 1985 and 1990 in the case of women) is a direct consequence of the decline of agriculture, which accounts for almost half of all family workers in the Community. 40% of all women working in agriculture are family workers (compared with 8% of men). In Germany, Denmark and Belgium as well as Greece this figure rises to over 60% (around 10% or less in the case of men).

An average of over 40% of the Community's women family workers are in services, about the same proportion as of men — although, in total, women outnumber men by about 3 to 1. Only 3% of women employed in services in the Community, however, were family workers (under 1% of men), though the proportion was significantly higher in Greece (11%), Spain (7.5%) and Italy (7%). In all three countries, the figure for men was only around 2.5% (Graph 113).

111 Employment of men by professional status and sector in the Community, 1985 and 1990



112 Employment of women by professional status and sector in the Community, 1985 and 1990



In services, as in the economy overall, family working has become less prevalent over time. Between 1985 and 1990, the proportion of women with this form of employment in this sector declined from over 4% to 3%, a fall of over 15% in terms of numbers, with most countries showing similar rates of decline. In Greece, however, where family working is most important, the numbers of women involved actually went up slightly — in contrast to Belgium, where it is also above average, but where there was a fall of over 25%.

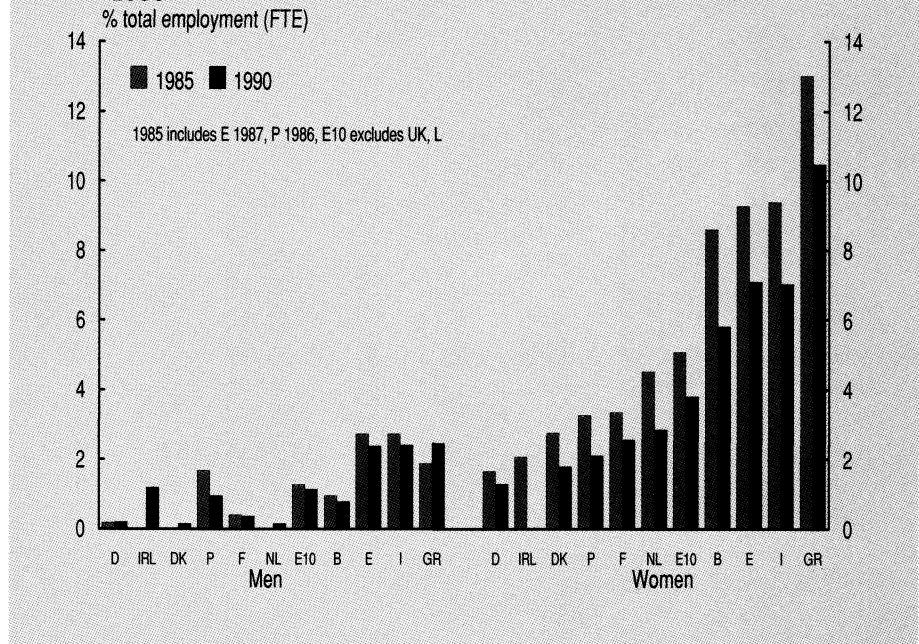
For men, on the other hand, the number of family workers in services remained virtually unchanged between 1985 and 1990. Although the numbers involved are very small, and therefore need to be interpreted cautiously, they seem to have risen in Germany and Greece — in the latter by over 30% — and fallen in Belgium — by over 20% — and Italy over this period.

Self-employment of men and women

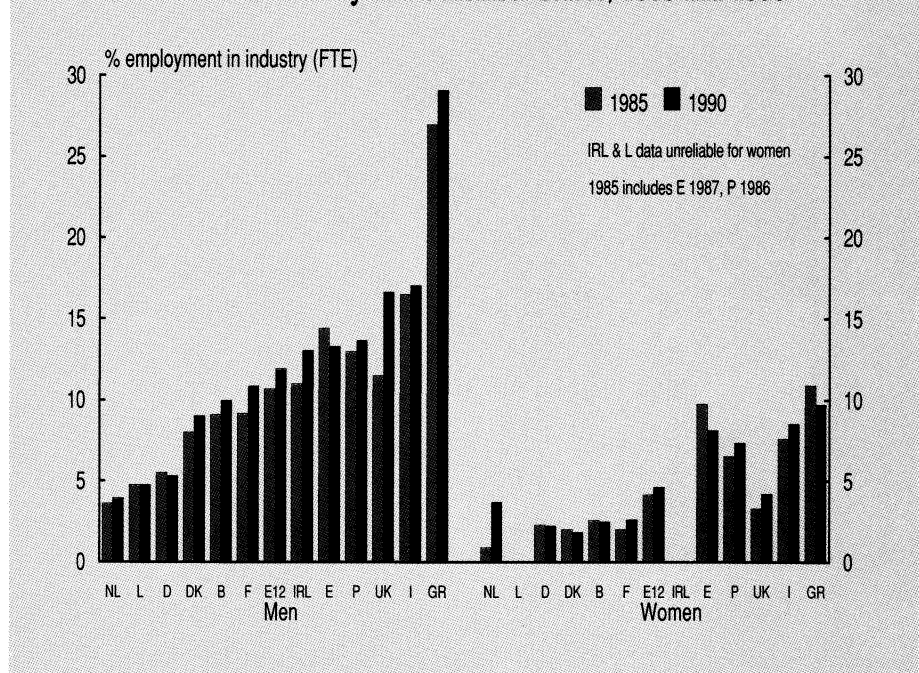
In the Community as a whole in 1990, just under 16% of all persons in employment were classified as either employers or self-employed. Of these only 25% were women. Whereas some 20% of men in employment worked for themselves, only 10% of women did so. This disparity, moreover, holds in all Member States, (apart from Portugal, where self-employment among both men and women accounted for 26% of the total numbers in work). It is particularly pronounced in Denmark (15% for men, only 3% for women) and Ireland (30% for men, 8% for women).

The importance of self-employment across the Community is closely

113 Men and women family workers in services as a share of service employment (full-time equivalents) in the Member States, 1985 and 1990



114 The importance of self employment (full-time equivalents) for men and women in industry in the Member States, 1985 and 1990



related to the importance of agriculture since over half of total employment in this sector is self-employment. Only in Germany was the proportion in 1990 significantly below this. Agriculture therefore accounted for 22% of all self-employment in the Community in 1990, as against under 7% of total employment. Excluding Portugal, where women self-employed outnumber men, 80% of the self-employed in this sector were men.

The difference between male and female self-employment is even wider in industry. Of the 4.5 million people self-employed in this sector in 1990, only 500 000 — 11% — were women. Apart from in Portugal (where the figure was 21%), no Member State had a proportion significantly higher than this. Of the total numbers of women employed in industry, less than 5% were self-

employed as against 12% of men (Graph 114).

Although women are proportionately far more important in services than in other sectors, they still only accounted for 30% of the self-employed in this sector in 1990 in the Community (they were 51% of employees). Only in the Netherlands (38%) and Portugal (37%) was the proportion much above the average and only in Greece (23%) and Italy (25%) much below (Graph 115). Just 9% of all the women working in services were self-employed, compared with 20% of the men. Only in the Southern Member States of Greece, Italy, Spain and Portugal, did the figure for women exceed 14%, and then largely as a reflection of high proportions of self-employed in services generally rather than of women specifically.

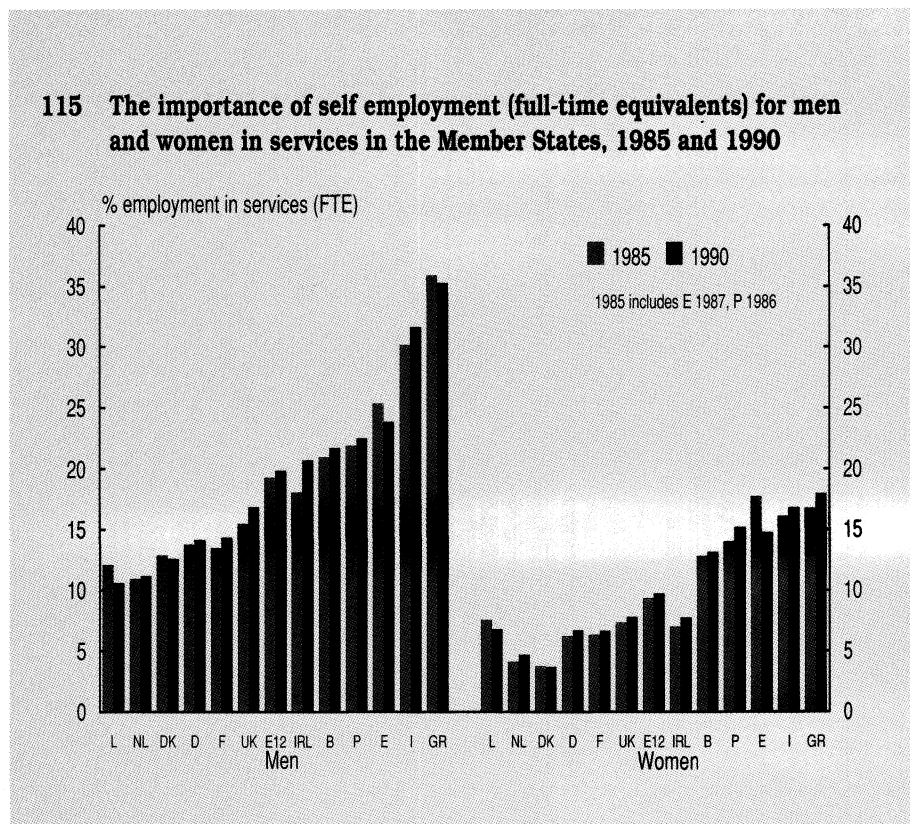
Relative pay of men and women

The only regular and consistent sources of information on pay of men and women in the Community are the data for average gross hourly earnings of manual workers in industry and for average gross monthly earnings for non-manual workers in industry and selected services. Both series are published at six-monthly intervals and both go back a sufficient length of time to enable long-term changes to be examined.

Both, however, are unsatisfactory in one major respect — they are calculated essentially by dividing wages by the number of workers.

This means that the data conceal possible differences in factors such as occupational structure, qualifications, experience and age as between men and women. There is, therefore, little way of distinguishing the potential effect on average wages of men and women of these factors from differences in levels of pay arising from different evaluations of men's and women's work. Since it is known that all of the factors listed are, in practice, major determinants of wage rates and, since they may well differ in their effect as between the men and women employed in any given sector, this is an important barrier to any attempt to analyse pay relativities and their movement over time.

The significance of this problem can be reduced to some extent by focusing the analysis on narrowly defined industries or services — which are less likely than broader aggregations to differ substantially in their occupational structure between countries — but the results



obtained can at best be indicative of genuine disparities in pay rates.

There are two further problems which restrict both the use of the data and their interpretation. First, while the coverage of the data is complete for manufacturing, there are major gaps for services. Not only are public services not included but, even for market services, not all countries collect statistics for all trades. This is obviously an especially important limitation for comparisons of male and female earnings since a large proportion of women are employed in activities which are not covered by the data at all.

Secondly, the coverage of those working part-time rather than full-time is very incomplete and their treatment is not consistent between all countries. In the case of the data on hourly earnings of manual workers, these include part-time employees in nine of the Member States but relate only to full-time workers in Germany, the UK and Portugal. For monthly earnings of non-manual workers, the data cover both full-time and part-time employees in seven countries — where they are converted to a full-time equivalent basis — but exclude part-timers in Germany, the UK and Portugal plus Belgium and Luxembourg.

Relative earnings of manual workers in industry

The data on average hourly earnings of manual workers relate to industry and therefore apply to comparatively few of the women in employment in most Member States. As noted above, only around 19% of women in employment work in industry. Moreover a significant

proportion of these occupy non-manual rather than manual jobs. The work carried out by (the comparatively few) women in manual employment may well, therefore, differ from the work carried out by men, so limiting the comparability of rates of pay.

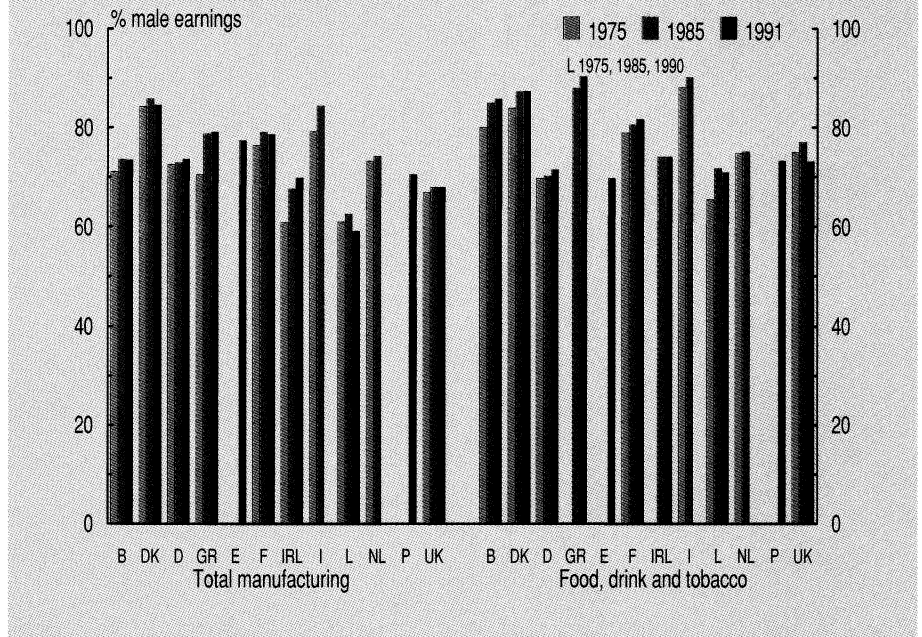
Given this qualification, the data show that for manufacturing as a whole, for most Member States the average earnings of women in manual jobs were between 75% and 85% of the average earnings of men in 1991 (Graph 116). If Luxembourg is excluded because of the small size of the manufacturing sector, the two exceptions were Denmark, where women earned on average just under 95% of what men earned, and Ireland, where women's pay averaged only around 73% of men's pay.

The data also show that for all Member States for which figures

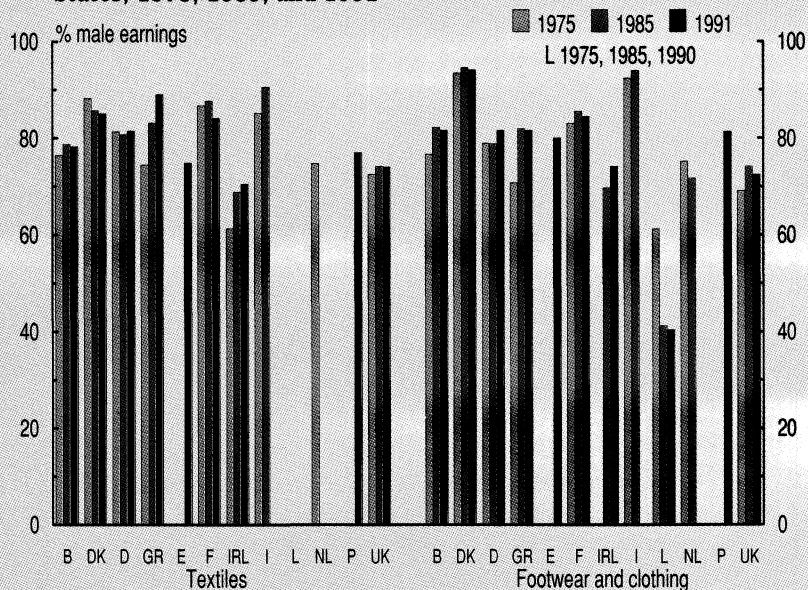
are available, the gap between men's and women's earnings narrowed between 1975 and 1991. For most of the countries — the main exception is Greece — most of this change occurred in the last six years of the period, from 1985 to 1991, with Belgium, Denmark, Germany and the UK showing a reduction in the differential of 7–8 percentage points.

The relative pattern of pay differentials for manufacturing as a whole is broadly repeated in individual industries, with one or two exceptions. In food, drink and tobacco, for example, where the relative pay of women seems to be lower than average, the range of differentials between the average earnings of men and women manual workers was wider in 1991 than for manufacturing as a whole, with women's pay averaging only around 65% of men's pay in Spain and Portugal as

116 Hourly earnings of women manual workers in relation to those of men in total manufacturing and in the food, drink and tobacco industry in the Member States, 1975, 1985, and 1991



117 Hourly earnings of women manual workers in relation to those of men in the textiles and footwear/clothing industries in the Member States, 1975, 1985, and 1991

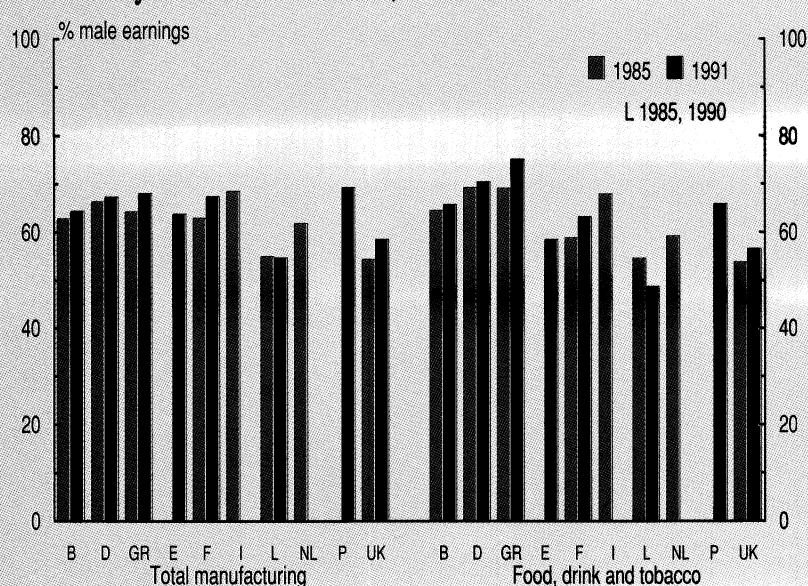


opposed to over 85% in Denmark and Greece (Graph 116). This may reflect differences across the Community in the relative importance of different kinds of production within this broad category as much as genuine variations in the relative pay for particular kinds of work.

In textiles and clothing and footwear, on the other hand, the pattern of differentials is more similar to that for manufacturing as a whole. In the latter industry especially, the average level of women's earnings relative to men in each Member State was almost identical in 1991 to that for total manufacturing (Graph 117).

Trends in relative pay over time in individual industries, however, reveal marked differences from the picture shown by manufacturing as a whole. In particular, there is much less evidence of the narrowing of differentials between men's and women's pay over the period 1975 to 1991 than emerged from the aggregate data.

