Employment in EUROPE

Commission of the European Communities

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Directorate-General Employment, Industrial Relations and Social Affairs

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Foreword

We are all aware that the Community — indeed much of the western world — is facing a major employment crisis with unemployment virtually back to its peak level of 1985.

The Commission is playing its part in responding to this crisis. The Edinburgh summit in December 1992 supported the Community's growth initiative. During May and June this year we have taken two new initiatives on unemployment.

The Commission agreed a major new policy initiative at the end of May, aimed at pursuing a more employment-intensive pattern of production in the Community. We recognised that it is both economically rational and socially desirable to seek to increase the number of people employed at whatever rate of economic growth the Community can achieve.

It is rational in the sense that unemployed and inactive people represent a wasted economic resource. They, and any dependents, consume goods and services without being able to make a contribution to their production.

It is socially desirable, not only in order to address the costs and suffering of unemployment, but also in order to reflect wider social changes including changing lifestyles and working patterns, as well as the difficulties faced in maintaining comprehensive, collectively funded systems of social support.

In June, President Jacques Delors carried that message forward to the European Summit in Copenhagen, when he spoke of our wider concerns about increasing the growth performance and competitiveness of the Community. As a result, we now have a mandate from the European Council to produce a White Paper on growth, competitiveness and employment.

This year's Employment in Europe Report contributes to that process of reviewing, reassessing and reformulating policy. It does not make new policy. Rather its purpose is to explore different aspects, different dimensions of the employment problem, and to bring greater understanding to our analysis of employment and unemployment.

The report underlines the complexity of the task we face. It highlights the need for a serious, fundamental rethinking of the way we manage our economic, social and labour market affairs.

We must guard against simplistic solutions.

We must guard against those who seek to entice us down the road of protectionism. People who believe that should read the chapter on the Community in the World Economy, and reflect upon the importance of trade in building and maintaining Community prosperity.

There are others who think that Europe's employment problems can be put down to inflexible labour markets. The chapter on Employment Regulation in this year's report shows that the variety of systems of regulation in our Member States cannot be blamed for all our difficulties.

There are others who think that our problems are purely ones of wage costs. Again, such people should read the chapter which looks at variations in wage costs within the Community. That shows how it is the level of productivity which determines the level of real wages and not the other way round.

We know that we need more economic growth and the Commission is pressing Member States on interest rates. On the other hand, we also recognise that economic growth is not enough. We will never, in the foreseeable future, bring unemployment down to acceptable levels unless we develop a more employment-intensive system of production.

How can we best provide access to employment for all those who want, and indeed need, to work? We need to address the issue of incentives — in particular the way taxation systems do, or do not, discourage firms from recruiting people or discourage people from seeking work.

On these and other matters, this year's Report offers some penetrating insights. For example, it shows some significant differences between Member States in the way in which work is shared. These differences are not just between the North and the South of the Community — although it is the case that the less developed regions of the Community have lower levels of employment and longer hours of work than the more developed. We also see that countries with a similar level of productivity or economic development can achieve very different mixes of jobs and working hours.

The Report also shows major differences in levels of post-compulsory education between Member States — largely, but not entirely, between the North and the South.

As regards taxation systems, and in particular the effects of employers' social security contributions on their employment decisions, the Report shows a great deal of diversity across the Community, with charges ranging from almost 0% to close to 30% of wage costs.

There are many issues that we are going to have to address in the coming months. Few are easy. We need to discuss the effects of social security systems on the incentives to work. I do not myself believe that there are many people who enjoy being unemployed. Nevertheless, it is clear that we have to use our social security systems to provide the right positive incentives — remembering that the availability of jobs is the best incentive of all. Education and training systems also need to provide the right support.

We will also need to look at the quality of jobs. Is a bad job better than no job at all? Does it have to be a question of either/or? Are there ways out of this dilemma?

We need to recognise that success will come only when we change our attitudes and our behaviour. Such changes will also need to be encouraged and reinforced, however, by changes in all the systems of incentives — financial and legal — that act on the labour market.

More public money alone will not solve the problem. Of course we need money in some policy areas. Indeed, we already spend a great deal on direct schemes to help combat unemployment or help train the unemployed. Our calculations suggest that 45 billion ECU a year are spent on active manpower measures by the Member States, and the Community contributes 13% of that total expenditure from the European Social Fund.

What are the next steps in our programme to tackle unemployment? We are already deep in discussion with the major parties at European level. The Community's Standing Employment Committee — which brings together Trade Union and Employer Representatives with Labour Ministers and their Representatives — is working on a rolling programme of actions on employment. There will be a series of other meetings and debates, including at the Employment Week in Brussels in October when leading figures from all walks of life will debate key aspects of our employment problems.

This is a process in which the Commission plays an important role However, success will come from co-operation from all concerned, and not just from action by ourselves. We can lead the way. We can be the catalyst. We can be the animator. But, at the end of the day, decisions have to be made by many people, individually and collectively at local, national and Community level.

This Report, like its predecessors, contributes to that process. We must work to see that its lessons are heeded. We must succeed in getting the Community back onto the path of rising employment and living standards, fairly shared between all its citizens.

Padraig Flynn
July 1993 Brussels

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Summary

The employment and unemployment situation in the Community is one of the worst for many years. After a dramatic rise in employment in the latter half of the 1980s, when over 9 million new jobs were created, the Community labour market has now gone into sharp recession. Unemployment began to rise again in 1991, and an estimated one million jobs were lost in 1992. By the end of 1993, it is estimated that all the gains of the 1980s in terms of employment will have been lost, and unemployment will be back to its 1985 level.

Furthermore, the prospects for economic growth and job creation over the short and medium term are sombre. No recovery in output is likely to materialise before Spring 1994 at the earliest. Employment fell in 1992 and is set to continue to fall further in 1993. Unemployment is expected to continue rising, reaching 12% on average in the Community at the end of 1994. Longer term prospects seem more uncertain than for many years. The slowdown in growth which dates back to the beginning of 1991 may yet prove to be a transitory interruption to the period of improving labour market conditions of the second half of the 1980s. It could also, however, be the beginning of a period of instability, inadequate economic performance and persistent employment problems. Whether the actual outcome is closer to the first or second of these possibilities will depend, in part, on world-wide developments, partly on the policies followed within the Community.

Whatever the outcome in terms of output growth, it seems almost certain that unemployment will remain the major economic problem facing the Community throughout the 1990s and perhaps beyond. Even if the record rates of employment creation experienced in the second half of the 1980s could be repeated, this would still not provide enough jobs to reduce unemployment to acceptable levels and to give work to significant numbers of people, particularly women, at present forced to accept inactivity because of lack of jobs.

The completion of the 1992 single market programme and the removal of most restrictions on competition and trade between Member States has helped lay the basis for a more efficient European economy. Yet while efficiency in production is important, in itself it does not ensure that higher levels of output and real income are actually realised or that they are adequately translated into employment creation. Still less does it ensure that the potential gains are equitably distributed both between different parts of the Community and between individuals and social groups.

The achievement of these basic aims depends upon a range of factors, including the policies pursued by Member States — both individually and collectively — towards the macro-economy, the international environment, the development of problem regions both inside and outside the Community, and existing disparities in access to jobs as well as towards employment generally.

The focus of *Employment in Europe* is on labour market aspects of these problems and aspirations, including the main economic factors which affect labour market developments.

It provides quantitative information on these aspects — specifically on trends in employment and unemployment over the past 10 years or so — examines their interrelationship with other factors, and indicates the potential implications. Attention is drawn to both differences and similarities in experience across the Community.

Because of the high degree of economic integration which has been achieved in the Community, it can be tempting to address it as a single economic entity. While this is true in many respects, there are nevertheless major differences in the way different parts have developed, and the way this is reflected in terms of employment. Even neighbouring countries with similar social and cultural traditions and with the same kind of institutional structure show very different patterns of development, especially with regard to employment and the distribution of jobs and income.

From one perspective this diversity can represent a potential obstacle to further integration. From another, and more positive, perspective, however, it provides a variety of approaches to policy problems, and a wealth of experiences from pursuing different options, which can be used constructively to develop more effective measures and programmes of action.

A main theme running through this report is the nature of the European labour market — its capacity for creating jobs in different areas, the scale and distribution of unused resources in the shape of people who are unable to find productive employment, the extent of variations in the costs of employing labour and in the incomes received by those who are employed, and the differential access to jobs and income of different kinds of people — men and women, young and old — living in different places and in different circumstances. An appreciation of all of these aspects is vital to an understanding of how the market operates across the Community and to the informed development of effective policies.

The main findings of this year's report are summarised below.

Trends in employment

The Community has for many years been less successful than other developed parts of the world in creating jobs. In 1992, only 60% of people of working age in the Community were in employment as against around 70% in the US and EFTA countries and almost 75% in Japan. As shown in Chapter 1, this disparity is reflected both in unemployment being higher in the Community than elsewhere and, equally importantly, in the proportion of people who are neither employed nor officially unemployed also being much greater.

Many of these people are women who are deterred from entering the labour market because of a shortage of jobs. Increasingly, however, a large number are older people, especially men, who have given up work prematurely and taken early retirement.

While the proportion of population of working-age in employment — the employment rate — has increased in other countries over the past 20 years, in the Community it has fallen. The comparison with the US is especially striking. Its employment rate was much the same as that of the Community in the early 1970s, but since then the US has succeeded in increasing the numbers in employment by some 30 million, three times as many as the Community, though many of these were in low paid, low productivity jobs. To close the present gap in the employment rate with the US would require the creation of well over 20 million new jobs in the Community.

The clear message from experience in the Community and elsewhere over the past 20 years is that relatively high employment growth tends to be associated more with increases in labour force participation than with falling unemployment. This was notably true of the Community in the second half of the 1980s, when a record number of jobs were created but when most of these — over 70% — were filled by new entrants to the labour market rather than by the unemployed, who took only one-third of these new jobs.

There are no obvious reasons to expect things to be different in the future. Even if higher rates of job creation can be restored, unemployment is likely to be slow to fall.

Economic growth and employment

For the Community, as for other countries, a close relationship is evident between economic growth and job creation. The job losses suffered in 1992 were a clear consequence of the spread of recession to virtually all Member States. Equally, high rates of growth have usually been necessary to generate large increases in employment. The experience of the latter part of the 1980s, however, was unusual in producing high employment growth with a relatively modest rise in output, certainly as compared with the 1950s and 1960s. On this experience, output growth of around 2% a year might be enough in the future to prevent employment from falling and any higher rate could give rise to increases in the numbers in work.

Nevertheless, even the Community's performance in the latter part of the 1980s in creating jobs was significantly inferior to that of the

US. Its much higher employment growth, not only in this period but over much of the past 20 years, was achieved without a markedly higher growth in output, reflecting the fact that many of the jobs were in low-paid, low-productivity activities. Moreover the fall in GDP which occurred between 1990 and 1992 in the US led to no major reduction in the numbers in employment.

The fluctuations in economic growth in Member States have broadly coincided, reflecting the high degree of integration and, therefore, of interdependence. The only notable exception is Denmark where growth was low between 1985 and 1990 but picked up over the next two years. Variations in employment growth have also generally coincided.

There are very few instances of Member States achieving relatively high rates of job creation without similarly high rates of output growth. The main exception is the Netherlands where a high proportion of the new jobs created over the past decade have been part-time. In terms of the volume of employment, the rise in the Netherlands has not been significantly higher than in other parts of the Community.

Nevertheless, even apart from the Netherlands, the relationship between the rate of output growth and the increase in employment has been far from uniform across the Community. France and Italy, for example, achieved above average growth of GDP between 1985 and 1990, but only small rises in employment. Moreover, Ireland and Spain have proved consistently unable to translate high growth into new jobs despite their particularly acute need.

Trends in working time

Over the 1980s, average hours worked by those in employment in industry and services declined in all Member States, except the UK where they increased. Between 1983 and 1991, the reduction in the normal working week was 4% across the Community as a whole. In the Netherlands, it was 13%. Far from there being any convergence in average hours worked in different parts of the Community over this period, the reverse was the case. The countries where hours fell by most were predominantly those where they were already comparatively low.

Countries differed significantly in the extent to which the volume of work generated by growth was translated into jobs. In Denmark, France and Belgium, as well as the Netherlands, the number of jobs increased by three times the total amount of hours worked. In Germany the numbers in employment went up by more than in the UK despite the volume of work increasing by half as much.

Many of the additional jobs created over the 1980s were part-time, especially in the countries where average hours worked declined, Denmark being an exception. There was, however, a major difference between the North and South of the Community. In Italy, Portugal, Spain and Greece, numbers of part-time jobs declined over much of the 1980s in contrast to experience elsewhere, though in the former two countries there was some rise in numbers in the early 1990s.

In 1991, the jobs lost were predominantly full-time whereas a high proportion of the jobs created in countries where employment rose — in Germany, Belgium and the Netherlands as well as Italy and Portugal — were part-time.

Trends in self-employment

Proportionately more people are self-employed in the Community than in other developed countries. Some of this is due to the relative importance of agriculture. More significantly, however, in the EFTA countries and the US, only 7–8% of those employed in industry and services in 1990 worked for themselves whereas, in the Community, the figure was 13%. This was 2% more than 10 years earlier. In the US, in contrast, the proportion hardly changed and in Japan it fell by 2%.