118 Monthly earnings of women non-manual workers in relation to those of men in total manufacturing and the food, drink and tobacco industry in the Member States, 1985 and 1991



In food, drink and tobacco, in Germany, France and the UK, the average earnings of women relative to men in 1991 were only marginally higher than in 1975. In addition, in contrast to the significant narrowing of differentials shown for manufacturing as a whole between 1985 and 1991 in all the countries for which data are available, relative pay levels changed very little in this period

Textiles and clothing and footwear show a similar experience. In both cases, the changes in relativities between 1975 and 1991 were small, with a few exceptions — Greece and Ireland for textiles, Greece, Belgium and the UK for clothing and footwear — and the changes since 1985, even smaller. Indeed, there

were as many instances of the relative pay of women falling further behind that of men in the latter period as of increases.

This analysis of individual industries, where women's employment is relatively important, suggests that the narrowing of pay differentials shown by the data for manufacturing as a whole is probably the result of shifts in employment between industries — from industries where women's relative wages are comparatively low to those where they are comparatively high. (This, however, is somewhat difficult to confirm because of the lack of data on changes in the employment of women manual workers by industry.)

Relative earnings of non-manual workers in industry

In most countries the large majority of women in employment are classified as non-manual rather than manual workers. There are, unfortunately, even fewer data available on the earnings of such workers.

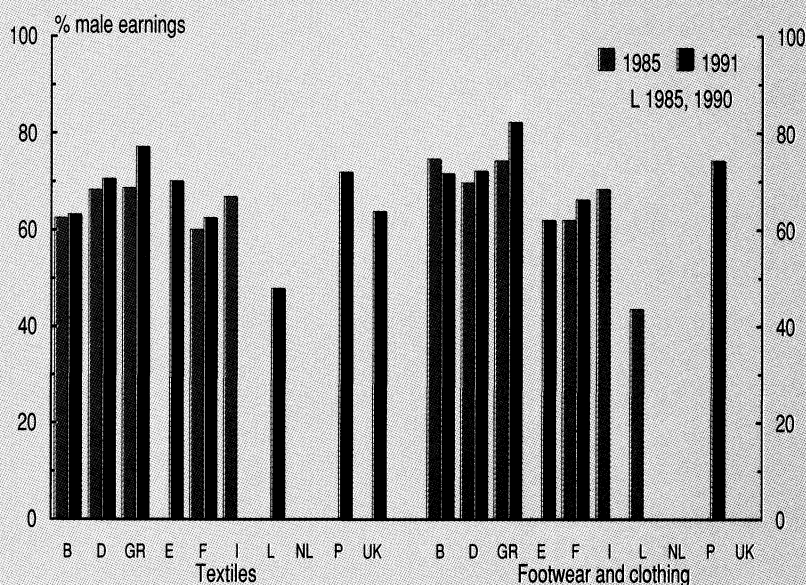
The data which do exist show that for all Member States, the average pay of women non-manual workers in manufacturing is much lower than that of men than is the case for manual workers. In 1991, the average earnings of women in manufacturing in the Member States for which data are available averaged no more than 68% of those of men; in the UK and Luxembourg, the figure was under 60% (Graph 118). As in the case of manual workers, this disparity may reflect the fact that men and women are probably doing different types of job — women, for example, may be employed predominantly as typists or

clerks, men disproportionately as managers and technicians — rather than different levels of pay for similar jobs. A similar pattern of relativities emerges for individual industries within manufacturing. As in the case of manual workers, the range of variation between Member States tends to be wider than for manufacturing as a whole. In the great majority of cases, there is a larger difference between men's and women's average pay than in the case of manual workers, the only major exception being the clothing and footwear industry in Greece (Graphs 118 and 119). In contrast to the pay of manual workers, however, there is some evidence of a narrowing in differentials between men's and women's earnings in individual industries between 1985 and 1991, though there are only four Member States for which comparable data are available.

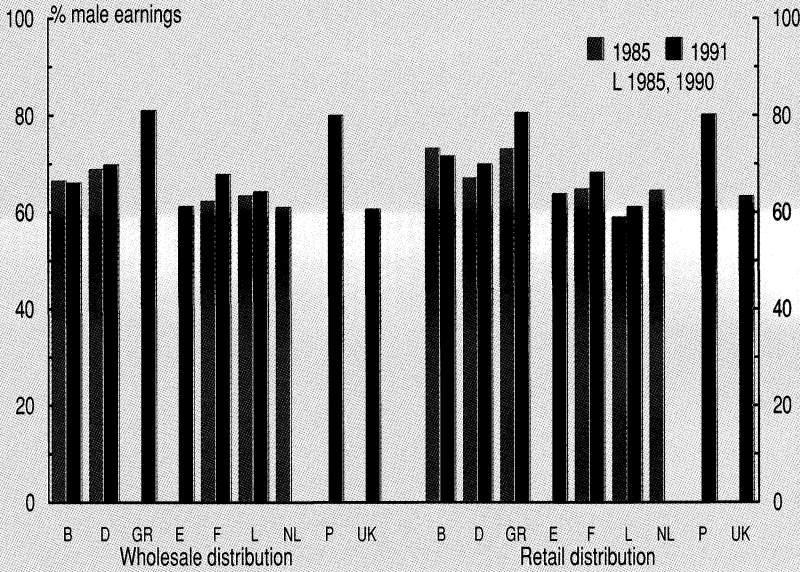
Relative earnings of non-manual workers in services

Most women are employed in services rather than manufacturing. It is the relative earnings in this sector, therefore, which are the key determinant of pay differentials for women generally. As for non-manual workers in industry, however, there are serious data deficiencies in this area which restrict the analysis which can be undertaken. In particular, no data are available for pay in non-market services which account for an important part of women's employment. This, together with other gaps in the data, means that it is not possible to estimate an average figure for pay relativities in services as a whole. Nevertheless, data are available for average earnings of men and

119 Monthly earnings of women non-manual workers in relation to those of men in the textile and footwear/clothing industries in the Member States, 1985 and 1991



120 Monthly earnings of women non-manual workers in relation to those of men in wholesale and retail distribution in the Member States, 1985 and 1991

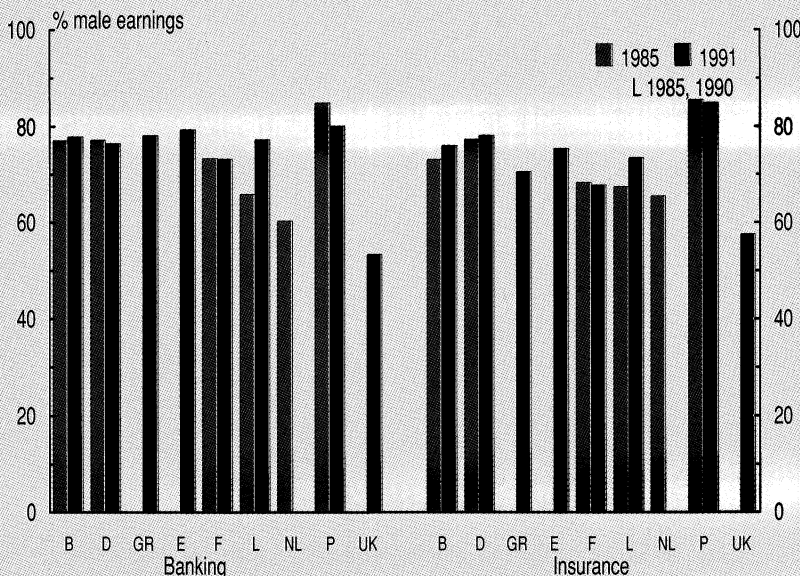


women in four service sectors for nine Member States.

In wholesale and retail distribution, for which the pattern of differentials is relatively similar between Member States, average earnings of women relative to men vary significantly across the Community. In Greece and Portugal, the monthly pay of women averaged around 80% of that of men in both sectors in 1990, whereas the figure for the UK was only just over 60% in both wholesaling and retailing (Graph 120). In most other Member States, the figure was around 65–70% in both sectors.

Since the kind of task performed is unlikely to differ very much between Member States — and does not vary a great deal between different areas of wholesaling or retailing — this variation in relativities would seem to reflect differences in the evaluation of women's jobs as opposed to men's in different Member States.

121 Monthly earnings of women non-manual workers in relation to those of men in banking and insurance in the Member States, 1985 and 1991



In banking and insurance, women's earnings tend on average to be closer to those of men, while at the same time, differences in pay relativities between Member States are for the most part less pronounced. In 1991, for six Member States, the earnings of women in banking were between 75 and 80% of those of men (Graph 121). In Portugal, however, they averaged just under 85% of men's earnings, while in the UK, the average was only some 53%.

Similarly in insurance, where the relative pay of women tended to be slightly lower than in banking at around 70–75% of that of men for most Member States, but for Portugal, almost 85% and for the UK only around 58%.

In both sectors, therefore, the gap between the average pay of men and of women is significant in all Member States, although narrower than in wholesaling or retailing. The evidence accordingly suggests that women occupy relatively low-paid jobs in these two sectors in disproportionate numbers.

Moreover, no uniform tendency for the pay gap between men and women to close over the recent past is apparent from the data available. Between 1985 and 1991, the average earnings of women in retailing rose relative to those of men in four of the five Member States for which there are data. In banking, however, only Luxembourg showed any significant increase in the relative pay of women while in Germany and Portugal there was a small decrease. Similarly in insurance, only in Luxembourg and Belgium was there a relative rise in women's earnings of more than 3% over this period. In the three remaining countries, there was either little change or a small fall (in Portugal, where the relative

pay of women decreased by almost 2%).

Given the data available, it is difficult to identify the main reasons for the gap between the earnings of men and women. Nevertheless the data which do exist support the results of case-studies which suggest that among the reasons for the disparity, are:

- the concentration of women in jobs which are poorly paid;
- the difficulties which women face in acceding to higher positions in the occupational hierarchy, either at the time of hiring or in the course of their careers;
- the fact that traditionally male qualities and skills are systematically given more weight than the qualities and skills of women in setting job qualifications and pay;
- the influence of bonus systems which in many cases are paid more frequently to men than to women.

Part III Employment Policies

**Chapter 7 Help for the Unemployed : National Unemployment
Compensation Schemes**

**Chapter 8 Actions to Combat Long-Term Unemployment : Evaluating
the Alternatives**

Chapter 7 Help for the Unemployed : National Unemployment Compensation Schemes

Whether an unemployed person receives money from the State, how much, and for how long, depends on many factors — not the least being the Member State in which he or she resides.

Introduction

This chapter identifies the basic types of unemployment compensation schemes which are in operation across the Community and examines their features in terms of the scale of payments relative to earnings and their budgetary cost. It also considers their possible effects on the incentives for the unemployed to seek work and on labour market flexibility, as well as the interdependencies between “passive” measures of income support and “active” labour market policies.

The difficulties of comparing unemployment compensation schemes need to be emphasized at the outset. The rules and regulations governing their operation are often complex. To understand how they work in practice, it is not sufficient to read the social security manuals. It also requires a knowledge of the institutional environment and of the general financial conditions which exist. Policy alternatives to merely providing income support for the unemployed, such as subsidizing short-time work, temporary jobs in the public sector, training or early retirement schemes, also need

to be taken into account. In addition, a proper evaluation of unemployment compensation schemes on the dynamics of unemployment and labour supply requires information, on flows into and out of work in particular, which cannot usually be obtained from official national statistics.

Despite the voluminous literature on this topic, there is, in fact, relatively little evidence on the effects of unemployment compensation on labour market behaviour, especially for the Community. The following is a first step towards a more comprehensive evaluation of unemployment benefit systems.

Insurance versus assistance schemes

There are two basic principles governing how unemployment compensation is determined: one relates payments to the previous wage (unemployment insurance), the other guarantees a minimum level of income (unemployment assistance). A common requirement for receiving either type of income compensation is that of being available for work. Unemployment insurance typically

depends on previous contributions, with benefits being set in proportion to income when in work, independent of need, for a specific period of time. Eligibility for unemployment assistance, on the other hand, is (largely) unrelated to previous contributions, and payments are not related to previous income, but are typically means-tested and usually apply for an unlimited period of time.

In practice, however, compensation schemes can involve both principles. The German unemployment assistance (*Arbeitslosenhilfe*) for instance, is wage-related, whereas the unemployment benefit system in the UK has not been related to wages since 1982. At the same time, ceilings imposed on benefits can substantially reduce the proportion of previous income received, as in Belgium, Denmark and Spain. Moreover, in a number of countries, general assistance is paid to all persons in need, including the unemployed, irrespective of whether they are available for work. In terms of the above principles, the Community countries can be divided into three groups:

- *unemployment insurance (UI) only* — Italy;

- *unemployment insurance (UI) and unemployment assistance (UA)* — Germany, Greece Spain, France, Ireland and Portugal;
- *unemployment insurance (UI) and guaranteed minimum income (GI)* — Belgium, Denmark, Luxembourg, Netherlands and the UK.

In addition, some of the countries with a UI and a UA scheme — Germany in particular — provide a guaranteed minimum income to persons in need who are not, or not sufficiently, covered by any of the other two schemes.

From a theoretical point of view, the features of an insurance-based scheme can be clearly formulated:

- the bulk of finance comes from wage-related contributions (paid by employers and/or employees);
- entitlement to benefits requires a minimum period of previous employment (which excludes new entrants to the labour market and those, mostly women, who re-enter after a long break);
- abuse of the system is controlled by requiring that unemployment be involuntary or that there is a waiting period before receiving benefits;
- the rate of benefit is a significant proportion of the previous wage and related to the length of insured employment;
- the period over which benefits are paid is strictly limited and also related to the period of insured employment.

In practice, however, it is difficult to rank the systems in Community countries according to these criteria. The regulation of unemployment insurance and assistance is very complicated and often inconsistent (see Table pp160–1). The schemes in Germany, Spain and France seem most to reflect the insurance principle in terms of their financing. The relative scale of employers' and employees' contributions, however, varies widely between these countries as between other Member States. Nevertheless, because of the possibility of forward or backward shifting of non-wage costs, such differences are likely to be relatively unimportant so far as the functioning of labour markets is concerned. Three major types of divergence from the insurance principle are apparent on the financing side:

- high state subsidies to the benefit fund in Denmark, Italy and the Netherlands;
- the submergence of unemployment insurance in the social security system in Ireland, Portugal and the UK;
- flat-rate instead of wage-related contributions in Denmark.

All Member States require a minimum period of insured employment as a qualifying condition for the receipt of unemployment compensation. This ranges from 360 days in Germany to 78 days for workers under the age of 18 in Belgium. Since the mid-1970s, in response to high and prolonged unemployment and to escalating budget deficits, countries with strong insurance principles (Germany, France and Spain, in particular) have increased the qualifying period and/or linked the duration of benefits more closely

to the length of insured employment.

Typically countries with relatively low or short-term benefits (Greece, Italy, Ireland and the UK) impose a waiting period of several days before benefits can be claimed, whereas in countries with relatively high rates of benefits (Denmark, Germany, Spain, France and the Netherlands) there is no waiting period at all.

Where unemployment benefits are wage-related, the initial rate of benefit ranges from 20 to 50% of previous gross earnings — in Italy, Ireland and Greece — to 90% — in Denmark. Only in Germany is the benefit rate related to net rather than gross earnings, and only in the UK are benefits flat-rate rather than being related to wages. As long-term unemployment has increased, so there has been a growing tendency for the period over which benefits are payable to be linked to the length of insured employment. In some countries — such as Belgium and France — this tendency has been combined with reducing the rate of benefit over the payment period.

In a number of countries, there are important alternatives to unemployment compensation in operation. This is especially the case in Italy where the general unemployment insurance scheme covers only a small proportion of the unemployed who have previously worked. In 1990, only an estimated 56 000 of the 468 000 unemployed with work experience received unemployment benefits, most of the remainder receiving payments from various special schemes. More importantly, the wage compensation fund (Cassa Integrazione Guadagni) guarantees a certain level of income to redundant workers who,

however, remain formally employed.

In Germany (and to a lesser extent in Belgium, France and Spain) compensation for short-time working is a practical alternative to unemployment compensation, which has most extensively been used in the first phase of transforming the East German labour market after unification. Early retirement schemes — in France and the Netherlands, especially — disability pensions — particularly in the Netherlands — and redundancy payments — in the UK, for example — are other alternatives.

Six countries — Germany, Greece, France, Spain, Ireland and Portugal — have specific means-tested assistance schemes for the unemployed. In other countries, general social assistance schemes are the only means to provide a minimum level of income to those who do not qualify for, or have exhausted their rights to, unemployment benefit. With the exception of Greece, Spain and Portugal, means-tested unemployment assistance is payable for as long as the person concerned has no other source of income and is available for work. Assistance payments are usually flat-rate, though vary with age, marital status and number of children, and in three of the six countries operating such schemes — Germany, Spain and Portugal — eligibility requires a minimum period of insured employment. Germany and Greece are alone in relating the assistance payable to previous earnings, though the level is lower than for unemployment benefits.

Taking all aspects together, Germany, France and Spain appear to be the countries where the insurance principle applies most strongly, in that unemployment

compensation is most closely linked to previous employment and the financial contributions made. The UK and, to a lesser extent, Ireland, are at the opposite extreme. In the UK, social welfare principles prevail, in that the emphasis is on guaranteeing a minimum level of income. Welfare rather than insurance principles are reflected in the financing of payments from progressive rather than proportional contributions, the payment of flat-rate rather than wage-related benefits and the differentiation of all benefits according to marital status and the number of children.

The history of regulations governing unemployment compensation schemes since the mid-1970s shows that there has been no convergence between systems based on insurance principles and those based on welfare principles. Instead, the particular characteristics of each type of system seem to have become more pronounced. In insurance schemes, like those in Germany, France and Spain, benefits have become more closely linked with previous employment. By contrast, in the welfare-oriented UK system, this link has been weakened by abolishing earnings-related benefits in 1981, introducing progressive insurance contributions in 1985, and gradually shifting from unemployment benefits to general social assistance (“income support”).

Beneficiary rates

Differences in unemployment compensation systems are reflected in national patterns and trends in beneficiary rates — i.e. in the proportion of the unemployed actually receiving benefits or assistance — as well as in variations and changes in rates relative to wages — i.e. the so called replacement rate. If unem-

ployment insurance funds go into deficit, and if there are economic and political difficulties in increasing contributions or subsidies from the state budget, the policy response is likely to be to reduce benefits in relation to wages, and/or to reduce the beneficiary rate, through imposing stricter qualification conditions. Apart from changes in regulations, a reduction in the beneficiary rate can also result from changing labour market conditions, such as an increase in the number of long-term unemployed who have exhausted their benefit entitlement.

In practice, the total beneficiary rate varies markedly between Member States. According to the Community Labour Force Survey, the proportion of people claiming benefit among all those without work for at least one hour a week, who are also seeking work and available for work ranges from 6% in Greece in 1990 to 86% in Denmark (Graph 122). These figures, however, need to be interpreted with caution, since the sample of households covered by the survey may not necessarily be representative in this respect and the likelihood of a positive response to the question on benefits may depend both on the amount received and on whether the respondent is registered at an employment office. In both Greece and Portugal, registration rates are low compared with most other Member States. Moreover, in both countries official figures of beneficiary rates, which are partly based on other definitions — from the Ministry of Labour or the social security administration — are two to six times higher than those reported by the LFS. In countries where unemployment insurance contributions are integrated in the social security

The Regulation of Unemployment Insurance and Assistance, January 1992

	BELGIUM	DENMARK	GERMANY	GREECE	SPAIN	FRANCE
UNEMPLOYMENT INSURANCE (UI)						
1. Title of Benefit	"Allocation de chômage"	"Arbejdsløshedsforsikring"	"Arbeitslosengeld" (AG)	Ordinary unemployment benefit	"Prestacion por desempleo, nivel contributivo"	"Allocation de base" (AB); "Allocation de fin de droits" (AFD)
2. Financing	Contributions by employers (1.35%) and employees (0.87%), state subsidies	Fixed membership contributions to recognized UI-funds, employers' contributions, state subsidies covering about 70% of expenditure	Employers' (3.15%) and employees' (3.15%) contributions, state subsidies to cover deficit	Employers' (2.35%) and employees' (1%) contributions; state subsidies	Employers' (5.2% + 0.4% for Wage Guarantee Fund), and employees' (1.1%) contributions	Employers' (4.51%), employees' (2.33% + 0.50%) contributions
3. Qualifying Conditions	Varies according to age from 78 days in the past 10 months to 624 days in the past 36 months	Membership contributions of at least 12 months and employment of at least 26 weeks within the past 3 years	At least 360 days contributory employment during the last 3 years	At least 125 days contributory employment in the 14 months before unemployment	6 months contributory employment in last 4 years	Depending on age and length of insured employment; minimum for AFD at least 6 months insured employment
4. Waiting Period	None	None	None, except if job voluntarily quit (8-12 weeks)	6 days	None, except if job voluntarily quit (6 months)	Depends on the number of holidays not yet taken
5. Rates of Benefits (Initial)	60% of gross wage (55% for cohabitants without dependants), taxable	90% of gross wage; ceiling of DKR 2,502 per week, taxable	68 (63)% of net wage; ceiling 6,800 DM per month (West), 4,800 DM (East)	40% of daily wage for manual workers, 50% of monthly wage for employees, non-taxable	80%; ceiling 170% (220%) of statutory minimum wage, non-taxable	AB: 40% + lump sum; AFD: flat rate (81.30 FF/day), taxable
6. Duration and Dynamics of Benefits	Indefinite but degressive; benefit can be suspended if unemployment duration doubles the regional average	2.5 years; with extension up to 7 years if using the right to job offers	156 to 832 days depending on insured employment and age (6 days per week)	5 to 10 months depending on insured employment and age	3 to 24 months depending on insured employment; degressive (60% in second year)	AB: 3 to 45 months degressive, AFD: 6 to 27 months, both depending on age and insured employment
7. Alternatives to Regular Unemployment Compensation	Short-time working compensation; temporary unemployment allowance	Compensation for involuntary part-time unemployment and layoff periods	Short-time allowance; promotion of winter production; bad weather allowance		Short-time working; early retirement with replacement conditions	Short-time working; early retirement
UNEMPLOYMENT ASSISTANCE (UA)						
8. Title of Benefit	No separate UA; "Bestaansminimum" (BM)	No separate UA; "Social Bistand"	"Arbeitslosenhilfe" (AH); "Sozialhilfe" (SH)	"Extraordinary benefit"; no scheme guaranteeing a national minimum income	"Subsidio por desempleo" (SD); various social assistance schemes	"Allocation de Solidarité Spécifique" (ASS); "Allocation d'Insertion" (AI); "Revenu Minimum d'Insertion" (RMI)
9. Qualifying Conditions for UA			Registered as unemployed but not qualifying for AG or having exhausted AG, and in need; at least 150 days insured employment in preceding year	Unemployed having exhausted ordinary benefits, and in need	Registered as unemployed but not qualifying for insurance benefits, or exhausted those benefits, and in need; at least 3 months insured employment	ASS: unemployed but not qualified or have exhausted AB/AFD, and in need; AI is for young people looking for first job, single woman with children, ex-prisoners etc.
10. Size and Duration of Assistance			AH: 58% of net earnings and 56% for recipients without children; unlimited, as long as no suitable job available	Same rate as ordinary benefit; for 45 days	75% of current minimum wage; 3 to 18 months; (for unemployment 55 until retirement age)	ASS/AI/RMI in 1988: FF 2,000 per month for wage earner (+ conditional supplements); ASS/RMI unlimited; AI one year max.

The Regulation of Unemployment Insurance and Assistance, January 1992

	IRELAND	ITALY	LUXEMBOURG	NETHERLANDS	PORTUGAL	UNITED KINGDOM
UNEMPLOYMENT INSURANCE (UI)						
1. Title of Benefit	"Unemployment Benefit" (UB) and "Pay-Related Benefit" (PRB)	"Trattamento ordinario di disoccupazione"	"Indemnit� de ch�mage complet"	"Werkloosheids Uitkering" (WW)	"Subsidio de desem-prego" (SD)	"Unemployment Benefit" (UB)
2. Financing	Employers' and employees' contributions included in overall social insurance contributions (PRSI)	Employers' contributions (4.11% industry, 1.61% commerce); state subsidies	Contributions to Employment Fund by employers, communes and income tax	Employers' (1.44%) and employees' (1.04%) contributions; variation according to industry; ceiling	Contributions included in health insurance	Progressive employers' and employees' contributions to National Insurance Fund
3. Qualifying Conditions	At least 39 weeks PRSI-contributions	Insured employment of at least 2 years, 1 year in 2 years preceding unemployment	At least 26 weeks employed during 12 months preceding unemployment	At least 26 weeks employment during 12 months preceding unemployment	540 days of contributory employment during 2 years preceding unemployment	Within the last 2 years contributions for at least 50 times the lower weekly earning limit
4. Waiting Period	UB: 3 days; PRB: 3 weeks; 6 weeks if unemployment voluntary or through misconduct	7 days; 30 days if unemployment voluntary or through misconduct	None, except young entrants (39 weeks)	None	None	3 days; up to 6 months if unemployment voluntary or through misconduct
5. Rates of Benefits (Initial)	Flat rate (UB) + 12% (PRB) of weekly earnings over IR� 72 and below IR� 220, non-taxable	20% of last salary	Up to 80% of gross earnings depending on partner's income; ceiling 2.5 times statutory minimum wage	Up to 70%, taxable	Up to 65%; ceiling 3 times the guaranteed minimum wage, taxable	Flat rate + adult dependants addition, taxable
6. Duration and Dynamics of Benefits	UB: up to 390 days; PRB: up to 375 days (6 days per week)	Up to 180 days (extension to 360 days in the building sector possible)	365 days; extension up to 12 months possible, then partially degressive	6 months to 5 years depending on length of service and age; 70% of minimum wage for another year	10 to 30 months; extension for aged over 55 possible up to early retirement at 60	1 year
7. Alternatives to Regular Unemployment Compensation		Special unemployment benefit for redundant workers (66% up to 180 days); Wage Compensation Fund (CIG) for short-time work		Disability pensions and early retirement regulated by collective agreement	Early retirement	Redundancy payments; occupational pensions
UNEMPLOYMENT ASSISTANCE (UA)						
8. Title of Benefit	"Unemployment Assistance" (UA)	No general UA; "Sussidio straordinario" (SS) in some regions	No separate UA; "Revenu Minimum Garanti" (RMG)	"Bijstandsuitkering" (ABW, RWW)	"Subsidio social de desemplego" (SSD)	"Income Support" (IS)
9. Qualifying Conditions for UA	Unemployed who do not qualify or have exhausted their right to UB; and in need			Registered unemployed who do not qualify or have exhausted their right to WW, and are in need; scheme open to other persons in need	Unemployed who do not qualify or have exhausted their right to SD, and are in need; at least 180 days insured employment in preceding year	Registered unemployed who do not qualify or have exhausted their right to UB; scheme open to other persons in need
10. Size and Duration of Assistance	Up to IR� 52 per week depending on needs, durations of unemployment etc.; unlimited			Flat rates depending on age and status, e.g. HFL 1,148 per month for singles living alone; unlimited	70% of the minimum wage + supplements depending on children; half the period for which SD has been granted or SD-period if no SD has been granted	Flat rates depending on age and status, e.g. UK� 39.65 per week for singles 25 years and over; unlimited

system (as in Portugal or the UK), or where employees do not, or hardly, pay contributions into a separate fund (as in Greece, Italy, Luxembourg and Spain), individuals may not be aware of receiving unemployment benefits or assistance. Despite these and other caveats concerning the reliability and validity of the data, however, differences in beneficiary rates between Member States remain substantial and require explanation.

In particular, at 41% in 1990, the beneficiary rate in France is surprisingly low. This may reflect the fact that the French unemployment insurance scheme is barely subsidised at all by the state budget and so is more insurance-oriented than, for example, in Denmark and Belgium, where the rates are around twice as high. Qualification requirements for receiving benefits in these

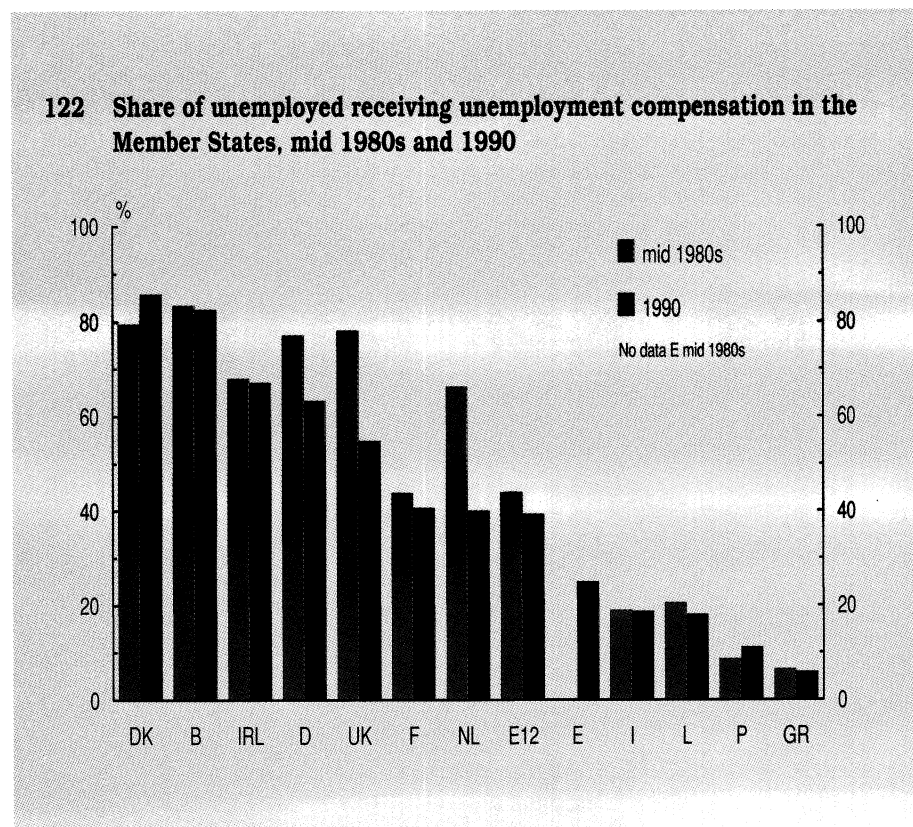
two countries are much less strict than in France and the period for which benefits are payable much longer (unlimited in the case of Belgium).

With the exception of Denmark, Germany, the Netherlands and the UK, beneficiary rates changed little between 1983 and 1990. Apart from Portugal (where the validity of the data is uncertain), Denmark is the only country in which the beneficiary rate rose (by 6 percentage points) over this period. This reflects Denmark's success in reducing the relative numbers of long-term unemployed — who are likely to have exhausted their benefit entitlement — through active labour market measures. Denmark, for example, is the only Member State which has established a right for the long-term unemployed to a temporary job in a

private or public enterprise or to training.

In contrast, significant reductions in beneficiary rates occurred between 1983/84 and 1990 in Germany (from 77% to 63%), the UK (from 78% to 55%) and the Netherlands (from 66% to 40%). In the UK and in Germany, the reduction was similar for men and women; in the Netherlands, it was much larger for women than men. In Germany, the fall in the beneficiary rate was especially marked for the young and the long-term unemployed, reflecting both a tightening in eligibility criteria and an increase in the relative numbers of long-term unemployed — women being especially affected, often receiving no unemployment assistance after exhausting their benefits if their husband is working.

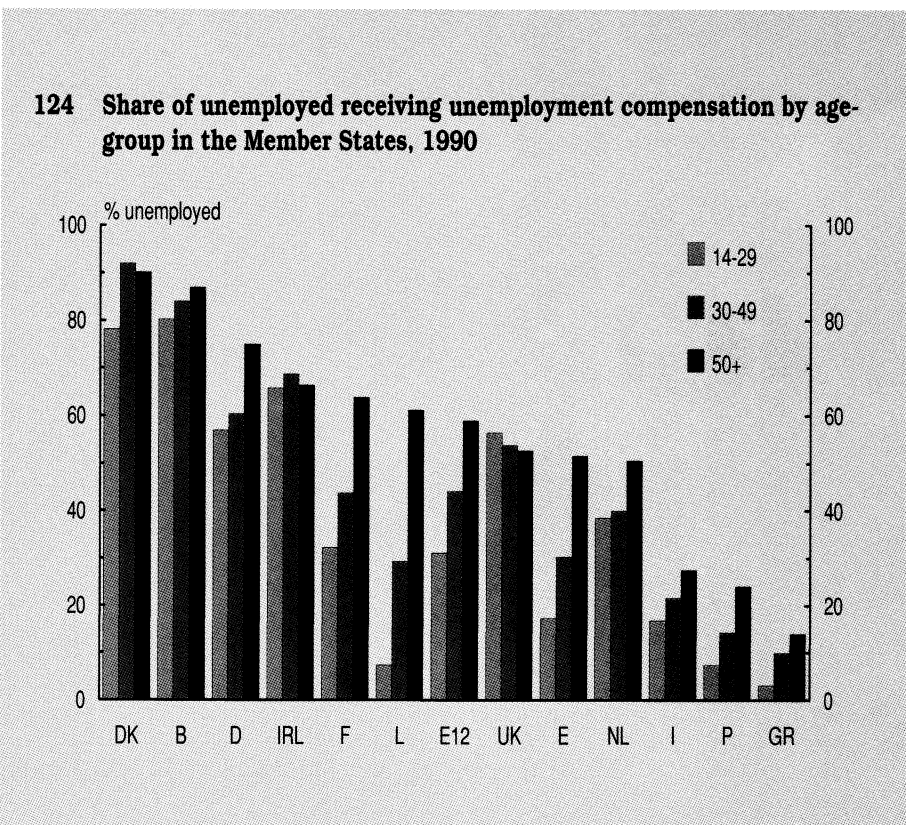
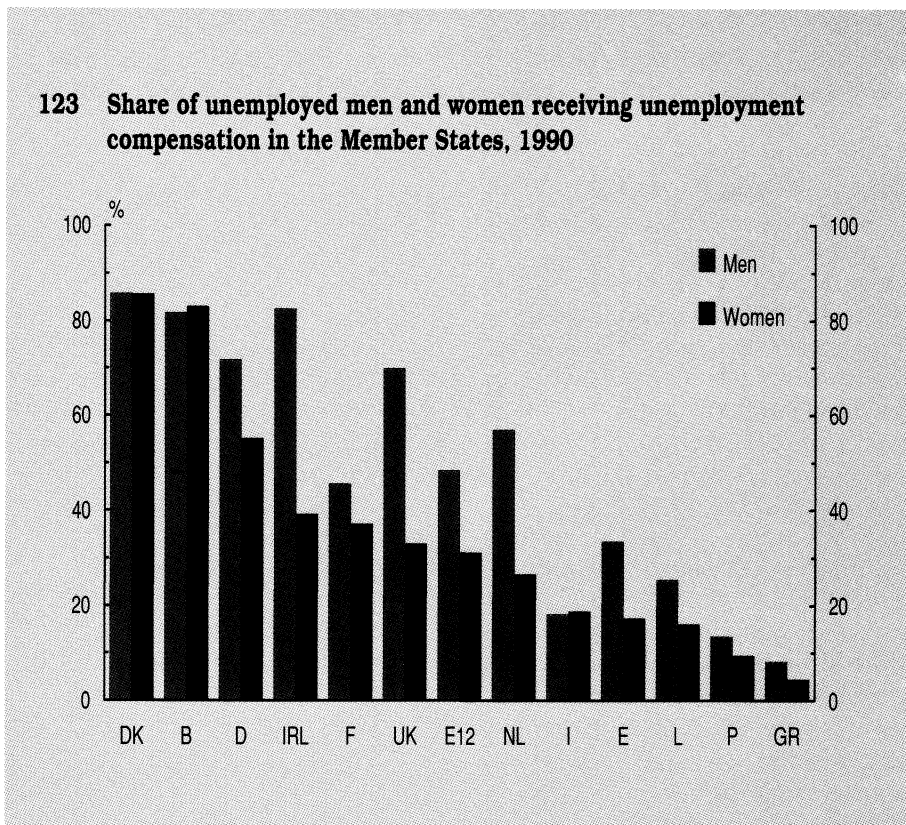
In the UK, the fall seems to have been caused by changes in the qualifying conditions, the decline in the beneficiary rate being greatest among short-term unemployed and young unemployed women. (A major reform in 1987 reduced benefits to young unemployed if they refused an offer from the Youth Training Scheme or dropped out of the programme, while those quitting jobs voluntarily had to wait longer before being eligible for benefits.) Similarly, in the Netherlands, it is young unemployed who have experienced the biggest fall in the beneficiary rate (from 72% to 32%), also as a result of a major change in qualifying conditions. (In 1987, the qualification period for continuing to receive benefit after the first six months of unemployment, was extended to at least three years of insured employment within a period of five years — a requirement which rules out many young people.)