Much of this difference is due to the importance of self-employment in Southern Member States. The numbers of self-employed in industry and services account for over 20% of the workforce in Italy and Greece and over 15% in Spain and Portugal. In Northern countries, apart from the UK, Ireland and Belgium, the figure was well below 10%. Moreover in all these countries, the share rose over the 1980s by significantly more than the Community average. Of the Northern countries, only the UK showed an increase of a comparable amount.

The number of people becoming self-employed was much higher in the Netherlands and the UK over the 1980s than in other parts of the Community — in both cases new entrants adding 15–20% to the number of self-employed each year between 1983 and 1991, as opposed to under 5% in Greece, Belgium, Ireland and Denmark. However, the number of people losing their self-employment status — perhaps because of business failure — was also much higher in the Netherlands and the UK than elsewhere (1 in 10 or more going out of business each year).

Sectoral trends

Although the proportion of the workforce employed in services rose markedly — from 53% in 1980 to 62% in 1991 — services remain much less important in the Community than in the US. The Member States with the highest share of employment in services tend to be the most developed and prosperous ones. Germany, however, is a major exception with a low service share and by far the highest proportion of employment in industry in the Community.

There was some convergence in the relative importance of services in the 1980s, the increase in share being particularly large in all the Southern Member States, as well as in Ireland, and small in Denmark. Germany again was an exception with an increase well below average.

The rate of job creation in services in the Community in the latter part of the 1980s was almost as high as in the US while employment in industry also increased during this period. The rise in service employment, however, slowed appreciably in 1991, when it was accompanied by job losses in industry. Much the same was true of the US and the EFTA countries.

In 1991, for the first time for many years, two Member States — the UK and Denmark — experienced a significant reduction in employment in services. Many of the jobs lost, moreover, were in service activities like banking and insurance or health and education where job creation had been particularly high in the 1980s — activities which accounted for much of the growth of employment over the decade.

Trends in unemployment

Unemployment remains very unevenly distributed across the Community, both between regions and social groups. On the latest count, the rate ranged from over 20% in parts of Spain, Ireland and Southern Italy to under 5% in areas of Southern Germany, the North of Italy and Northern Portugal, and to only 2% in Luxembourg.

No country, and few regions, have escaped the employment effects of the present recession. In five Member States — Denmark, France, Ireland, Italy and the UK — unemployment has climbed to a higher level than in 1985, the previous peak.

In all countries, apart from the UK, unemployment is significantly higher among women than men and, with the sole exception of Germany, much higher among young people under 25 than among others. Since the mid-1980s, however, the gap between male and female unemployment rates has narrowed significantly over much of the Community, though mainly in the more developed parts. In the less developed areas it has tended to widen.

The rate of youth unemployment has also fallen relative to the rate for older age groups. This achievement, however, seems to have been due more to demographic trends — in the shape of fewer people coming of working age — than to the various measures introduced in many Member States to combat the problem. In only five countries — the four Southern Member States plus the Netherlands — was there any increase at all in the employment of young people under 25 between 1985 and 1991.

Nevertheless, unemployment among the young, and especially among young men, has risen once again during the present recession, if generally by less than the increase among older age groups.

Long-term unemployment, though declining in importance between 1985 and 1991 (the latest year for which data are available), remains a serious problem in the Community, especially in the less developed parts or in areas of industrial decline. In 1991, 45% of the unemployed had been out of work for a year or more. In Belgium and Ireland, however, the figure was over 60%, and in Italy over 65%.

Although no comparable data are as yet available, it seems likely that long-term unemployment will rise during the present recession.

The international environment

The Community remains one of the richest parts of the world. While only 7% of the world's population of working age live in the Community, they generate almost 30% of global output, giving rise to a level of income per head 10 times higher than in Africa as a whole, 4–5 times higher than in the neighbouring North African countries and at least 2–3 times higher than in Central and Eastern Europe.

The present recession has intensified concerns, however, about the Community's ability to compete in world markets with high-tech producers in Japan and the US, and with low-tech producers in developing countries. It has also drawn attention to the repercussions on the Community of downturns in economic activity in the rest of the world. At the same time, because of its importance in the global trading system, Community performance has a direct effect on the state of the world economy and on the persistence of global recession.

It has, in addition, served to highlight the Community's geographic location in a region characterised, in areas to the South — in North Africa and the Middle East — by retarded economic development and an acute shortage of jobs combined with rapid population growth. To the East — in Central and Eastern Europe and the former Soviet Union — there are immense problems of economic restructuring and political instability.

While output growth in the Community over the 1980s was lower than over any previous decade since the war, it was, nevertheless, significantly higher than that achieved in many parts of the developing world. Indeed in many of the poorest countries, real income per head, as measured by GDP, actually declined between 1980 and 1990 — by 10% in sub-Saharan Africa and by 5% in Latin America as a whole. As a result, the gap between rich and poor widened.

In the North African countries to the South of the Community — Maghreb and Machrek — GDP per head barely increased at all in the 1980s and, over much of the region, there was little sign of progress in terms of economic development. The proportion of population of working-age in employment remained small — only half or less — while the share of employment in industry — a reasonable indicator of the stage of development — hardly changed in most countries, though Morocco was an exception.

During the 1980s, there was also little growth of income per head in countries to the East of the Community in Central and Eastern Europe — in contrast to earlier decades. Employment, however, was maintained at a high level through deliberate policies of preserving jobs.

The early stages of transition were, however, accompanied by a collapse in output and a rapid rise in unemployment throughout the region. Although there are now signs of improvement in the economic fortunes of the Central and Eastern European countries, apart from in Poland, output continued to fall markedly throughout the region in 1992. The numbers in employment declined, despite the growth of private firms, and unemployment rose to high levels in most parts.

The prospects for significant economic recovery in the region in the near future seem bleak. The reorganisation and restructuring of large state enterprises in the region — a process which is only just beginning — stands to cause further job losses on a substantial scale. Recession in the Community merely adds to the problems faced by governments trying to balance accelerated reform against mounting unemployment and social deprivation.

Trade performance and employment

The Community's high share of world income owes much to its leading position in international trade, particularly in trade in manufactures. This remains by far the largest component, three times larger than trade in services. Like other countries, the Community's share of trade varies markedly from one part of the world to another, largely reflecting geographical proximity and traditional links.

Community producers are dominant in the European market — accounting for two-thirds of both internal trade in manufactures and imports by EFTA countries — as well as in the African and Middle Eastern markets (accounting for 60% of manufactured imports in the former case, 45% in the latter). Moreover, although a relatively low proportion of Central and Eastern European output is traded, a growing proportion is with Community countries. In all of these markets, the Community share has risen or remained broadly unchanged over the past 20 years.

On the other hand, Community exporters account for a much smaller share of markets outside the wider European area — for under 25% of US imports of manufactures and for only just over 15% of Asian imports. In these markets, the Community share of trade declined during the 1980s. They were also the markets, however, which expanded by most over this period, whereas those where the Community share was much higher grew relatively slowly — partly reflecting slow growth in the Community itself.

Community producers also hold a leading position in trade in services. Although their importance has declined over the past 20 years, they still accounted for around 45% of total world exports in 1990.

Despite the importance of trade for the Community, comparatively few people in Member States are employed in sectors where a major proportion of output is exported. For most services activities, international trade is either non-existent or of minor importance. Even in manufacturing, however, a relatively small number of jobs depend *directly* on exports. Nevertheless, some 5% of the total numbers in employment in the Community in 1990 worked in industries where more than 40% of output was exported and 15% in industries where more than 25% was exported.

Moreover, although the majority of people employed in the Community work in jobs where international competitiveness is not a major factor, a great many jobs depend on the success of Community exporters — both in supplying industries and in activites supported by the income generated by export earnings — as well as on the ability of Community producers to compete effectively with importers.

Labour market integration

The efficient functioning of the European labour market is a key condition for achieving the aims of economic unification. To ensure efficiency in production, labour needs to be available in the Community with the skills demanded by employers and at a price which ensures a reasonable rate of return. Equally, however, levels of pay and terms and conditions of employment need to be compatible with the social objectives which economic union is intended to secure. The extent of variation, on the one hand, in wages and labour costs between different parts of the Community and, on the other, in the educational qualifications of the labour force — and, therefore, its inherent productivity — are of concern.

Differences in employment intensity

Major differences exist between Member States in the level of employment they sustain, in the level of taxation and expenditure, in the way they finance it, and in their systems of labour market organisation.

The number of people in employment in any part of the Community not only depends on economic factors like the level of GDP. It also depends on the trade-off between work and leisure, and the distribution of employment and income between individuals and social groups. Even in similar countries, such as between the Netherlands and Belgium or between Denmark and Germany, average hours worked and the number of people in employment differ significantly.

To increase employment at any given level of output has implications for the distribution of both working-time and income. For countries where average earnings are relatively low, there are clear constraints on sharing the available work more evenly. Similarly where there are constraints on output growth, perhaps because of weaknesses in trade performance, it is difficult to generate the income required to support job creation.

While Member States vary widely in terms of both the overall level and structure of taxation, these differences largely reflect the scale of public spending and seem to have no clear and unambiguous effect on the employment intensity of production. A high level of employment in Denmark goes along with a high level of taxes — and social expenditure — relative to national income, while in Portugal high employment is associated with low taxes and low government spending.

The extent of government intervention in the labour market, and the role of the state more generally, also differ widely between Member States. Again, however, there is no clear relationship between this and the level of employment. Nevertheless, the scale and pace of structural change have progressively increased the importance of adaptability and made it more difficult to maintain stability — and security — of employment and, therefore, pose problems for attempts to regulate labour markets.

Variations in labour costs

As demonstrated in Chapter 4, there are large variations in wages and labour costs across the Community, as there are in the division of labour costs between the wages paid to employees and the non-wage element, comprising social contributions, payments to pensions schemes and so on. In 1990, the non-wage element amounted to around 30% of total labour costs in manufacturing in France, Belgium and Italy but only 13% in the UK and only 3% in Denmark. These two countries apart, this element increased by more than wages in all Member States over the 1980s.

This disparity, however, does not mean that labour costs are necessarily higher in the countries where the non-wage element is largest. In practice, differences in the size of this element largely reflect the fact that, in the countries concerned, the social welfare system is funded by contributions rather than from general taxation. As a result, the taxes which employees have to pay out of their earnings tend to be lower in these countries than in others and, therefore, the wage required to yield a given level of real income is also lower. High non-wage costs, in other words, tend to be compensated by low wage costs.

Average labour costs in manufacturing were higher in Germany in 1990 than anywhere else in the Community, 15% more than in Belgium, the next highest wage economy, and almost six times higher than in Portugal, the country with the lowest wages. Germany and the UK apart, labour costs in the more developed Member States were within 15% of each other. In the UK, labour costs — and average wage levels — were substantially (25–40%) less than in other Northern Community countries, ostensibly at a similar stage of economic development, and only marginally above those in Spain and Ireland.

These differences in labour costs largely reflect equally large differences in labour productivity. In terms of its contribution to value-added, labour appears to be relatively cheap in the Netherlands and Luxembourg, despite their high wages, as well as in Portugal and Ireland, and relatively expensive in Germany and Denmark.

Much the same was true, however, at the beginning of the 1980s. Indeed, the relative pattern of labour costs seems to have changed comparatively little over this period. The gap between the highest and lowest wage countries seems to have been broadly maintained. Moreover, for most countries, the change in labour costs was more or less in line with the change in the productivity of labour, suggesting that wage increases did not adversely affect profitability or competitiveness. The two main exceptions seem to have been the UK and Greece, where labour costs relative to other Member States hardly changed but where productivity declined.

For individual industries within manufacturing, both the pattern and scale of variation in labour costs between Member States are much the same as for manufacturing as a whole. For banking and insurance, however, two of the few service activities for which labour cost data are available, there is much less difference in average labour costs between the more developed and less developed Member States. In Spain and Ireland in 1990, they were higher than in France or the Netherlands and considerably higher than in the UK, where they were even further below the Community average than in the case of manufacturing.

In a number of Member States, there are large regional variations in labour costs which add significantly to the extent of cost differences across the Community. Differences between regions in manufacturing were narrowest in Germany in 1988, the latest year for which data exist — possibly reflecting the relative importance of nationwide sectoral pay agreements. They were widest in Italy, reflecting the marked variation between costs in the prosperous North and less developed South of the country.

In France, labour costs in manufacturing in Ile de France, around Paris, were higher than in any German region apart from Hamburg — and over half as high again as in Brittany. Equally, costs in the clothing and footwear industry in the Northern Italy were higher than in all but four German regions.

In the UK, where the regional variation in labour costs was less than in France or Italy, manufacturing costs in the high wage South-East were some 35% below the average in Germany in 1988 and at a similar level to those in Southern Italy. In Northern Ireland, they were around 30% below those in the latter region and only slightly less than in Spanish regions outside of Madrid, where costs were much the same as the UK average.

In Northern Portugal, where labour costs are lower than anywhere else in the Community, they were only just 11% of the average level in Hamburg, the highest cost region, in 1988.