Except for Belgium, Denmark and Italy, women are less likely to receive benefit than men (Graph 123). This is particularly the case in Ireland, the UK and the Netherlands, where beneficiary rates of women are less than half of those of men, but it is only slightly less true in Spain, Greece, Luxembourg and Germany. The two main reasons for such a difference are, first, that the relatively strict qualifying conditions exclude more women — who are more likely to be re-entering the labour market — than men, and, secondly, that means-tested unemployment assistance schemes tend to apply to men — the traditional bread-winners model — rather than to women.

The strength of insurance principles in the unemployment compensation schemes of many Member States is also reflected in the age breakdown of beneficiaries (Graph 124). In principle, the relationship between unemployment protection and age is influenced by two offsetting factors. On the one hand, the older the person, the more likely they are to satisfy eligibility criteria; on the other hand, the probability of being unemployed for a long period and so exhausting entitlement to benefits, tends also to increase with age. In some countries — Germany, France and Spain, where the insurance principle is especially marked — protection for older people was strengthened over the 1980s in response to persistent high unemployment by making the duration of benefits more dependent on age or on the length of period in employment. In these countries, older people are now much better protected than younger people.

In other countries where the compensation scheme is also based on insurance principles, though less



strongly — Denmark, Greece, the Netherlands and Portugal — the same kind of relationship between age and unemployment protection is apparent. In welfare-oriented systems — as in the UK and Ireland — where unemployment protection is largely designed to provide a minimum level of income independent of previous earnings, there is no rationale for a policy of linking the duration of benefits to age or the length of period of previous employment, and, therefore, beneficiary rates do not increase with age (Graph 124).

Just as older people tend to be better protected under insurance-based systems, so the young are less well protected. In France, for example, whereas 47% of the unemployed were below 30 in 1990, only 32% of beneficiaries of unemployment compensation were also below 30. On the other hand, 12% of the

unemployed who were over 50 accounted for 19% of beneficiaries. Insurance-based systems are, therefore, biased towards protecting core workers (mostly male and elderly) over marginal workers (mostly young, female and casual) whereas people tend to be more equally treated (though not women who are not the main wage-earner) under welfare systems.

The variation in beneficiary rates with the duration of unemployment reveals another interesting difference between insurance-based and welfare-oriented systems (Graph 125). In Germany, France and Spain — where the systems are most strongly insurance-based — beneficiary rates of the long-term unemployed are lower than for those who have been out of work for 3–12 months. In the UK and Ireland, on the other hand — where the systems are largely welfare-based

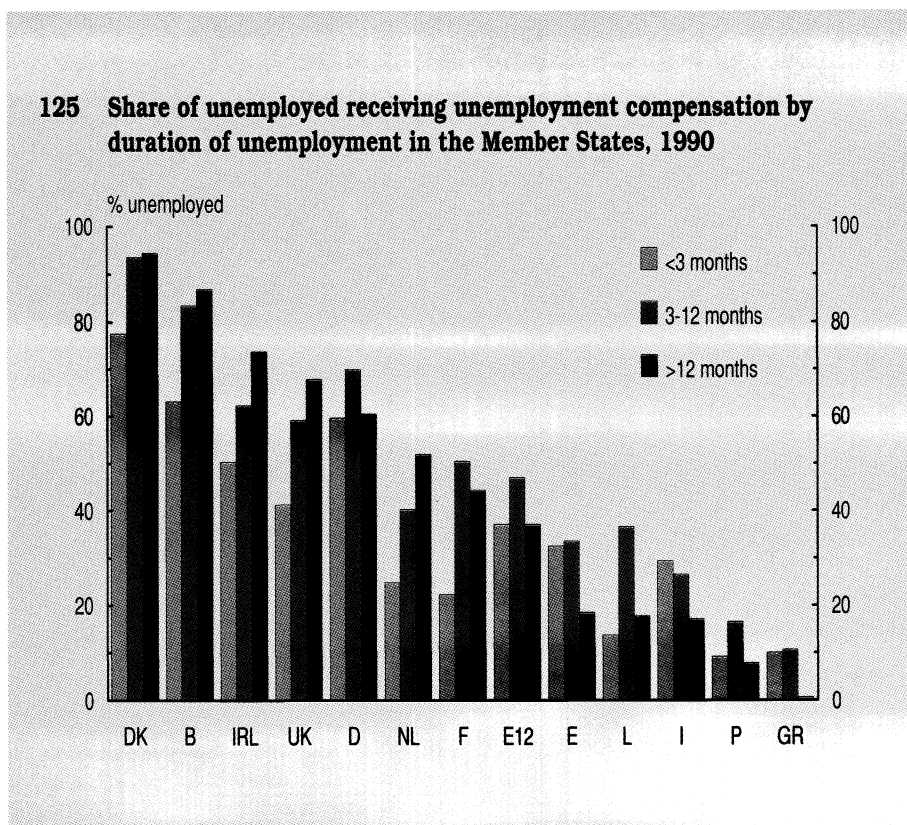
— beneficiary rates are consistently higher for the long-term unemployed than those unemployed for less than a year. This reflects the fact that insurance-based systems tend to exclude “poor risks” (i.e. the long-term unemployed) from the receipt of benefits, whereas welfare systems tend to treat most of the unemployed equally, though only in the sense of guaranteeing a minimum level of income.

Wage-replacement rates

The scale of benefits which the unemployed are entitled to receive differs considerably between Member States. This variation can be illustrated by taking someone of prime age who becomes unemployed after being in a full-time job for the previous ten years, and seeing how the proportion of the previous wage they receive over time differs between countries.

It is assumed that the person concerned is 40 years old, either single or married but without children, who was previously on the average earnings of a production worker in the country concerned. Although as shown above, such a hypothetical person is not necessarily representative of the unemployed, given their wide variety of personal characteristics, details for others, such as young people, older workers, those with no insurance, part-timers, and so on, are much more difficult to compile. For the hypothetical person in each country, gross wage-replacement rates — i.e. the ratio of (pre-tax) benefits to average gross earnings — are calculated on the assumption, first, that the person is single, second, that they are married with a spouse in full-time work and, third, that the spouse is not in work but dependent

125 Share of unemployed receiving unemployment compensation by duration of unemployment in the Member States, 1990

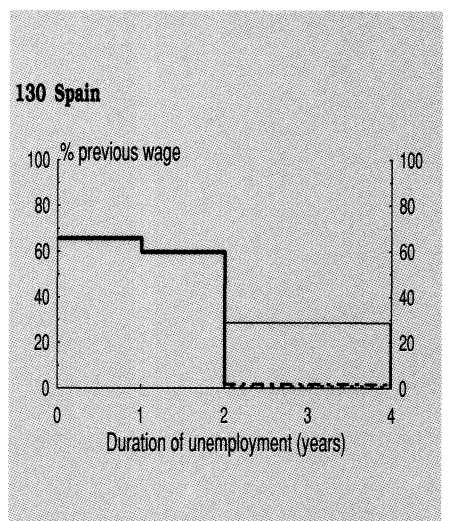
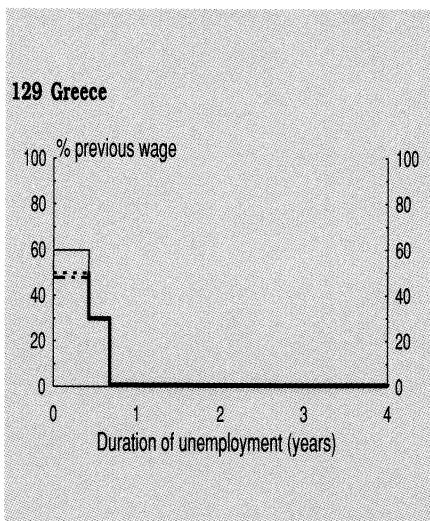
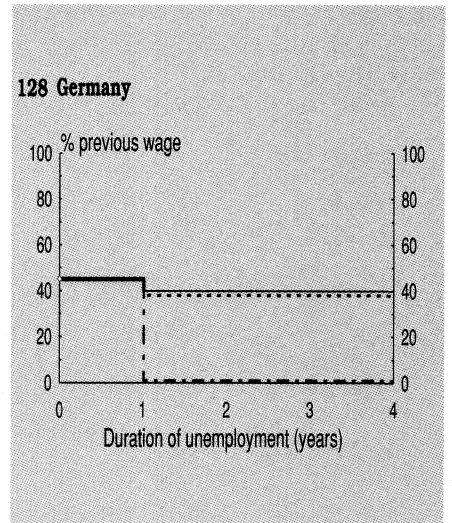
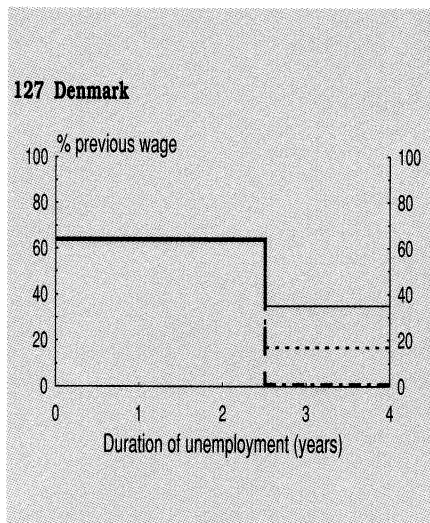
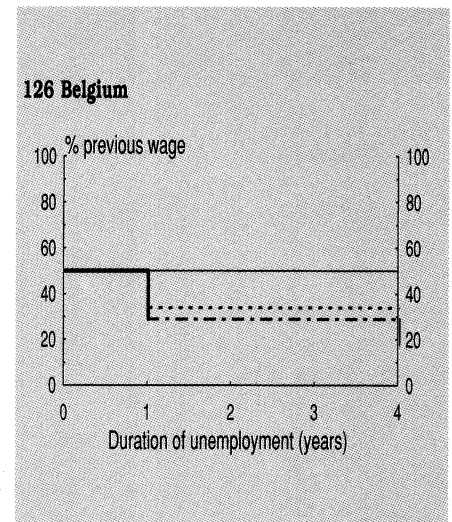
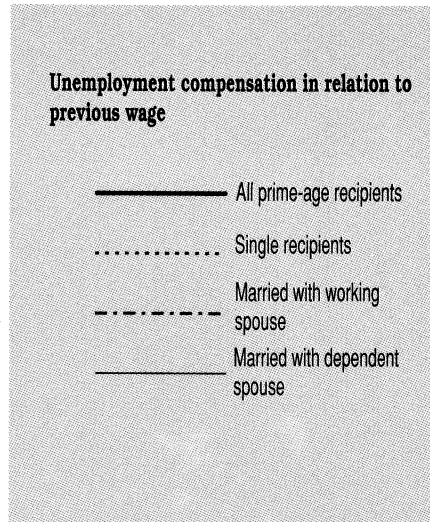


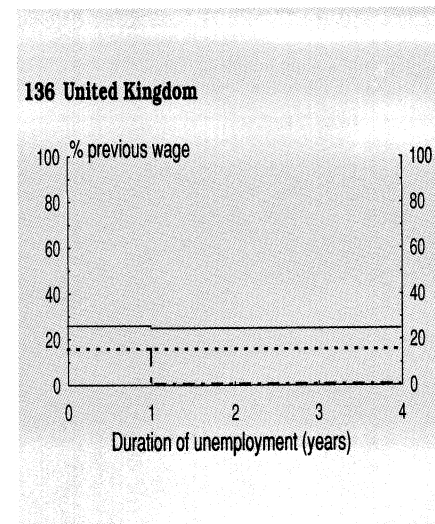
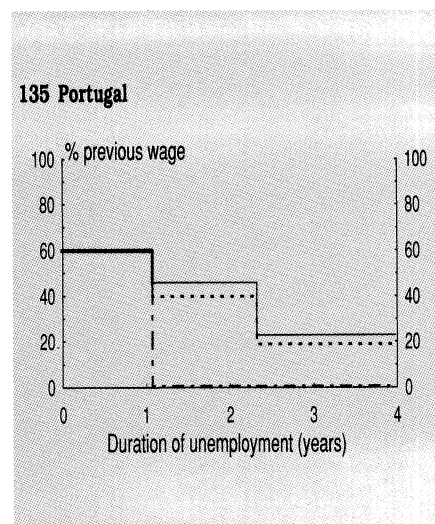
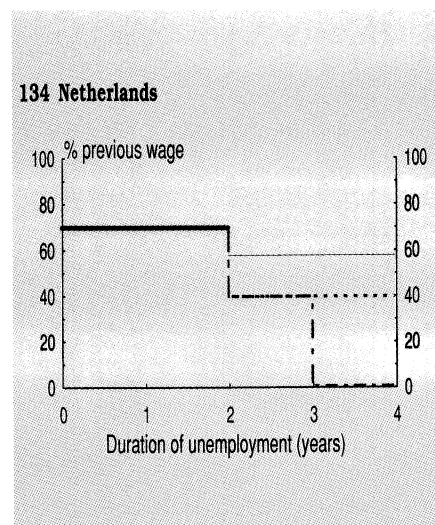
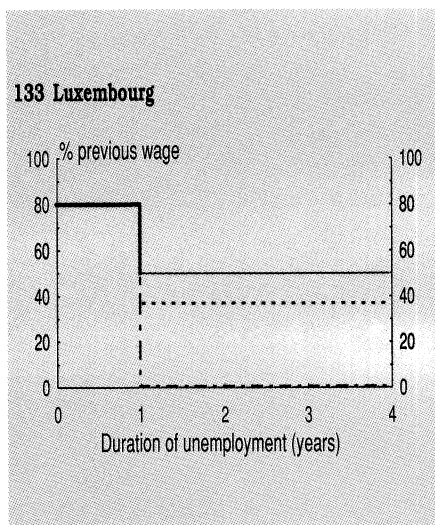
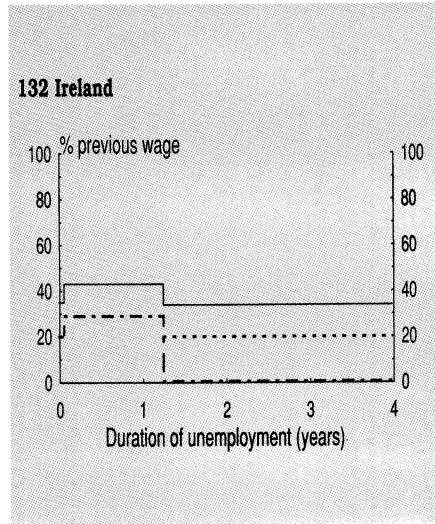
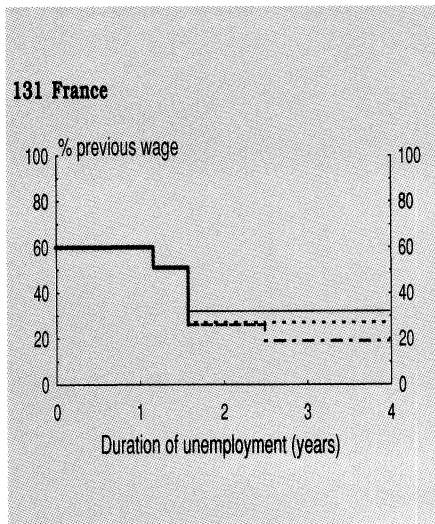
on them. In each case, benefits comprise all forms of compensation applying — unemployment insurance benefits, unemployment assistance payments and guaranteed minimum income transfers — at the rates and rules prevailing in 1989. (In the case of Germany, where benefits are officially calculated in relation to net rather than gross earnings, estimates have been made at their ratio to gross earnings in order to ensure comparability with other countries.)

The estimates for each country (excluding Italy for which there are no comparable details) show that the degree of income protection does not vary widely across the Community for those in short-term unemployment (Graphs 126–136).

When a person first becomes unemployed, the wage-replacement rate is similar in most Member States (ranging from 50 to 70%) and in most cases invariant to marital circumstances. This reflects the fact that unemployment insurance schemes in most countries provide a wage-related income, without differentiating according to need, for at least an initial period of unemployment. It is worth noting that the actual wage-replacement rates in a number of Member States — Belgium, Denmark and Spain — are significantly below the statutory rates implied by unemployment insurance regulations (see Table pp 160–1). This is because of ceilings which set an absolute limit to benefit payments.

In the UK and Ireland, in contrast to other countries, initial replacement rates are well below the Community average and benefits are differentiated according to marital circumstances from the very beginning of a spell of unem-





ployment. This reflects the fact that insurance principles play only a minor role in unemployment protection in these two countries and that, therefore, even initial benefits are designed to provide a minimum level of income according to need rather than being related to previous wages.

As the spell of unemployment increases, so wage-replacement rates become increasingly dependent on marital — and family — circumstances in most Member States. This is largely because entitlement to unemployment insurance benefits becomes exhausted as the duration of unemployment increases and the unemployed then have to rely on unemployment assistance or guaranteed minimum income if they lack other means of support. In this situation, a married person with a working spouse usually cannot claim any further compensation because household income is above the minimum level. A single person or a married person with a dependent spouse, on the other hand, usually continues to be eligible for compensation for an indefinite period of time. Their wage-replacement rates are, however, lower than when they first became unemployed; rates also are usually lower for single than married people with dependants.

Some Member States, however, diverge from this general pattern so far as long-term unemployment is concerned. In Belgium and France, for example, a married person with a working spouse is also eligible for compensation for an indefinite period, though at a low level. In Spain, entitlement to means-tested benefits is limited to a four-year spell of unemployment and is usually restricted to

married people with dependants. In Germany, the same level of means-tested benefits applies to both single and married people with dependants. In Greece, on the other hand, no further compensation is available when initial insurance benefits, applying for a period of eight months, and unemployment assistance, applying for a period of 45 days, have been exhausted.

Except for Greece, the most obvious case of divergence from the general pattern of protection in respect of long-term unemployment is the UK, where single and married people with dependants continue to receive compensation indefinitely at the same low level as the initial insurance benefit, reflecting the emphasis on providing a minimum level of income according to need irrespective of how long a person has been unemployed.

Denmark, the Netherlands, Spain and France have the longest periods of wage-related unemployment compensation, the Netherlands, Germany, Luxembourg and Belgium, the highest replacement rates for single or married people with dependants in long-term unemployment. In these two groups of countries, most of which follow strict insurance principles, the income of a prime-age worker, with a long period of employment behind them, is most protected in the event of long-term unemployment.