In principle, the regions with the highest labour costs in any Member State should also be expected to have the lowest rates of unemployment — otherwise labour costs should normally be lower to reflect labour market conditions. This is, however, by no means generally the case. In Germany, wages are higher in the North — where unemployment tends to be high — than in the South, where it is relatively low. Indeed wage variations seem to reflect the historical pattern of prosperity rather than the present pattern. This suggests that relative wages are slow to adapt to changing labour market conditions.

In Italy and the UK, while the expected inverse relationship between labour costs and unemployment is broadly evident between the North and South of the two countries, it is does not hold for individual regions.

Over the 1980s, the extent of variation in labour costs narrowed slightly in Germany, but tended to widen in France, Italy and, especially, the UK. Apart from in the

UK, the ordering of regions in terms of cost levels remained much the same. In the UK, average labour costs changed at markedly different rates over this period, broadly reflecting changing labour market conditions.

Differences in educational levels

The level of educational attainment of the workforce is likely to be as important to business success as the possession of specific skills, which, in a world of rapid technological change, can soon become redundant. The ability to adapt to new production techniques, which depends on education and training, is, therefore, a major determinant of productivity and competitiveness over the long-term.

The Community Labour Force Survey for 1991 provides, for the first time, a reasonably reliable indication of the level of educational attainment of the labour force across the Community. As demonstrated in Chapter 4, it shows marked differences between the Northern Member States and the less developed Southern countries. In Germany and Denmark, over 70% of the workforce of 25 and over had completed post-compulsory education or training courses as compared with only 30% in Spain and 15% in Portugal. At the same time, the figures for Ireland and Greece, though below those for most of the more developed countries, are above those for the UK, where less than 40% of the workforce had post-compulsory education qualifications, and Luxembourg, where the proportion was less than 30%.

Data on education for the younger members of the workforce suggest that disparities in education between the North and South have narrowed over the past 10–15 years.

Variations in educational attainment levels between regions in the same Member State are relatively small, at least in the Northern Member States. In Greece, Spain and Portugal, however, there are significant regional differences, particularly between the capital cities and the more rural areas.

Although in all countries, apart from Italy and, more especially, Greece, the average educational level of those who are unemployed is lower than those in work, there are nevertheless substantial numbers of the unemployed throughout the Community with post-compulsory educational qualifications.

Cross-border migration in the Community

While there were substantial movements of labour in the Community in the 1950s and 1960s, especially from the less developed South to the North, the scale of migration of the workforce over the past decade has been smaller (see Chapter 4). In total, although only around 1 in a thousand people a year moved from one Member State to another over the period 1987 to 1991, this nevertheless amounted to an annual movement of some 300 000 people. The proportion of those of working age who moved was higher, 1 in 500 or so, though considerably smaller in net migration terms. Ireland was the main exception. Here some 1% of the potential workforce migrated to another Community country each year between 1987 and 1991 — though this was partly offset by some 60% as many returning from abroad. Significant numbers of those emigrating went either to the UK, which historically had been the main destination for Irish labour, or to Germany, which was the main destination for people from most other parts of the Community. Sizable numbers also went to the UK which, like Germany, experienced net immigration (partly because of British workers returning from periods of employment abroad).

Over the Community as a whole, proportionately more of those who moved were young people aged 14 to 24 than older people. Moreover, proportionately more — twice as many on average — became unemployed in the country they moved to than went into employment. In most countries, however, the addition to the unemployment figures from this source was only around 0.3% or less and was largely offset by outward migration of labour.

From the evidence of this period, movements of labour do not play a major role in reducing inter-country differences in unemployment across the Community.

Labour market developments in assisted regions

Achieving more balanced economic development is one of the major aims of the Community and sizable funds have been created over the past few years, especially since the entry of Spain and Portugal in 1986, to assist this process. As shown in Chapter 5, which reviews developments in key aspects of the labour market in assisted areas as compared with others, there are some signs of convergence in economic performance in some of the disadvantaged regions since 1986. But the improvement by no means applies to all parts of the Community or to all aspects of economic performance.

42% of population of working-age in the Community live in assisted areas, half of them in less developed, or Objective 1, regions, 75% of the rest live in regions of industrial decline, categorised as Objective 2 areas. Average income per head in Objective 1 regions was under 55% of the level in non-assisted parts of the Community in 1990.

Between 1986 and 1990, however, growth of income per head was higher on average — $3^1/_2$% a year as against 3% — in the Objective 1 regions than in non-assisted areas, implying some convergence over this period. On the other hand, this higher growth was very much concentrated in Spain, Portugal and Ireland, other Objective 1 regions experiencing lower growth than other parts of the Community.

Unemployment in Objective 1 regions averaged 14% in 1991 as compared with $6^1/_2$% in non-assisted regions. In Objective 2 areas the rate was just under 10%. In most countries the difference between rates in assisted and non-assisted parts was 2–3%.

Between 1986 and 1991, unemployment fell by much less in Objective 1 regions — from only 15% to 14% — than in non-assisted areas (where it fell from 11% to $8^1/_2$%). In Southern Italy and Greece, unemployment rose over this period. In Objective 2 regions, over most parts of the Community, unemployment declined by more than in non-assisted areas, though the difference was relatively small (less than 1%).

The share of working-age population in employment was lower in all assisted areas of the Community in 1991 than in non-assisted parts, especially in Objective 1 regions, where the figure was only 51% as compared with 64% elsewhere. Two-thirds of this disparity is due to much lower activity rates, only one-third to higher unemployment. Employment relative to working-age population was also lower in Objective 2 than in non-assisted areas, but by only $3^1/_2$%. In this case, only one-third of the difference was due to lower activity.

The lower rates of activity in assisted areas imply that the potential labour supply in these places is much greater than that actually recorded. It is estimated that the hidden part — which might well reveal itself if sufficient jobs become available — amounted to just over 20% of working-age population in Objective 1 regions in 1991 as compared with under 12% elsewhere. With the numbers recorded as unemployed, this means that almost 30% of people of working-age in Objective 1 regions were either actively seeking work or would do so if enough jobs were to be created.

Between 1986 and 1991, the extent of potential labour supply declined by less in Objective 1 regions than elsewhere, so that the disparity between these areas and the rest of the Community widened in both these terms and in terms of open unemployment.

The scale of potential labour supply in Objective 1 regions is largely the result of low labour force participation among women. In 1991, under 55% of women aged 25 to 44 were formally part of the workforce in these regions as opposed to over 70% in unassisted areas. In the South of Italy and Corsica, the proportion was less than 50%. In Objective 2 regions, there was only a small difference. Nevertheless, fewer women were economically active in such areas than in non-assisted parts.