The cost of benefit systems

The inter-country differences in beneficiary and wage-replacement rates, described above, are reflected

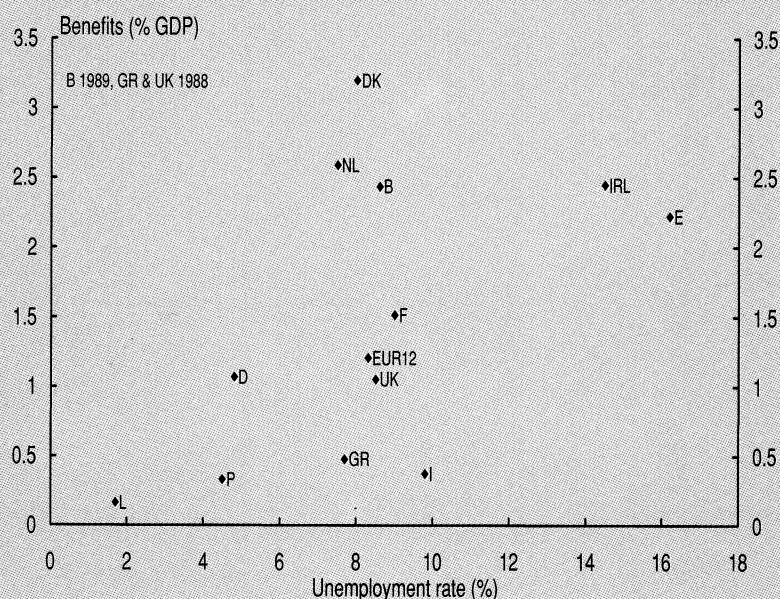
in the levels of public expenditure on unemployment compensation in Member States. Although the total amount spent on compensation in relation to GDP tends to vary with the rate of unemployment — with countries like Spain and Ireland with high rates spending around 2.5% of GDP on unemployment payments in 1990, as against a Community average of 1.25% — some countries spend significantly more than others on each unemployed person.

Denmark, the Netherlands and Belgium spend roughly 2–3 times as much on unemployment protection as countries with similar unemployment rates like France and the UK, while Greece and Italy spend considerably less (Graph 137). These differences are only to be expected in the light of the above description of system characteristics: Belgium pays unemployment benefits to an

exceptionally high proportion of the unemployed for an indefinite period of time; Denmark has an equally high beneficiary rate because of low numbers of long-term unemployed; and in the Netherlands wage-replacement rates are exceptionally high for the initial period of unemployment. In Greece and Italy, on the other hand, unemployment compensation schemes, as such, protect only a small proportion of the unemployed and, hence, their cost is low (though in Italy at least, the burden of supporting the incomes of the unemployed falls on other items of the public budget).

The level of expenditure on unemployment compensation does not appear to be related to whether systems are based on insurance or welfare principles. Expenditure per person unemployed in the UK, with its welfare-oriented system, is similar to that in Spain, where the

137 Unemployment benefits in relation to GDP and unemployment rate in the Member States, 1990



system is insurance-based, while expenditure in Ireland, where the system is similar to the UK's, is the same as in France and only slightly less than in Germany. This finding reflects the main trade-off between welfare-oriented and insurance-based systems: the former tend to provide low benefits for almost all claimants, the latter high benefits for a limited number of core workers. Both may result in similar levels of public expenditure.

Another interesting difference between insurance-based and welfare-oriented systems emerges when the changes in unemployment rates and expenditure on compensation which occurred in Member States between 1985 and 1990 are compared. In most countries, expenditure on compensation in relation to GDP declined roughly in line with the fall in unemployment which most

of them experienced during this period. In the majority of cases, however, expenditure on each unemployed person increased relative to GDP (Graph 138). The exceptions are Denmark, Italy, Ireland and, most markedly, the UK, where payments to the unemployed, adjusted for the fall in unemployment, declined significantly.

Since the UK and Ireland are the two countries where the compensation system is most strongly based on welfare principles, the evidence of this recent period suggests that such systems are more prone to reductions in assistance as compared with insurance-based systems, under which benefits are explicitly related to previous earnings. As real incomes increase, the support given to the unemployed will also tend to increase under the latter kind of system. Under

welfare-based systems, on the other hand, the tendency may be merely to uprate assistance levels in line with inflation, to preserve their real value, but not necessarily to maintain their relationship to average earnings.

Effects of unemployment benefits on the labour market

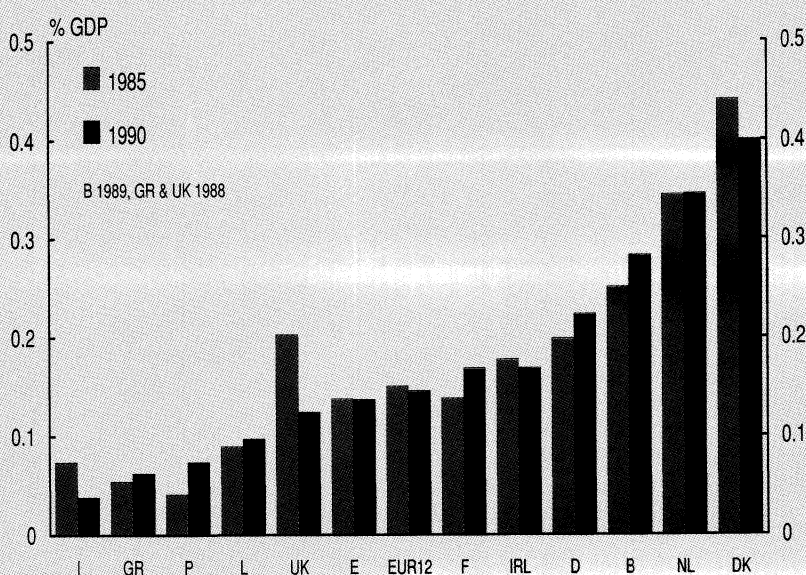
The potential effects of unemployment insurance schemes (UI) on the functioning of the labour market can best be examined in terms of a transition model of labour market flows. Flows in nine possible directions can be distinguished:

To	Employment	Unemployment	Inactivity
From	1	2	3
Employment	1	2	3
Unemployment	4	5	6
Inactivity	7	8	9

Although UI mainly affects flows 2 and 4 — i.e. of people moving from employment to unemployment and out of unemployment into a job — policy on compensation may also indirectly affect the other possible flows. These potential effects are considered in turn below. These are stylized effects, however, which will differ in detail according to the institutional arrangements in force in the different Member States.

- (1) Moves from one employment status to another, i.e. labour mobility, may be encouraged by UI insofar as they involve a greater risk of unemployment.

138 Unemployment benefits per 1% unemployment in the Member States, 1985 and 1990



This might apply, in particular, to moves from large to small firms, from permanent to fixed term contracts of employment, or from the public to the private sector (the latter being relevant to recent suggestions that civil servants should contribute to funding UI schemes). Unfortunately, there is no empirical evidence on how important this effect is in practice.

- (2) Because UI subsidizes the costs of searching for employment, it makes it easier for people to quit their jobs and spend time finding alternative, possibly more suitable work. The evidence suggests that voluntary quits increase at times of economic growth — when there are more jobs available — and decline during recession. There is little, however, to suggest that a waiting period (in which no benefits are paid) is an effective means of preventing abuse of the UI system.

At the same time, employers are likely to find it easier to dismiss workers under an UI regime: those affected will tend to demand less compensation for losing jobs, while employers will tend to have less feeling of responsibility for depriving them of their livelihood. Other things being equal, employers may, therefore, be more inclined to adopt methods of production which entail a higher risk of redundancy. The evidence, however, does not suggest that UI has a major impact on the dismissal policy of employers, except in the case of seasonal work — in the construction industry, hotels and catering — where the existence of unemployment compensation effectively subsidises such jobs.

Insurance-based schemes have also been used to support early retirement, which is a means employed to tackle the unemployment problem in several Member States. In Germany, France and the Netherlands, especially, unemployment has become an intermediate stage between working and retirement, which is reflected in an increased flow from employment into unemployment.

- (3) In cases where elderly people out of work are no longer required to register as unemployed, they are no longer included in the unemployment count and, in the case of the Labour Force Survey, no longer considered to be unemployed, even though they might receive insurance benefits. In such cases, the flow from employment into inactivity will tend to be increased by UI. On the other hand, the so called “entitlement effect” — the incentive for employees to remain in the labour force in order to become entitled to benefits — will tend to reduce the movement from employment into inactivity. Which of these two opposing effects is stronger remains an empirical question.

- (4) According to conventional economic theory, generous wage-replacement benefits reduce the probability of someone moving from unemployment into employment. This effect is stronger, the longer the period over which the unemployed are entitled to claim benefit. It becomes weaker, however, as the end of the benefit period approaches or as the rate of benefit declines. For people who are uninsured and out of work, the

opposite effect is likely: the existence of insurance schemes increases the incentive for them to find employment as quickly as possible in order to become eligible for benefits. In some degree, the insured and uninsured may be in competition for jobs; such competition tending to increase both as vacancies become scarcer and as expected benefits become more generous. This effect potentially offsets the negative effects of generous benefits on the incentive for the insured to look for work. It might, therefore, explain why a great deal of empirical research into this issue has either produced contradictory results or found only a weak relationship between UI and the duration of individual spells of unemployment.

- (5) The probability of someone out of work remaining unemployed will clearly tend to increase if insurance benefits are available, most empirical studies finding that the duration of benefits is more important than their level. More time spent looking for job, however, is not necessarily detrimental to allocative efficiency. Indeed, an extended period of job search is probably necessary in the case of specialized occupations, so that in these cases at least, making it easier for people to remain unemployed for longer is a desirable effect of UI. Moreover, improved matching of people to jobs might also reduce the likelihood of future spells of unemployment and so the scale of movement out of employment into unemployment over the longer term.
- (6) UI reduces the probability of someone who is unemployed

moving into inactivity, even if they are effectively no longer available for work. Empirical evidence suggests, however, that abuse of the system in this way is not a significant explanation of persistently high unemployment. Active labour market programmes, coupled with the need for the unemployed to prove periodically that they are actually available for work, also tend to limit the scale of abuse, as do early retirement schemes which enable someone out of work to become legitimately inactive.

(7) The “entitlement effect” of UI increases the probability of those who are not part of the labour force joining it. Moreover, when one member of a household becomes unemployed and is not insured, or is under-insured, other members not in

the labour force may be impelled to seek employment in order to supplement household income. On the other hand, since UI has to be financed, the wage-related contributions which employees are required to pay reduce their take-home pay and their incentive to seek employment. Insofar as employers find it difficult to pass on the contributions which they are required to pay, this may reduce their incentive to hire workers, and so the scale of movement from inactivity, or unemployment, into employment. Which of these effects predominates is an empirical question, to which as yet there is no clear answer.

(8) The “entitlement effect” of UI may also induce inactive people to register as unemployed even if they receive no cash benefit.

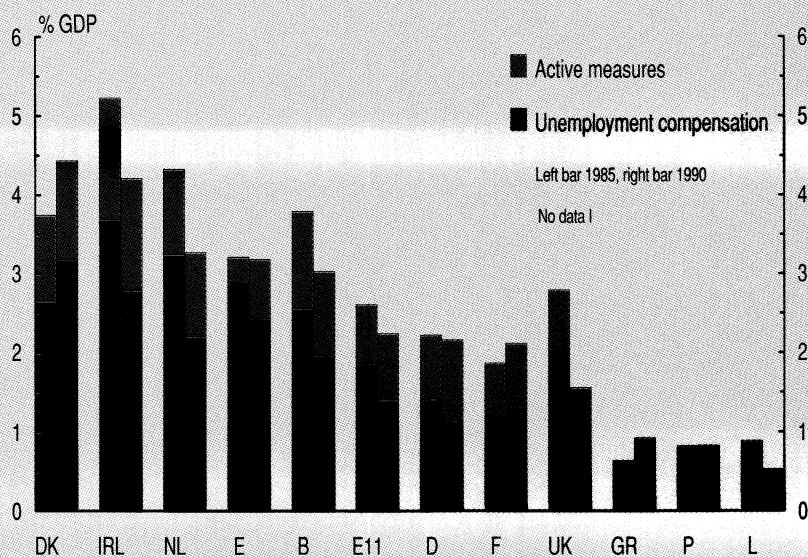
There are often non-monetary benefits attached to registration, such as participation in special employment measures, use of placement and counselling services, reduced charges for private or public services, as well as credits for periods of unemployment in respect of other social benefits such as healthcare and pensions.

(9) The entitlement effects outlined above, seem to reduce the probability of someone remaining inactive. UI, in effect, subsidizes formal labour force participation and may, therefore, reduce the incidence of people working in the informal or “black” economy.

In summary, the effects of unemployment compensation on the functioning of labour markets are by no means clear-cut. While compensation schemes which guarantee a relatively high level of income at least in the short-term, almost certainly tend to increase the probability of someone moving from employment into unemployment and the time they are likely to spend out of work, the magnitude of this effect and its relevance for the operation of the labour market are highly uncertain. Moreover, other important effects, for example on labour force participation, have also to be taken into account.

From a macro-economic perspective, an effective system of income protection for the unemployed stabilizes purchasing power; from a social perspective, it reduces divisions in society and provides some form of justice to those who lose their jobs through no fault of their own. A well-functioning compensation scheme is also of central importance in maintaining good

139 Labour market policy expenditure in relation to GDP in the Member States, 1985 and 1990



industrial relations. If trade unions know that their members are adequately protected if they lose their jobs, they may be more cooperative in adjusting to structural change. In addition, the willingness of workers to be mobile or flexible in the labour market, to retrain and to accept new jobs, which may involve a higher risk of unemployment, such as seasonal work, is likely to be greater if generous unemployment benefits are available.

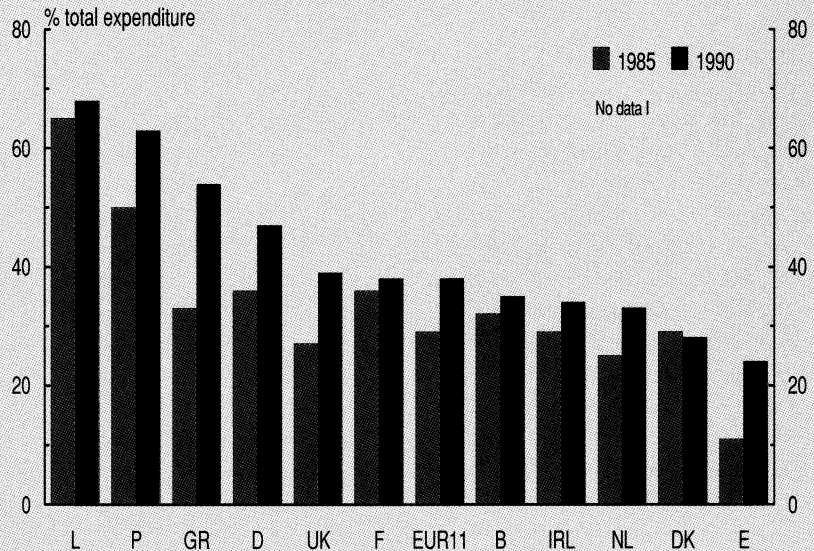
In this respect, a generous compensation scheme can be regarded as an investment in a more flexible and efficient labour market. This is especially the case if it is combined with active measures to promote employment.

Unemployment insurance and active labour market policy

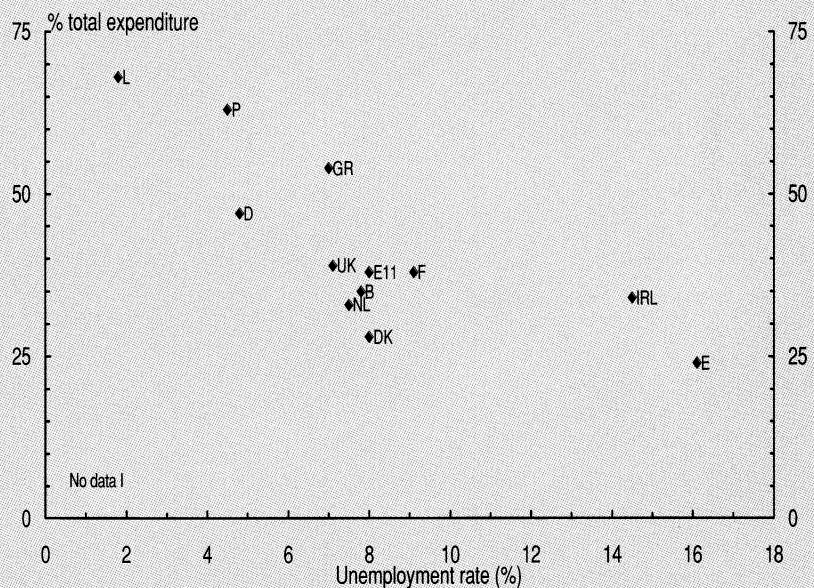
There are obvious reasons for directing resources towards job creation or skill promotion (active measures) instead of pure income maintenance for the unemployed. Not the least important are persistent mismatches between supply and demand for particular skills and apparently increasing deficiencies in public infrastructure. In most Member States, however, public expenditure on unemployment compensation continues to be considerably larger than expenditure on active policies.

In 1990, Member States spent an average of 2¼% of GDP on labour market programmes (Graph 139). Only 38% of this expenditure was devoted to active measures. Between 1985 and 1990, however, this proportion increased in all the countries, except for Denmark

140 Share of labour market policy expenditure spent on active measures in the Member States, 1985 and 1990



141 Share of labour market policy expenditure spent on active measures in relation to the unemployment rate in the Member States, 1990



(Graph 140), the rise being particularly significant in the poorer, less developed countries of the Community — Greece, Portugal and Spain — assisted by increased finance from the Community Social Fund.

There is marked variation between Member States both in the overall size of labour market programmes and in the proportion spent on active measures. On average, active policies on training, subsidies to integrate long-term unemployed and special youth and disabled schemes, for example, accounted for 0.8% of GDP in the Community in 1990, though for 1.4% of GDP in Ireland as against only 0.4% in Luxembourg. Unemployment compensation, in contrast, ranged from 0.2% of GDP (Luxembourg) to over 3% (Denmark). Whereas spending on passive measures of income support is positively related to the level of unemployment, the proportion of total labour market policy expenditure spent on active measures varies inversely with unemployment — i.e. the higher the rate of unemployment, the lower the relative expenditure on active policy (Graph 141).

This can be explained by the fact that spending on income maintenance tends to have priority over active policy. As unemployment increases, therefore, “passive” expenditure tends to crowd out active expenditure (especially in countries such as Germany, where both forms of expenditure are financed out of the same fund). Moreover, the higher the level of unemployment, the less effective are active measures likely to be in alleviating the problem, and the more relevant is macro-economic policy.