Between 1986 and 1991, the activity rates of women in Objective 1 regions increased significantly more than elsewhere in the Community, the rise being particularly marked in Spain and Ireland. In Objective 2 areas, the increase was less than in non-assisted parts, though only slightly so.

The division of employment between sectors varies between assisted and non-assisted regions, largely reflecting the differing importance of agriculture. In 1991, over 16% of all those employed in Objective 1 regions across the Community worked in agriculture as against under 5% in non-assisted areas. This marked difference, in combination with the continuing large-scale job losses in agriculture, has significant implications for employment. In essence it means that proportionately more jobs have to be created in industry and services in Objective 1 regions than elsewhere to compensate for the agricultural jobs being lost.

Between 1986 and 1991, the growth in employment in both industry and services in Objective 1 regions was higher than in unassisted areas. Nevertheless, because of the substantial job losses in agriculture, total employment rose by less in Objective 1 regions than elsewhere in the Community.

In Objective 2 regions across the Community as a whole, the increase in employment over this period was higher than in non-assisted areas in industry and services as well as in total, though there were significant variations in experience between Member States. Only in France and the UK was the rise in industrial employment in assisted regions more than in other regions in the country, and only in Germany were proportionately more jobs created in services in assisted regions than in others.

The location of high-tech, high growth industries across the Community is an important determinant of the regional pattern of economic growth over the long-term. In practice, these are very unevenly distributed between regions. In 1989, the latest year for which data exist, they accounted for only 16% of manufacturing employment in Objective 1 areas as opposed to 27% in non-assisted parts. Only Ireland of the less developed areas had a higher proportion of manufacturing employment in high growth industries than the average for unassisted areas.

Although the disparity was not so marked for Objective 2 regions, the share of manufacturing employment in these industries, at 23% was, nevertheless, some way below that in less disadvantaged areas. At the same time, there is evidence of a narrowing of the gap over the 1980s.

In contrast to high growth industries, low growth industries — such as iron and steel or clothing and footwear — are disproportionately located in problem regions. Indeed, their problems stem partly from this fact. In 1989, low growth industries accounted for over 36% of manufacturing employment in Objective 1 regions — and for as much as 45% in Portugal and over 50% in Greece — as compared with under 25% in non-assisted areas. In Objective 2 regions, their share was 28%, and over 30% in the Netherlands, Belgium and Italy — though in the latter, this was not much different from the share in unassisted parts of the country, partly because of the importance of a dynamic clothing industry.

For both Objective 1 and Objective 2 regions, employment in low growth industries tended to fall by more than in non-assisted areas over the 1980s.

Women in employment

A dominant feature of the Community labour market in the 1980s, elaborated in Chapter 6, was the growth in importance of women, continuing a trend dating back to the 1960s. In 1960, only around 30% of women of working-age were economically active. By 1991, the figure had risen to over 40%. However, in the Southern Member States, in particular, though also in Ireland, the number of women in the labour force, while increasing rapidly, is still relatively small at only around 35% of the total.

The growth in importance of women is even more striking with respect to employment. Between 1965 and 1991, while the number of women in employment in the Community increased by over 13 million, the number of men fell by 1 million. Women were, in effect, entirely responsible for the growth in employment over this period. Though the employment of men increased during the 1980s, the growth of female employment was some seven times greater (7 million as opposed to 1 million). In no other developed part of the world was such a pattern evident.

In contrast to the fall in activity rates for men in the older age groups, activity rates for women of 50 and over increased during the 1980s in all countries except for Greece. The main growth in female activity in this period, however, was among women aged between 25 and 49 — the age when, for a great many women, taking care of a family and/or running a home tends to conflict most with the pursuit of a working career.

The growth in activity among this age group in a number of Member States has been evident for over 30 years. At the beginning of the 1960s, in all parts of the Community, the working careers of women tended to be interrupted when they got married and had children. Activity rates, therefore, were at a peak before this age and declined significantly and, in most countries, remained at a low level thereafter. Since 1960, activity rates for women of 25 and over have increased markedly throughout the Community, the process for the most part starting later in th Southern and less developed Member States than in the North.

The increase has been especially pronounced in Denmark, Portugal and France, where the curve describing activity rates for women at different age groups resembles an inverted "U", with high activity for those in their 30s and 40s, in much the same way as for men. In the UK and Germany, though activity rates for women of child-bearing age have also risen significantly over the past 30 years, the curve still tends to dip for women in their 30s, signifying some interruption in working careers because of family responsibilities.

In all other Member States, although there have been substantial increases in activity, activity rates tend to decline from around the age of 30 onwards. In these countries, however, the evidence suggests that activity rates for women of 30 and over may well increase as younger generations grow older.

One of the most striking features of the rise in activity for women in the 1980s was that it occurred much more among women with children than for those without. For this group, the average rate of activity went up from 50% to 60% between 1984 and 1991. Nevertheless, marked differences in labour force participation between women with family responsibilities and those without still exist in many parts of the Community.

In 1991, 84% of single women aged 25 to 49 in the Community were members of the labour force, whereas the figure for married women without children was only 67%. In many parts of the South and in Ireland, the difference between the two was over 30%. In these countries, as well as in the Benelux countries, being married had a much greater effect on activity than having children, reflecting the influence of social and cultural factors as well as household responsibilities. Only in Germany and the UK did the presence of a child reduce the activity rate of women by more than 10% — by as much as 15% in the UK — though having two or more children depresses activity rates in virtually all Member States.

Throughout the Community, activity rates of women tend to be higher the higher their level of educational attainment. In 1991, the average activity rate for women of 25 to 49 who had completed higher education or training was around 80% or more in all Member States, much the same or only marginally lower than for men. By contrast, for women with only basic education or less, the activity rate was less than 60% in nine Member States and in two of these, Ireland and Greece, less than 40%.

Many of the women who joined the labour force in the 1980s took up part-time jobs, which expanded rapidly over this period. In 1991, over 28% of women worked part-time as compared with only 4% of men. Largely as a result, whereas women accounted for 40% of the numbers in employment in the Community in 1991, they accounted for under 35% of the total number of hours worked.

Part-time working is most prevalent among older women — 50 years and over — rather than among women of child-bearing age. Nevertheless in many Member States significant proportions of women in the latter age group work part-time — 63% in the Netherlands, 45% in the UK, 40% in Germany and 32% in Denmark. In these countries, in particular, but also elsewhere, many more married women worked part-time in 1991 than single women, and more women with children than without. Part-time employment for women, therefore, in many countries, is associated with family responsibilities.

More women than men in the Community are also employed in temporary rather than permanent jobs, many of these — 36% in 1991 — being part-time. For the majority of women, working in temporary jobs was a matter of necessity rather than choice.