The scale of public expenditure is, however, not a sufficient means of comparing the effectiveness and efficiency of labour market policies across the Community. It neglects, for example, fiscal policies which fall outside selective labour market programmes as well as non-financial measures and private initiatives. High expenditure on active measures is certainly no guarantee that the problem of unemployment is being addressed effectively. Whether or not this is the case can only be assessed both by adopting a much wider perspective and by a more detailed analysis of individual programmes.

Chapter 8 Actions to Combat Long-Term Unemployment — Evaluating the Alternatives

Easy solutions to long-standing problems are hard to find. Labour market measures can keep people in touch with the job market, and help them compete better — but they cannot create jobs.

Introduction

As unemployment rose over the late 1970s and early 1980s, the average duration of unemployment rose and long-term unemployment became a core characteristic of the Community labour market. By 1983, the proportion of the unemployed who had been out of work for a year or more in the Community had risen to 45% and, by 1986, it had exceeded 50%.

Despite a sustained period of strengthened economic growth in the second half of the 1980s, unemployment fell only slowly. The number of long-term unemployed decreased, but by little more than unemployment as a whole so that, in 1990 (the latest year for which figures are available) the proportion of the unemployed who had been out of work for a year or more was still close to half (Graph 142).

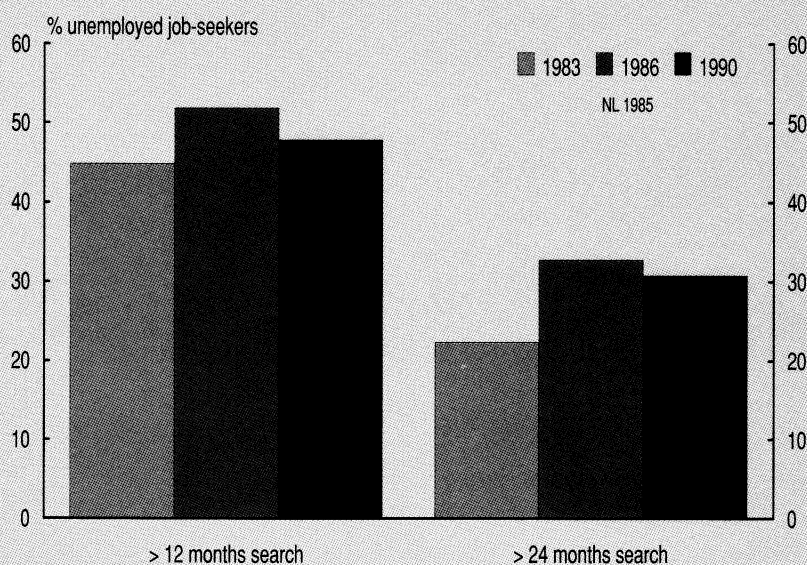
With unemployment since 1990 once more on the increase, it is unlikely that the relative numbers of long-term unemployed have fallen, and every possibility that they have risen. The question arises as to why the Community

has seemingly been so unsuccessful in reducing long-term unemployment despite considerable policy efforts.

This chapter draws on the results of a Community-wide assessment of national and Community policy actions which have been designed

to address the problem of long-term unemployment. This work, carried out as part of the Commission's ERGO initiative, aims to: better describe the nature of the problems; evaluate the effectiveness of the range of programmes and policy measures which have been implemented in different

142 Long-term unemployed as a share of the unemployed in the Community, 1983, 1986 and 1990



The Development of Policy Measures

The focus of Member States' labour market policies changed during the 1980s as long-term unemployment became an increasingly serious problem. A variety of new actions were undertaken, and there was much discussion and debate at both national and Community level about appropriate policy responses.

From 1989 onwards national spending on the problem was specifically supported at Community level by the provision of targeted support from the European Social Fund. These funds were made available to all areas of the Community — not only in the priority regions but anywhere where long-term unemployment was a serious problem.

Financial support was backed up by a systematic exchange of experience at Community level through the Mutual Information System on Employment Policies (MISEP). This was established in 1982 and provides a regular quarterly flow of information on new policy actions in the Member States. It has become the cornerstone of the Community's Employment Observatory which monitors employment trends, policies, actions and research.

Despite the Member States' policy actions, and despite the mutual learning, long-term unemployment has remained, if not impervious to policy actions, at least extremely resilient. As part of the Community-level effort to address these problems, the Council proposed in its Resolution of December 1987 that the Commission set up a programme for stimulating successful experiences which can form part of national programmes in favour of the long-term unemployed.

As a consequence, the Commission set up in 1988, a Research-Action and Evaluation programme (ERGO) designed to assess the actions that had been undertaken, and to identify possible guidelines for the future. During its first 3-year phase, ERGO's main objectives were to raise awareness of the problems faced by the long-term unemployed and to evaluate the actions adopted in the Community to tackle these problems.

The information in this chapter draws heavily on the evaluation work undertaken in the ERGO programme. While this evaluation has included a review of the literature on labour markets and unemployment, and an analysis of national special measures to assist the unemployed, a major element of the programme has involved the development of an evaluation methodology suitable for all types of project in all Member States, and its application to some 116 national case studies. These 116 case studies cover projects or programmes which provide services to a total of 77 400 unemployed people and include all Member States. Cooperation with the Government departments in each Member State has enabled the ERGO network to cover all the main types of action, including the delivery of national programmes.

The case studies cover projects and actions initiated or delivered by a wide range of agencies and organisations, from central governments to trades unions and non-profit making associations. The table in the box opposite summarises the measures covered, and the organisations involved.

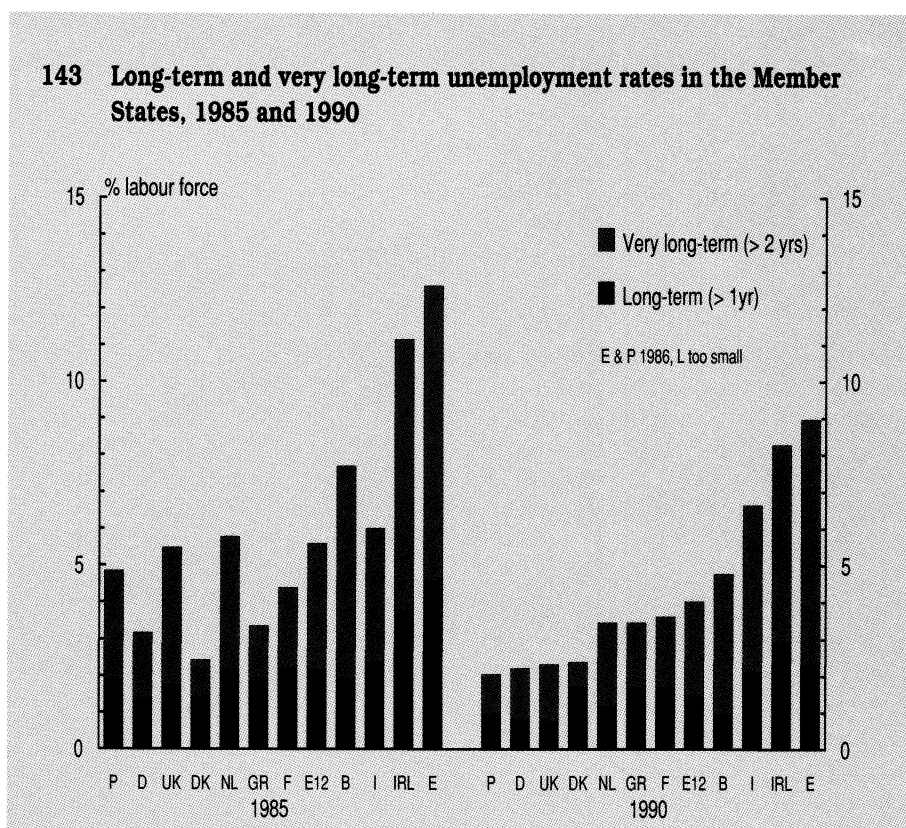
In all the case study evaluations, the participants — i.e. the long-term unemployed — were interviewed as part of the evaluation process. The contribution of each type of project to meeting objectives was assessed, as were the relative costs of different measures. Future work will concentrate on the possibility of developing nationwide programmes for addressing all the needs of the long-term unemployed while enabling such programmes to be adapted to the needs of the local economy within which the long-term unemployed are most likely to become integrated.

Member States; identify ways in which future policy might be strengthened (see Box p.174).

Nature and scale of the problem

Long-term unemployment is an entrenched problem which continues to affect large numbers of people across the Community. Three basic facts illustrate this:

- during the period of significant employment growth between 1985 and 1990, when 9 million new jobs were created, less than one third of those jobs went to the registered unemployed and even less — only around 1 million — to the long-term unemployed;
- during this period of employment growth, the proportion of



ERGO Case Studies of Long-Term Unemployment Initiatives								
Objective	No. of projects	Sponsor/Operator						
		Central Govt.	Regional/ Local Govt.	Non-profit Associations	Employers	Coops. and other	Trade Unions	Partnership
Counselling	13	7	2	3	0	0	1	0
Wage Subsidy	10	2	0	4	0	1	0	3
Training	38	17	9	4	3	2	2	1
Public sector work	10	1	2	7	0	0	0	0
Reintegration enterprises	6	0	1	3	0	0	1	0
Enterprises, coops	18	4	3	2	0	9	0	0
Multi-function	14	5	0	2	0	6	0	2
Social and recreational	7	2	3	1	0	1	0	0
All projects	116	38	20	26	3	19	4	6

long-term unemployed remained unchanged so that their relative position did not improve. In 1990 over 4% of the Community's labour force (around 5 million people) had been out of work for a year or more and 2½% for at least two years (Graph 143);

- with unemployment rising again, the number of long-term unemployed is almost certainly increasing and their prospects and opportunities for obtaining employment diminishing still further.

Registered long-term unemployment is, moreover, only the most visible dimension of a wider problem resulting from insufficient job opportunities and increased segmentation within the Community's labour markets and between local communities. Chronic underemployment and insecure jobs at low rates of pay are widespread features of labour markets in many areas of the Community, especially in the South. In effect, many people are effectively excluded from the primary labour market, making it impossible for them to derive a level of income from employment sufficient to meet personal and family needs on a lasting basis.

Barriers to integration

The ERGO evaluation study identified a number of obstacles facing the long-term unemployed when seeking work. While these tend to apply to unemployed people generally, they particularly affect those who have been out of work for a long time:

- there are severe difficulties for even the most active and able

job seekers who live in areas where industrial or agricultural decline means that there are simply too few jobs available;

- even when jobs are available, many long-term unemployed cannot compete for them because they lack the qualifications to get jobs; lack the skills to obtain the qualifications; or have out-dated skills;
- long-term unemployed are often the applicants least favoured by employers, who prefer to employ almost anyone else if they are available — a form of discrimination which seems to be applied to the unemployed as a group, irrespective of their personal attributes or abilities;
- employer resistance is particularly strong with regard to ethnic minorities, migrants, ex-offenders and women trying to enter non-traditional occupations;
- a proportion of the long-term unemployed suffer from social problems or the inadequacies of social policy — such as disability, alcoholism or homelessness — which can be the result of unemployment as much as the cause, but which nevertheless represent serious barriers to their obtaining employment or being able to undergo the training that could help them into employment;
- people living in areas where poverty and unemployment have fundamentally affected the way of life may find considerable difficulty in acquiring the attitudes and abilities necessary to work on a regular basis;

- people living alone, away from family and friends, may often lack both the confidence and the necessary information about local job possibilities.

These barriers are fundamental and, if they are to be overcome, require considerable effort on the part of the people concerned, and a willingness on the part of the public or voluntary services to help them participate in the labour market.

However, national programmes targeted on the long-term unemployed are rarely able to address these wider social issues. The problem of 'discrimination' may be addressed — either by opinion changing campaigns and/or by providing financial incentives to encourage employers to overcome their reluctance to recruit the long-term unemployed. Certain training or retraining needs are generally met, and special assistance is also given, in many cases, to the disabled. However, relatively few national programmes address the problems of other marginalised or disadvantaged groups or individuals to any significant extent.

In addition to these social difficulties, there are also administrative or organisational barriers which result directly, or indirectly, from the way and/or the context in which government supported reintegration programmes, and more general social and labour market policies, often operate.

In particular, these include:

- barriers built into social support and labour market systems — welfare benefits or training programmes — which may make them inaccessible, either

because people simply do not know about them or because the people concerned are ineligible according to the rules;

- barriers due to the design and operation of welfare benefit systems (and their interaction with tax systems) which can create financial disincentives for people to reintegrate into the labour market — the controversial poverty trap problem.

Barriers in the social support systems

While social support systems are intended to help those in need irrespective of whether they are looking for work, labour market policies are intended to help people into employment. However, the two systems together often fail to encompass the needs of those who want to work, but who also need financial help and other forms of social support. One consequence is that, for many of those who want to work but have little hope of finding a job easily, it is not worthwhile, or indeed possible, to register as a job seeker. This may mean that they are cut off from participating in reintegration programmes set up by labour offices since they may only be open to registered job seekers.

Not all job seekers want, need, or are able to benefit from reintegration programmes. For whatever reason, significant numbers of long-term unemployed tend to withdraw from unemployment registers in Member States when reintegration programmes are introduced, without going into work or official training schemes.

Such 'withdrawals' from the labour market do not necessarily imply that the people concerned

are not looking for work. However, the systems of unemployment compensation, as described in Chapter 7, normally specify certain conditions which claimants have to fulfil in order to be eligible for assistance. These rules are intended to exclude from assistance those already working in the informal economy, or those who are capable of work but are taking no active steps to find a job. However, they can also, inadvertently, exclude others.

For example, these systems require the persons concerned to attend registration offices at regular intervals and accept rules governing their entitlement to benefit, including which jobs they can refuse and how quickly they need to start work. These rules vary widely between Member States in no particularly systematic way. They can prove particularly onerous for some people, particularly women who may need more time than the systems allow in order to reorganise their lives, arrange childcare etc., so as to be able to undertake paid employment.

The tendency in public expenditure has been to try to shift government expenditure away from passive income support to active employment measures. However, the removal of the right to financial assistance can create further problems for those seeking employment. This is particularly the case for young people, for whom there is evidence that the withdrawal of financial support has led to increased vagrancy and begging. Even when financial support is available, young people can still have difficulty entering and holding a place on a training scheme if they are, say, homeless, pregnant, or have

severe social problems. Young people who have left institutional care, or for one reason or another can no longer live at home, may not be able to follow a training course if they cannot afford anywhere to live in the vicinity.

Some Member States have openly recognised that the lack of somewhere to live is a major obstacle to being able to take part in reintegration programmes and provide help in finding accommodation, without requiring the people concerned to demonstrate that they are actively seeking work at the same time.

Equally, the ability of a woman to look for work or take part in a training programme may depend on the availability of childcare facilities. Although many training programmes for women financed by the European Social Fund offer a childcare allowance, the provision of childcare facilities or allowances on national or regional training schemes is much less common.

Disability is another obstacle. However, only a relatively small proportion of the disabled are unable to work at all, though they may account for a significant share of the very long-term unemployed (according to a study in the Nord Pas de Calais region of France between 1984 and 1987, over 20% of those who had been unemployed for more than two years had a severe disability).

The distinction between being 'disabled and unable to work' and being an 'unemployed job seeker with a health problem' is largely defined by social security legislation and the way in which it is implemented. There is some evidence that routine assessment

interviews of the unemployed sometimes lead to people being reclassified as disabled. This may suit both the person concerned and the State — the former because they avoid having to undergo reintegration programmes and the latter because it achieves a reduction in the registered numbers of unemployed. For the many disabled who want to work, however, it is a different story.

Immigrants, especially first-generation, may also be at a significant disadvantage. Many of these, particularly women, tend not to register as job seekers. Language difficulties and lack of education act not only to limit job opportunities, but also to exclude them from training programmes which might lead to employment. Non-recognition of qualifications obtained outside the Community is another problem and general social discrimination is commonplace.

Welfare barriers — the poverty trap

Under earnings-related unemployment benefit systems, the long-term unemployed tend to suffer a drop in income when their entitlement to benefit ends and they have to transfer to systems of minimum income support (see Chapter 7). Assistance often then becomes means-tested with respect to household income, so that a decision to leave by the people concerned would create a fall in household income. As a result, young people, especially in countries where they have no guaranteed access to such resources, who might otherwise move away from home in search of work, may be unable to do so. Similarly, husbands and wives of

the unemployed may be discouraged from working if the benefits received are reduced by the value of their earnings.

This is one example of the operation of the poverty trap. More generally, if the wage which a person can earn when in work is little more than the level of social benefit, there is little financial incentive to find employment — although, at low income levels a small difference, combined with the social identity and integration which goes with having a job, may be enough.

On the other hand, if benefits are reduced to restore the incentive, this increases poverty and reinforces the other problems and obstacles that people face in getting back into employment. Some Member States have introduced provisions to reduce this poverty trap, with a transitory period during which benefits are reduced rather than cut off.

Barriers from living in certain areas

Many long-term unemployed live in areas where long-term unemployment is high, job opportunities few and geographical mobility difficult. These areas may be rural as well as urban — an ERGO case study in Spain identified a valley where a quarter of the population was dependent on 'subsídio agraria', a form of welfare allowance given to unemployed casual farm workers. However, high concentrations of registered unemployed are generally found in industrial and urban areas, where the problems may be particularly acute if there are high concentrations of ethnic minorities or migrants.

Although migrants and ethnic minorities may have the support of friends and family, this may be of little use in helping them to find jobs outside the narrow range available within traditional businesses in their local cultural community.

In 'ghetto' areas of all kinds, whether or not migrants are present, the features of the local environment tend to combine to create a vicious circle of poverty and unemployment:

- they deter employers from hiring people who live there;
- they deter industrial and commercial developers from creating jobs locally, so that those living in these areas need, not only to overcome cultural barriers to travelling long distances to work, but also have to face high travel-to-work costs — a particular disincentive for those on low wages;
- they are characterised by deficiencies in the provision of public services, with the lowest quality educational services and lack of support at home, making it difficult for children to learn and do well at school so leading to the persistence of poor educational attainment, low skill levels and low-paid jobs;
- they depress local purchasing power which limits the opportunities for the development of local services which might provide job opportunities, including casual work or self-employment;
- they reinforce the discrimination and dependency of people living in them, such that they

feel growing resentment and consider access to employment and social integration as basically unattainable.

Moving away from the area is an option for some. However, even that has limitations. Many jobs are obtained through personal contact and recommendation, and support from friends and family will be lost when someone leaves home in search of work.

The need for special measures

Stronger economic growth, or a more employment-intensive pattern of growth, while a necessary requirement for the eventual eradication of long-term unemployment, is unlikely in itself to be sufficient.