The large influx of women into the labour market has not been accompanied by any major diversification as regards the jobs they do. The importance of part-time working, which is predominantly a feature of service activities, has reinforced the segregation of women in employment. Over 75% of women in work were employed in services in 1991 as compared with under 50% of men. 55% of women worked in just two broad sectors — health, education and other services and distribution and catering — a higher proportion than in the early 1980s.

At the occupational level, two trends are evident. Substantial numbers of women are becoming better educated, acquiring more qualifications and acceding to more senior positions. For these women, career patterns are becoming more like those of men. However, they tend to be concentrated in public sector or similar types of professional jobs. At the same time, there has been an even larger increase in women employed in lower level activities, particularly clerical and service jobs. For these women, there is much less evidence of improvement in employment opportunities.

The division between men and women in employment is a major reason for the persistence of significant disparities in wage levels. The application of the principle of "equal pay for equal work" has been of limited effectiveness in circumstances where jobs are unevenly distributed between men and women, and where different market values are placed on types of work which are similar but which are done on the one hand by men and on the other by women.

Employment protection and labour force adjustment

Measures regulating the ability of employers to shed labour and to choose atypical forms of employment exist in all Member States, though with widely varying degrees of stringency, as described in Chapter 7. In all countries, workers are protected against unfair dismissal and in most they receive monetary compensation when made redundant. In all countries also, special regulations apply to collective redundancies, requiring prior notification and the implementation of a statutory procedure designed to avoid lay-offs where possible or to alleviate their effect.

Mandatory periods of notice and severance payments impose significant costs on firms in a number of Member States. The average cost in the Community as a whole amounts to the equivalent of some 22 weeks' pay, though in Greece, Spain and Italy, it is over 40 weeks. White collar workers, who receive an average of 26 weeks' pay, tend to be significantly better protected than blue-collar workers, for whom the average is 16 weeks. Entitlement to severance pay increases with age throughout the Community.

Fixed-term contracts give firms the ability to engage workers on a temporary basis and, therefore, the possibility of avoiding the intention of employment protection regulations. Apart from Denmark, Ireland and the UK, where such regulations are relatively weak, all Member States have restrictions on the use of fixed-term contracts. In Belgium and the Netherlands, this is partly exercised through collective bargaining procedures.

The trend towards labour market deregulation in the 1980s had, in general, only a limited effect on employment protection regulations. In only three countries — France, Portugal and the UK — were they significantly weakened, while in two countries — Italy and Spain — they were strengthened. In all five countries, however, regulations governing the use of fixed-term contracts were liberalised.

Surveys of employers' opinions confirm that protection regulations are perceived as being most severe in Italy and least severe in the UK. Over the second half of the 1980s, moreover, there was little change in these perceptions.

Community Labour Force Survey data on involuntary job losses provide some evidence on how regulations affect actual behaviour. With some notable exceptions, there seems to be the expected negative relationship between the incidence of dismissal and the perceived severity of employment regulations, in the sense that countries with the highest incidence — Denmark and Ireland — had relatively weak regulations and countries with relatively low incidence — Italy and the Netherlands — had the most stringent regulations. On the other hand, the incidence of dismissals was also low in the UK and Portugal, both of which had relatively weak protection regimes.

There is, in addition, some evidence that countries where restrictions on the use of fixed-term contracts were relaxed over the 1980s — Spain, France and Portugal — also experienced some growth of temporary employment. In France, such contracts may have become the main means of entry into employment.

Employment protection regulations are supported by certain active labour market policies in a number of countries, the aim being to help prevent redundancies happening (through subsidising short-term working, for example) or to assist employment restructuring where job losses do occur. In large measure, expenditure on these policies serves to compensate for the constraints imposed on labour shedding. This is particularly the case in France and Italy where significant funds are available for employment adjustment.

Community-wide framework for employment

Unemployment is the major economic and social challenge facing the Community in the 1990s. The problem is to provide employment opportunities not only for the millions now unemployed but also the equally large numbers of inactive people deterred from entering the labour market by the acute shortage of jobs. This, in turn, means achieving a higher and more stable rate of economic growth, translating this more effectively into jobs and securing an equitable distribution of work between regions and social groups.

As described in Chapter 8, the Commission has adopted a communication setting out a common framework for policy action in favour of employment creation which takes account of the need to accommodate local variations in the scale and nature of the problem. The heads of state or government, meeting in Copenhagen, requested the Commission to prepare a White Paper on the issues of employment, growth and competitiveness. These two processes are complementary.

The purpose of the framework is to put in place a strategic process for more concerted and collective action — by all the Community institutions and the member States —

towards more employment-intensive growth. The aim is to focus on the employment problem, not just on the unemployment problem. An essential starting-point is a recognition of the major differences which exist between Member States in the level of employment they have succeeded in sustaining, in their level of public expenditure and the way they raise revenue to finance it and in their systems of labour market organisation.

Many of these issues are inter-related and the programme of work in the Employment Framework, as well as the issues to be addressed in the White Paper, reflects this, by setting out a number of specific issues, or aspects of the overall problem which need to be addressed in greater depth. The analyses and proposals which will be prepared are designed to point us towards the main ways in which the fundamental changes required in order to achieve a more employment-intensive pattern of growth can be effectively pursued across the Community.

Part I Employment prospects

Chapter 1 Employment in the Community – trends and prospects

The level of employment in the Community has been too low for some time. Some Member States have been more successful than others in translating growth into jobs. Job creation has been heavily concentrated in services, though these have not escaped the present recession

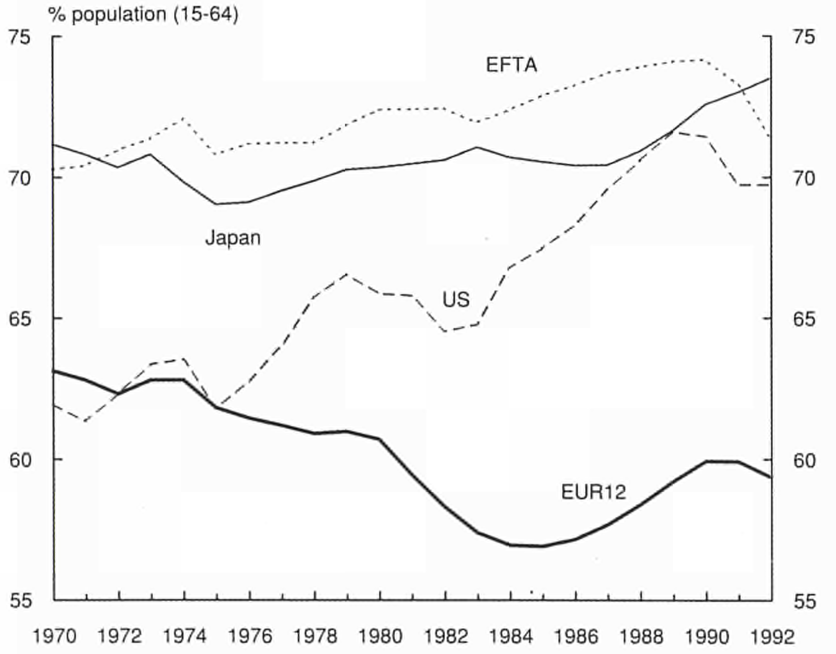
For many years, the Member States of the Community, taken together, have been less successful than other developed countries in generating employment opportunities. This comparative failure has become more significant since the early 1970s when the Community, in common with a number of other industrialised parts of the world, experienced a slowdown in economic growth.