Special measures aimed at the reintegration of the long-term unemployed are therefore seen as both justified and essential. Nevertheless, it still leaves open the question of the effectiveness of measures which will, in turn, depend on the extent to which they are targeted to both the needs of the labour market and the needs of the unemployed.

This question is particularly relevant since the evidence shows that the nature of the long-term unemployment problem, in terms of the people affected, is far from uniform across the Community. In some countries, for example Italy and Greece, most of the long-term unemployed have never previously held a job while, in other countries in the North of the Community, a high proportion have had a long period of inactivity before officially becoming unemployed. In parts of the Com-

munity — especially in the South — young people are disproportionately affected. In other parts, the problem is more acute for older people.

Design and implementation of policy

The evaluation study undertaken under the ERGO programme raised a number of questions about the design and implementation of policy. The most important of these concern:

- the ways in which national policy frameworks determine the effectiveness of reintegration measures;
- the degree to which national measures are coordinated with regional and local economic and community development actions;
- the interaction between social assistance systems and labour market integration measures;
- the use of specific measures in ways which do not further segment the labour market.

National policy framework and effectiveness

Responses to long-term unemployment, wherever they occur, generally operate within policy frameworks drawn up largely by central governments. The ERGO study suggests that, while this has been the means by which considerable financial resources have been brought to bear on the prob-

lem, the mechanisms under which assistance has been made available have often constrained their effectiveness.

A basic problem is that often a primary objective of national policies and funding instruments is to secure a reduction in the registered numbers of long-term unemployed in the shortest possible time. Recognition of the structural nature of the problems, or of the longer-term issues that persistent long-term unemployment raises, has not led to specific actions or changes in policy to take account of it. Moreover, there is only limited coordination between nationally-conceived measures and local and regional actions undertaken by other groups.

Central governments are mainly responsible for the provision of funds and the design of major programmes. A consequence of this is to restrict the flexibility of local agencies to target measures on specific problems and to take advantage of particular opportunities or requirements in local and regional labour markets.

This lack of effective partnership, or even coordination, between different levels of intervention is unfortunate. Labour markets — at least for most of the jobs that are likely to be taken by the long-term unemployed — operate essentially at the local level. Problems and job opportunities are therefore usually best understood, and tackled, at this level.

Central governments fund not only their own programmes but often those initiated by others. Most of these other actions are initiated locally. However, sponsors or operators of such actions

The European Social Fund

Many programmes for assisting the long-term unemployed in the Member States are supported by the European Social Fund. Following the 1989 reform of the Community Structural Funds, of which the European Social Fund forms part, the reduction of long-term unemployment became a priority objective for policy action. Objective 3 of Community Structural Policy is specifically aimed at this problem, while Objective 4, helping young people into employment, also covers long-term unemployed people aged under 25. Moreover, within the funds allocated to the less favoured (Objective 1) regions, a specific part is targeted towards these two objectives. In addition, other support for Objective 1 regions may also assist the long-term unemployed as well as other people.

In total, around 20% of total Structural Fund expenditure goes to pursuing these two objectives in the period 1989 to 1993, i.e. around 12 billion Ecus (at 1989 prices). Of this, around 40% is directed towards Objective 3.

Taking the average annual expenditure for Objective 3 purposes envisaged in the Community Support Frameworks for the whole Community, 60% of the expenditure planned for combatting long-term unemployment goes to the three countries, Spain, the UK and France, where the numbers of long-term unemployed aged 25 and over are the highest in the Community (Graph 144).

A large proportion of expenditure directed to assisting the long-term unemployed and young people goes to support training schemes in the Member States. For the three years 1990 to 1992, some 45% of all assistance under Objective 3 and 4 outside the Objective 1 regions has been committed to basic training, essentially for people with little or no skills, and a further 17½% on second-level and specialist training schemes (Graph 145). A large part of the remaining expenditure (about 20%) has been directed at helping disadvantaged groups, such as the handicapped, women with special employment problems and migrants.

are generally obliged to fit in with central government guidelines or objectives, otherwise the actions do not get funded. They also tend to make substantial use of the European Social Fund to support their own initiatives for training and enterprise development (see Box on the European Social Fund).

If national measures are to provide more scope for actions to be adapted to local circumstances, policy instruments — which should not be too numerous or varied — need to be designed in ways which:

- ensure simplicity and ready access to funds;
- enable a wide range of activities to be developed in line with local circumstances and problems;
- allow the measures to be combined with other measures already in place, or being developed;
- facilitate joint funding from a wide variety of sources, including from self-generated income and matching contributions from the private sector;
- make the objectives of policy explicit and set appropriate eligibility criteria regarding objectives and specific target groups as conditions of funding.

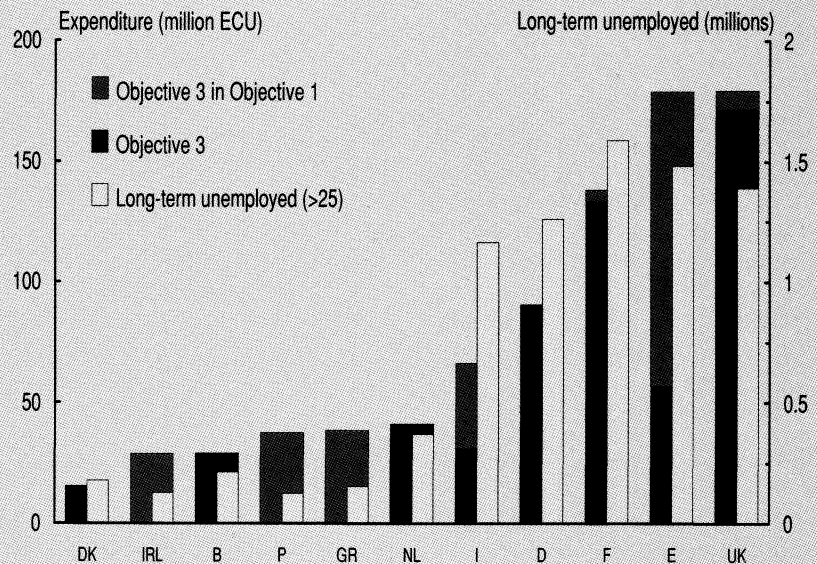
Experience suggests, therefore, that the effectiveness of policy could be increased if central government programmes, as well as those of the Community, allowed more responsibility and discretion over the precise form of policy action to reside at the local level.

Moreover, although public sector funding is crucial, it should not be the sole source of finance. Rather it should be used as a means of attracting private sector contributions, thereby reducing the fiscal impact of labour market measures and increasing their relevance for employers in the local economy. There is also a need to develop more structured, and coherent, performance standards and evaluation methods in order to speed up the feed-back regarding the success, or otherwise, of different projects or programmes.

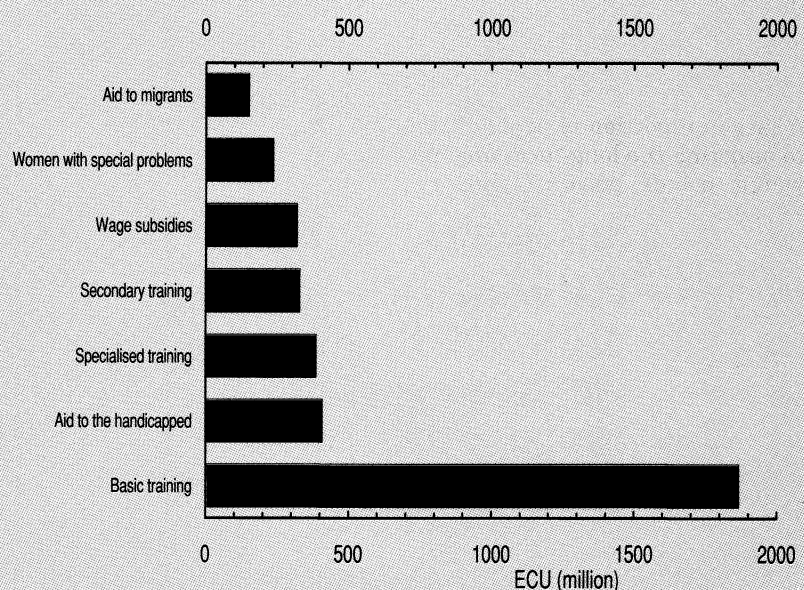
More specifically, there seems to be significant scope for improving the design and targeting of measures (beyond giving more flexibility for local action) so as to take account of local circumstances. Actions need to be developed on the basis of intensive counselling and to be closely linked to local economic and community development initiatives, as well as to labour market intelligence about potential job losses, new job opportunities and the emergence of new skills.

Counselling is a key factor in ensuring the success of measures — guiding people towards the most appropriate options relative to their needs and providing essential background support. Counselling services have achieved considerable success in paving the way for individuals to take up regular employment rather than merely getting them off the unemployment register temporarily. However, while most Member States now arrange for unemployed people to be seen by officials of the employment services every few months, the purpose is primarily to check their eligibility for social assistance, rather than to assist their progress back into work.

144 Average annual Objective 3 expenditure envisaged under the Community Support Frameworks established in 1989



145 European Social Fund expenditure on Objectives 3 and 4 by measure, 1990-92



For the measures adopted to be successful, however, an active partnership is required between all organisations — the employment services, local authorities, the voluntary sector and both sides of industry — which have both an interest in seeing the people concerned helped into employment, and a capacity to assist. A common sense of purpose among all the agencies involved seems, on the basis of past experience, to be an essential element of a sustained reintegration programme which effectively addresses local problems.

Finally, it is important to recognise the complex interaction between income maintenance systems and people's willingness and ability to participate in the labour market (see Chapter 7). Disincentives to working should certainly

be avoided. However, experience suggests that levels of income support during training which are little different from the levels of social transfer payment may often discourage people from participating even though there will probably be longer term benefits from training in terms of raising their employability. Unfortunately, in the circumstances in which many long-term unemployed find themselves, it may be difficult for them to believe in such a possibility.

The range and choice of special measures

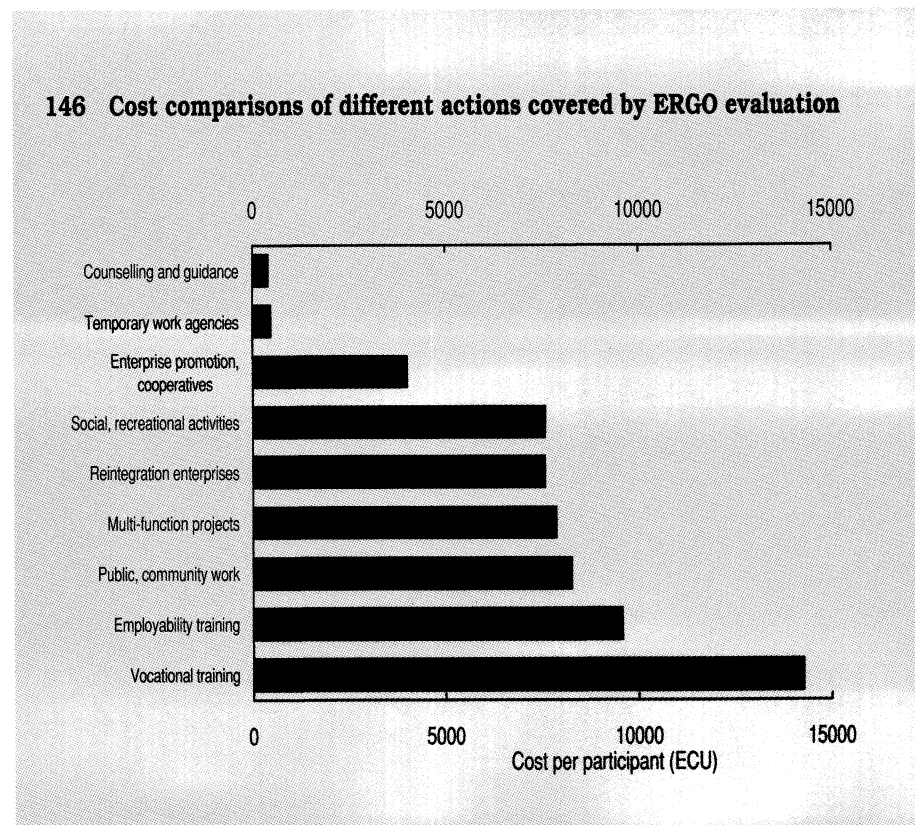
The range of action programmes analysed in the ERGO evaluation study can be grouped into 4 main categories:

- counselling and help in finding a suitable job;
- basic education and training (employability training and job-based vocational training);
- temporary employment measures (public utility schemes, job pools and wage subsidies);
- support for self-employment initiatives (including formation of cooperatives).

Some programmes and projects concentrate on particular activities. Others combine a number of measures. Many involve a range of organisations (central and local governments, trade unions and non-profit making associations).

No universally applicable conclusions can be drawn and certainly no panaceas identified, from the ERGO case studies — not least because local circumstances can vary a great deal. Nevertheless, the case studies do indicate the kinds of measures which seem to work well. The principle findings can be summarised as follows:

- counselling is essential to achieving effective targeting and ensuring value for money, and to provide the necessary support and encouragement to unemployed people;
- training needs to be related to both the needs of the local labour market and the needs of the individuals concerned;
- wage subsidies can improve the effectiveness of other measures if used selectively and in addition to them, and if they are monitored carefully;



- socially useful work can be an important and cost-effective element in programmes.

In terms of costs, counselling and help with job search are relatively inexpensive, and are of value for most people.

Training and public sector job creation are the most expensive measures — often 10 or 20 times the cost of counselling. Thus they should be carefully targeted on individuals who most need them and can most benefit from them, and adapted to local circumstances, if they are to be cost-effective (Graph 146).

In general, courses and measures which are concentrated on those most likely to benefit achieve better results than those which are more general, and open to all. The corollary is that local discretion is needed in order to tailor measures to individual and local needs. However, there is also a danger that excessive targeting on those most likely to benefit might exclude those with the greatest need for assistance. The ERGO study covered a number of projects designed to help people who were not eligible for mainstream programmes. Unfortunately, because of their nature, such schemes were often also cut off from mainstream sources of funding and involved lengthy searches for financial support.

Counselling and help with job search

The importance of counselling has been increasingly recognised in recent years (for example, the Council Resolution of 29 May 1990, recommended that all long-term unemployed persons have

Examples of counselling

The ERGO study examined a number of different types of counselling:

'Restart' or 'Retravailler' courses are group seminars lasting 1–6 weeks, and intended to raise confidence, advise on job search methods and help participants identify suitable jobs or training courses. Such sessions are operated nationally in many Member States and are compulsory for some categories of job-seekers in some (such as the UK). Examples of Government programmes include the job search course in Ireland, the Restart course in the UK and the inspiration course in Denmark. Examples of non-government programmes included three aimed specifically at women — the voluntary sector Women Employment Service in Amsterdam, the YMCA work preparation and counselling in Athens, and the Retravailler scheme founded by the trade union federation in Liege.

The main benefit of these types of scheme appears to be in increasing confidence and helping participants identify training options. Schemes focusing specifically on job search skills, involved contacts with employers and bringing together people of similar ages, with similar interests and problems, seemed to be the most successful.

Job clubs were started in the UK as a pilot experiment in 1984, based on similar schemes which had operated successfully in the US, Canada and New Zealand. They are now also operated in the Netherlands, Belgium and France. Generally, they provide two weeks training in job search techniques, followed by help in making job applications. Members are expected to attend regularly.

Case studies included the Leeds Job Club in the UK, and the Antwerp Job Club in Belgium. The schemes are widely regarded in the countries concerned as a very successful and low-cost means of helping the long-term unemployed.

Three placement schemes with a strong counselling element were included in the case studies. In all three cases the counselling is aimed at helping the unemployed find jobs or work experience, but then continues after the participants start work — a need expressed by participants in other projects examined, but one which is rarely met.

Pionierswerk (Emmeloord, Netherlands) is a follow-up project to the national Dutch programme of assessment for the long-term unemployed (HOG). The

scheme interviews people who are identified as being ready for work in order to help them establish preferences and assess capabilities. It then negotiates a placement with an employer for a trial period of six months, during which the participant continues to receive only unemployment benefit. An evaluation meeting after two months decides whether the participant can move onto a normal employment contract (all the first intake moved to such a contract within three months). The employer is able to claim a wage subsidy for the first seven months after the move to a normal employment contract.

The 'Working on the land project', at Öhringen in Germany — the result of a partnership between the Land administration and a church organisation — arranges temporary work experience (usually for one year) on family farms. Like the Dutch project, wage subsidies are a component part of the policy package.

Weer-Werk Actie, in the Flemish part of Belgium, undertakes direct negotiations with employers on behalf of participants and offers special work programmes as well as referral to specialist agencies where appropriate (such as for psychiatric problems). As with the other examples, counselling support underpins the whole reintegration process.

Counselling about training fills an important gap, since poor information and lack of guidance was cited by 28% of the unemployed respondents to a recent UK survey as a key problem in finding a suitable training course. 'Replan' projects in Lincoln and Birmingham (UK) provide this kind of independent guidance on training to young people under 19. The Restart or Retravailler schemes also include guidance on training, the most successful example in the case studies being the Danish scheme which concentrated particularly on devising individually-tailored training courses. The case studies include one project (BREDA) where a voluntary sector organisation had set up, in cooperation with the official employment service, a supplementary service for people who needed extra support. Two Retravailler projects are aimed specifically at women and provide advice on training partly because many women are not registered with official employment services, and are therefore without access to such information and guidance.

Advice on welfare benefits, housing and family problems are offered by three projects, the Drogheda Resource Centre for the Unemployed (Ireland) the Unemployed Centre in Hannover (Germany) and the Wakefield Centre for the Unemployed (UK). All three combined advice and information on such issues with provision of social and recreational facilities. In each case, users (1 900 a month in Wakefield and 120 in Hannover) expressed appreciation of the range of services provided, which are not readily available elsewhere.

access to a counselling interview). Counselling includes providing practical information and guidance about the jobs to apply for, how to do so and the training opportunities available, as well as assistance on personal and financial problems (alcoholism, drug addiction, homelessness, tax and welfare benefits). Employment services, however, often have too few staff to provide sufficient counselling to all those who need help.

Counselling needs to be linked to other programmes. It is most effective when it is the prelude to more concrete action, such as positive help in finding a job, identifying a suitable training course or obtaining relevant work experience. It is also more effective when combined with measures aimed at other social problems.

The case studies (see Box p.183) identify a number of important features of effective counselling and support in job search:

- schemes should be voluntary — compulsory schemes often have an adverse effect on the willingness of participants to cooperate;
- they should be conducted in private — people do not like to discuss personal, and especially financial, issues in public;
- there should be quick and easy access to advice — people want counselling at the time when problems arise and decisions have to be made; waiting for an appointment creates resentment;
- participants should have access to other, more specialist, agencies if necessary;

- there should be cultural — and ethnic — empathy between counsellor and client.

Training

Training is central to most assistance programmes for the long-term unemployed. The case studies reflect this. Over half included some training element. Two broad categories of training can be distinguished — vocational training and employability training schemes (see Box). Among the areas commonly included in the former are informatics, construction, traditional handicraft skills and environmental management. Employability training entails basic instruction for unskilled/semi-skilled work — often with an emphasis on preparation for a working routine.

Some programmes and projects are multi-functional i.e. they provide training, counselling and work experience. Many include basic education (reading or elementary numeracy) to help participants go on to further training or work. Evidence suggests that education and training efforts need to give priority to raising the attainment levels of the least educated, rather than trying to improve all levels.

In general, the case studies suggest that success in getting the unemployed into, or back to, work through training programmes depends on a number of factors:

- how far the skills being taught match the job opportunities in the local labour market;
- whether, or not, a work experience placement is offered with the training;

Examples of training schemes

One approach to the planning of training is illustrated by the London Borough of Waltham Forest, which selects the skills to be taught and the content of courses only after surveying local employers, unemployed people, community organisations and prospective training-providers. Similarly, the FOPRI scheme in the South of Italy, co-funded by the ESF and the private sector, aims to organise training as a flexible response to the changing requirements of employers, although it starts by identifying the capabilities of the unemployed.

A number of the schemes covered by the case studies seek to tailor training courses to particular employers or industries. Participants who are trained for such hard-to-fill vacancies have a high probability of being employed once training has been completed. Such a policy can, however, lead to only the most suitable candidates among the unemployed being selected — as in the Salonika study and some Portuguese projects, where trainees were chosen for their level of education and specific ability. Among the 38 vocational training projects evaluated, 12 incorporated tests, or in-depth interviews, in order to select the people to be trained. The best educated, and most highly motivated of the unemployed tend to be chosen for specialist courses, such as media and enterprise management training.

Informatics-related training, on the other hand, is often provided to a range of different people, including relatively disadvantaged groups such as ethnic minorities, migrants and women seeking to return to work. For people whose mother tongue is not the official language of the country where they are seeking work, computer operation or programming provides the easiest point of entry into office work.

Examples of temporary work measures

The case studies cover ten reintegration enterprises. Of these, four schemes in France, the Aarbechtshellef and the Association Sociale pour les Jeunes in Luxembourg aim at providing a temporary bridge to permanent employment. INTEG (Germany) and Le Chênelet/Somebois (France) provide permanent jobs for those with special problems, and the Dutch job pools, EXODO and Fondacion Engrunes (Spain) do both.

Reintegration enterprises are widespread in France, often taking the form of temporary work agencies with special tax privileges. These are networked into a large federation, COORACE, which seeks to develop and disseminate good practice. Non-profit making temporary employment agencies in the Netherlands, coordinated by a national organisation START, operate in the same way. Other reintegration enterprises involve the unemployed in a variety of direct production activities. Examples from the case studies include handicraft production, home insulation in public sector housing estates, motor cycle messenger services and the recycling of waste products.

- the help given to participants in finding a job at the end of training
- the motivation of trainees, which is often affected by how much they are paid — projects with low allowances tend to have higher drop-out rates.

Training projects which were not customised for particular employers, but which included a period of work experience with an employer, were found to have an average job entry rate of 76%. However, projects providing work experience within a workshop setting, but not with an employer, all had job entry rates of less than 45%.

Training, in itself, cannot create jobs for the long-term unemployed. Without the prospect of real jobs after their courses, trainees quickly become disillusioned. Courses where training is too general, too basic for the people concerned, or unrelated to the labour market, can reduce the motivation, confidence and willingness of the people concerned to undergo education or training. Where there are only limited job opportunities on the open labour market — for example, in areas of very high overall unemployment — it is important to provide training which can help address local economic and community development problems and objectives.

In a number of Member States, high levels of unemployment co-exist with shortages of particular skills. The possibility of bringing the skills of the long-term unemployed up to the levels required to fill this skills gap is, however, limited by the low general level of educational attainment of many long-term

unemployed. Nevertheless, a commitment to bridging this gap can be of real benefit to a proportion of the long-term unemployed who are able to benefit from this training. Agreements between sponsors and higher education institutions have shown that long-term unemployed can acquire worthwhile skills, providing candidates are properly selected and supported. Another approach is for firms to 'train-up' existing employees for higher skilled jobs, creating opportunities for the less skilled long-term unemployed.

Temporary work measures

A variety of temporary work measures exist. These include special temporary work agencies (such as the French agence intermédiaire, job pools, public sector placement agencies) which hire out staff; public sector job creation schemes; and job schemes supported by wage subsidies. Reintegration enterprises have also been developed, specifically designed to reintegrate the long-term unemployed. Six projects providing 'in house' work and four funding temporary work with third parties are covered by the case studies. The former provide, for some of the participants, a bridge between unemployment and the open labour market. For others — more difficult to place because of personal problems — subsidised work in non-profit making activities has proved successful (see Box).

The boundary between 'intermediate' enterprises, on the one hand, and public sector and community service work, on the other, is often unclear. However, the former generally aim to generate

income from the business in order to minimise the public subsidy needed, while the latter programmes are often fully subsidised.

Although some public work schemes provide training, it rarely goes beyond teaching the basic skills required for the job to be done. Typical of the work covered by the case studies is landscaping, land clearance and recycling of furniture and equipment. Because of the nature of this work, such schemes are generally addressed primarily to men.

Most of the projects set up under national programmes are designed to avoid competition with private business and displacement of other jobs. In practice, this is difficult. When it is achieved, moreover, it may mean that the work being done may not develop the skills required on the open labour market. The cost of this kind of public job creation scheme is generally high compared with reintegration enterprises or wage subsidies.

In many cases the aim of a wage subsidy is to encourage employers to take on people who have been through counselling or training programmes. One problem with such schemes is how to avoid 'deadweight' i.e. subsidising the recruitment of people who employers would have taken on anyway, without subsidy. Another problem is to avoid those taken on being dismissed at the end of the subsidy period.

There is a need to apply wage subsidies selectively and to monitor schemes closely — penalising employers who dismiss the subsidised employee after a few

Examples of self-employment and cooperative development support

The ERGO evaluation study covers 10 schemes involving cooperatives and 8 aimed at assisting the unemployed start their own businesses. While the cooperative model is relatively robust and appropriate, the need to be commercially viable is a strong and difficult discipline which can limit the scale of the operation. For example, EXODO, a cooperative based near Barcelona and founded by ex-prisoners, has been constrained by lack of financial support in the numbers it could accommodate on training and related programmes despite its successes. It provides training for people with a range of personal and social problems, 86% of whom are long-term unemployed. However, it receives subsidies of only 14% of total income, from four different sources which fluctuate in amount and are difficult to coordinate. Despite these difficulties, during the 6 years which the project had been operating, over 90% of trainees had found employment afterwards.

The Glass Recycling Project in Limburg, Belgium, was set up as a self-supporting cooperative to provide stable employment for people receiving social assistance, and to develop commercial and environmental activities. All participants are long-term unemployed. Moreover, all those interviewed believe that they would still be unemployed had the project not existed. At present, the venture is subsidised by municipal and national authorities, although the long-term aim is self-sufficiency.

months, and linking subsidies to the provision of training. The evaluation study also concluded that it is beneficial if employers, as a condition of receiving subsidies, cooperate in the ongoing counselling of recruits in order to ensure their full reintegration into working life.

Self-employment and cooperative development support

The case studies include seven individual cooperatives, three cooperative support organisations and eight projects aimed at developing self-employment options (see Box p.187).

The findings are that successful cooperatives (which are generally more commercially-oriented than reintegration enterprises) demonstrate an impressive capacity to integrate even the most difficult-to-place individuals, although this can often strain their human and financial resources.

Cooperatives formed by the long-term unemployed can provide viable, secure employment without the people concerned needing to become involved in the formal processes of the labour market. Cooperatives and support agencies have considerable capacity to generate new jobs, establish training programmes and create new enterprises, even without outside financial support.

On the evidence of the case studies, employment creating enterprises in the social economy are more effective at reintegration than public sector job creation schemes, since they are linked to the real economy, albeit often at a relatively local level. The types of activity which

The Terra Nostra Cooperative, in Italy, started in 1978 by 40 long-term unemployed people, runs a hotel and a cattle-breeding farm and also provides hotel and catering training to other local people. It is now an established enterprise, as well as providing social facilities to the village, and creating jobs through construction projects.

Cooperative development agencies surveyed as part of the evaluation exercise, included the Chantier Cooperatif, Nivelles, in Belgium, which provides advice and training to the unemployed thinking of starting a cooperative. Funded by the Belgian government with European Social Fund support, the agency gives guidance on niche markets, such as health foods and environmental activities, and includes training and operational support as well as initial advice. It assists some 10–15 cooperatives every year.

The Consorzio Co.Mer Manifatture, Italy (Campania/Basilicata) is a consortium of 20 cooperatives with 300 people employed in poor regions in Southern Italy. Its aim is to help create and develop local enterprises in textiles and clothing by providing business management and vocational training. 86% of the employees interviewed had been previously unemployed, and of these, some 90% of them unemployed for more than a year.

A number of the self-employment/enterprise support schemes surveyed target particular groups, such as the ODAME (Women's Enterprise Training Programme) in Barcelona, and the Centre for the Promotion of Self-Employment for Youth in Catalonia. Others, such as Firmstart in Medway, in the UK, target unemployed people generally, providing a range of support for enterprise creation and self-employment.

have proved popular, and which seem to create little overlap with existing businesses include services where the public sector cannot keep pace with expanding needs — such as services for the elderly or the homeless — and activities filling gaps in local private services, together with innovative actions such as recycling waste materials.

So far as measures for encouraging self-employment are concerned, the results of the ERGO case studies suggest that this is an option which fulfils some needs, but which cannot be over-used. These findings are supported by some national studies, which suggest that additional subsidies are often required for people to become properly established as self-employed, over and above the support generally on offer.

There tends, however, to be comparatively little take-up of self-employment schemes by the long-term unemployed, because they generally lack any financial resources of their own to add to any public money that is available. Although some of the long-term unemployed, particularly in Southern Member States, may turn to self-employment as a last resort — becoming street vendors, for example, often in the underground economy — such forms of self-employment are low-paid and precarious, and can

hardly be considered as a lasting solution.

Conclusions

Long-term unemployment is the result of an array of factors — the way labour markets work, the social structures and divisions in society, inadequate levels of education or training and, most of all, the overall shortages of jobs in many parts of the Community. Until these issues are fully addressed, and the obstacles overcome, long-term unemployment will remain a serious problem.

Labour market measures have an important role to play in opening up routes into employment for those who are unable to find work without assistance. Nevertheless, the effects of such specific short-term measures or actions, however extensive in scale and scope, are inevitably limited, and the policy objectives assigned to labour market measures need to reflect this. Measures should be judged, for example, on their ability to ensure that the maximum number of people can be helped to keep in touch with the labour market, and to compete effectively within it, rather than on their effectiveness in reducing the overall level of unemployment.

Helping people in difficulties into, or back into, a pattern of routine activity can be a struggle for all concerned, even though the success stories emerging from many programmes and projects serve to motivate and encourage promoters and participants alike. Being long-term unemployed is highly demoralising — even if the experience is shared with others in the same predicament, this serves to alleviate the stigma rather than raise morale.

Individual counselling for the long-term unemployed is thus a *sine qua non* of any effective action since the first requirements are to re-establish the confidence of the person concerned, and to assess their capacity and potential. Flexibility is a key element in the design of programmes and projects — enabling actions to be adapted to the needs of both participants and the local labour market.

Experience and evaluations can improve the effectiveness of measures to assist the long-term unemployed. This can both reduce the scale of the problem, and raise the overall productive capacity of the Community's workforce. Such measures cannot on their own, however, provide an adequate response to an economic and social problem which is so deeply rooted.

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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 1990 results are available for all Member States. In a number of cases data presented have been specifically extracted from the LFS and other databases by Eurostat which has given considerable assistance in helping to prepare and process the data.

The LFS is used because it is the only source of comparable and complete data on employment and the labour market in all the Member States of the Community. Since it is based on a common coding and methodology, and since it is a household survey, it abstracts from differences in administrative arrangements and regulations. This is particularly true of unemployment, where the harmonised unemployment data based on the LFS as published by Eurostat are designed to permit comparisons between Member States, without needing to take account of the frequent changes in the coverage and definition of registered unemployment. The LFS was carried out on a two-yearly basis between 1973 and 1981, and since 1983 has been carried out annually using a consistent set of definitions and classifications. The results of surveys conducted before 1983, however, are not strictly comparable with those conducted since.

Data from national administrative sources, which do not exist on a consistent basis over time and between Member States may therefore differ from the figures used in this Report.

Additional material has been supplied by other Commission services or has been drawn from studies undertaken on behalf of the Commission as indicated below. The short-term forecasts summarised in Chapter 2 have been prepared by the Directorate-General for Economic and Financial Affairs on the same basis as those presented in the Annual Economic Report. The sources used for each of the graphs and maps are listed below.

It is the Commission's intention that the data used in the preparation of *Employment in Europe* be made available in electronic form. Requests for data should indicate the particular graph or maps for which the data are required. Data can be supplied in standard spreadsheet format. Requests should be addressed to:

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Notes

Unless where otherwise stated, data for Germany in this Report refer to the former Western part of Germany before 3 October 1990.

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. 1991 results are provisional. 1965 data: OECD Labour Force Statistics 1968–88.

Chapter 4: Purchasing Power Standards 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.

Chapter 5 : Data for Central and Eastern Europe have been supplied by correspondents in Statistical Offices, Ministries of Labour and research institutes in each of the countries covered. The statistical series on which the graphs are based are published in *Employment Observatory, Employment Developments in Central and Eastern Europe, No 2*.

Chapter 7 : The Box on pp. 161–162 is derived from Mutual Information System on Employment Policies in Europe (MISEP).

Graphs

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| 1,2 | OECD, Labour Force Statistics; Eurostat, Community Labour Force Survey |
| 3 | OECD, Main Economic Indicators and Labour Force Statistics |
| 4 | OECD, Quarterly Labour Force Statistics, Number 4, 1991 |
| 5–16 | Eurostat, Community Labour Force Survey |
| 17–23 | Directorate General for Economic and Financial Affairs (DGII), Economic Forecasts 1992-1993 |
| 24–39 | ILO, Yearbook of Labour Statistics (UN and LFS for missing figures) |
| 40 | ILO, Yearbook of Labour Statistics (UN and LFS for missing figures); OECD, Labour Force Statistics |
| 41,42 | Eurostat, Community Labour Force Survey |
| 43 | ILO, Yearbook of Labour Statistics (UN and LFS for missing figures) |
| 44–50 | ILO, Yearbook of Labour Statistics (UN and LFS for missing figures); Eurostat population projections |
| 51 | UN, Global Estimates and Projections of Population |
| 52 | CRONOS domain SEC2, National Accounts |
| 53 | Eurostat, Community Labour Force Survey |
| 54 | CRONOS domain SEC2, National Accounts; Eurostat, Community Labour Force Survey |
| 55,56 | OECD, Labour Force Statistics, 1991 |
| 57,58 | CRONOS domain SEC2, Regional Accounts |
| 59 | OECD, Labour Force Statistics, 1991 |
| 60 | CRONOS domain SEC2, National Accounts |
| 61–63 | CRONOS domain SEC2, National Accounts; Eurostat, Community Labour Force Survey |
| 64,65 | CRONOS domain SEC2, National Accounts |
| 66 | CRONOS domain SEC2, National Accounts; Eurostat, Community Labour Force Survey |
| 67 | CRONOS domain SOCI |
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| 69 | OECD, Bank Profitability, Financial Statements of Banks, Paris, 1991; Eurostat, Community Labour Force Survey |
| 70,71 | OECD, Bank Profitability, Financial Statements of Banks, Paris, 1991 |
| 72 | Data provided by M & A monthly in special study for the Directorate-General for Employment, Industrial Relations and Social Affairs (DGV) |

73–82	National correspondents from Central and Eastern European countries
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93	Eurostat, Demographic statistics, 1991, Table E-9
94	OECD, Employment Outlook, 1989
95	Eurostat, Community Labour Force Survey
96	OECD, Labour Force Statistics, 1991
97	OECD, Labour Force Statistics, 1991; Eurostat, Community Labour Force Survey
98	OECD, Labour Force Statistics, 1991
99	OECD, Labour Force Statistics, 1991; Eurostat, Community Labour Force Survey
100–102	Eurostat, Community Labour Force Survey
103–106	CRONOS domain SOCI
107–115	Eurostat, Community Labour Force Survey
116–121	CRONOS domain SOCI (collection 12)
122–125	Community Labour Force Survey (variable 54), supplementary calculations by Wissenschaftszentrum Berlin (WZB). National data may differ from these figures due to differences in definitions of unemployment eligibility
126–136	OECD, Employment Outlook, 1991 (pp. 227–231), supplementary calculations by Wissenschaftszentrum Berlin (WZB)
137,138	Eurostat, Community Labour Force Survey; SESPROS; European Economy Dec'90. National data may differ from these figures due to differences in definitions of unemployment eligibility
139–141	OECD, Employment Outlook, 1991 (pp. 237–249), unpublished OECD data updates, supplementary calculations by Wissenschaftszentrum Berlin (WZB)
142,143	Eurostat, Community Labour Force Survey
144,145	Report to the European Social Fund Committee on ESF assistance in 1989, European Commission 1991.
146	The ERGO program, European Commission 1992

Maps

M1	Eurostat, REGIO database, series CHOM3HARMONI
M2,M3	Eurostat, REGIO database, series EFDT2ACTIV and EFDT2POP
M4	Eurostat, REGIO database, series EFDT2EMPL
M5,M6	Eurostat, REGIO database, series ECON2EMPLTOT
M7–M18	Eurostat, regional data derived from the Community Labour Force Survey; REGIO database, series EFDT2EMPL and EFDT2POP
M19,M20	Eurostat, regional data derived from the Community Labour Force Survey; REGIO database, series ECON2PIB
M21–M25	Eurostat, regional data derived from the Community Labour Force Survey
M26	National correspondents from Central and Eastern European countries

M27-M29 Eurostat — REGIO database, series EFDT2EMPL

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