Since then, Community GDP has grown at little more than half the rate achieved in the two previous decades. As a result, the rate of job creation has been insufficient to provide employment for all those wanting to work. This has led, not only to high and rising unemployment over much of the period, but to large numbers of people being obliged to remain, or to become, inactive.

As examined in detail in Chapter 6, a large proportion of the people who are deprived of the opportunity of working are women. They also include, however, many older people who have had to accept premature retirement.

There is no ideal way of measuring the performance of the Community in providing employment. One basic indicator is the numbers in work relative to the population of working age, here defined as all those aged 15 to 64. While not everyone in this age group would necessarily like to work given the opportunity, it is reasonable to assume that the proportion which does is unlikely to differ significantly between

1 Employment rates in the Community and elsewhere, 1970-1992



countries at a similar stage of economic and social development. It is also reasonable to assume that long-term changes will affect all Community Member States in a similar way.

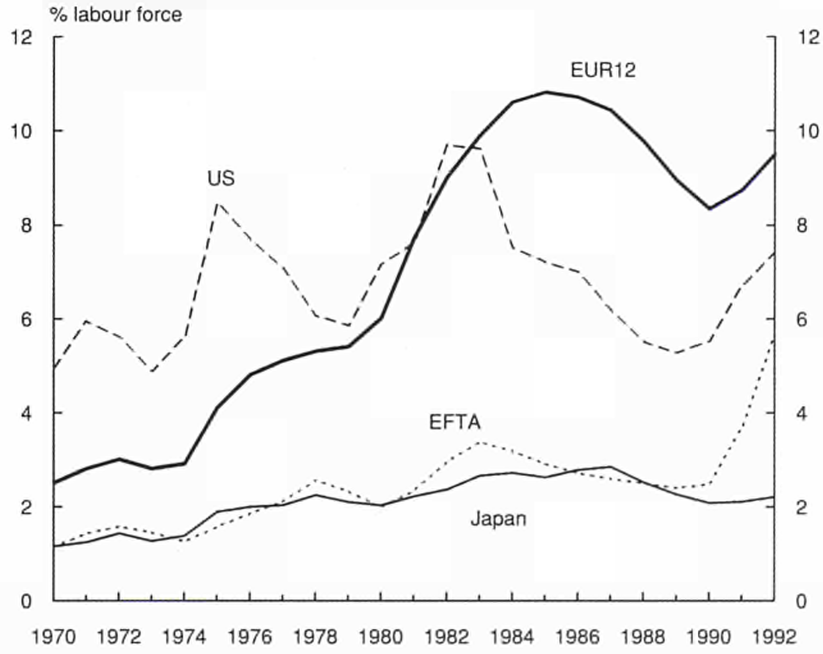
In 1992, the total numbers employed in the Community amounted to 60% of the working-age population (Graph 1). This compares with a figure of 70% in the US, slightly more than this in other parts of Western Europe — the EFTA countries — and almost 75% in Japan. To put this difference into perspective, it means that the Community would currently need to have around 23 million more jobs — more than the total number employed in France — to approach the employment level of these other countries.

Moreover, whereas the employment rate — the numbers in work in relation to working-age population — in all these other countries was higher in 1992 than in the early 1970s, despite the deterioration in the international economic environment they all faced, in the Community it was lower. Although the Community succeeded in increasing its employment rate during the favourable period of world recovery between 1985 and 1990, it failed to close the gap with other countries significantly.

Since then the Community employment rate has fallen, though by less than in the EFTA countries. Only Japan seems to have succeeded in avoiding a fall in the rate over this period (though it should be noted that the figures for 1992 are still provisional).

The decline in the employment rate in the Community, both between 1990 and 1992 and from the early 1970s to the mid-1980s, is reflected in significant increases in unemployment. This rose from under 3% in 1973 to almost 11% in 1985 and from just over 8% in 1990 to just under 10% in 1992 (Graph 2). In the earlier period — at least up to 1982 — unemployment also rose markedly in the US, though both the EFTA countries and Japan managed to keep unemployment down. In the later period, only Japan has avoided a sharp increase in the rate. A number of the EFTA countries experienced a rise to levels unprecedented in recent history — in Finland, the rate in 1992 was close to 13%.

2 Unemployment rates in the Community and elsewhere, 1970-1992



Unemployment and activity rates

Where the Community has failed over the past 20 years is not only in keeping unemployment down, but in providing opportunities for people even to join the labour market. Rates of participation in the labour force have, therefore, not increased in line with those in other developed countries. Participation rates of women in the Community have increased, if by less than in the US and other parts of Europe. This has been offset, however, by a decline in the participation of men, especially in older age groups as early retirement has been much more common than in other countries.

The comparison between the Community and the US is especially revealing. In the early 1970s, both had similar employment rates — of around 62–63% of working-age population — and similar rates of labour force participation — of around 65–66% of people in this age group. Between 1973 and 1985, however, the employment rate in the US increased to 67%, whereas in the Community it declined to

57%. Over this period in the US, an additional 6% of working-age people were brought into the labour force; in the Community, the rate of participation *declined* slightly (Graph 3). In the Community, 90% of the fall in the employment rate over this period was due to increased unemployment; in the US, more than all of the rise was caused by higher participation.

The story for the EFTA countries is similar to that for the US, though on a smaller scale. Between 1973 and 1985, these countries taken together succeeded in increasing their employment rate from just over 71% of the working-age population to 73%, despite an increase of over 1% in the unemployment rate, by raising their participation rate by almost 3%.

The only time the Community has succeeded in increasing the rate of labour participation significantly over the past 30 years or so was between 1985 and 1990. In those five years, the participation rate went up by 2% of the working-age population. The increase in the employment rate which occurred over this period, of just over 3½%, was, therefore, mainly due to more people entering the labour market rather than a reduction in unemployment. Indeed, only around 30% of the additional jobs created were filled by people who had previously been unemployed, the rest being taken by new entrants.

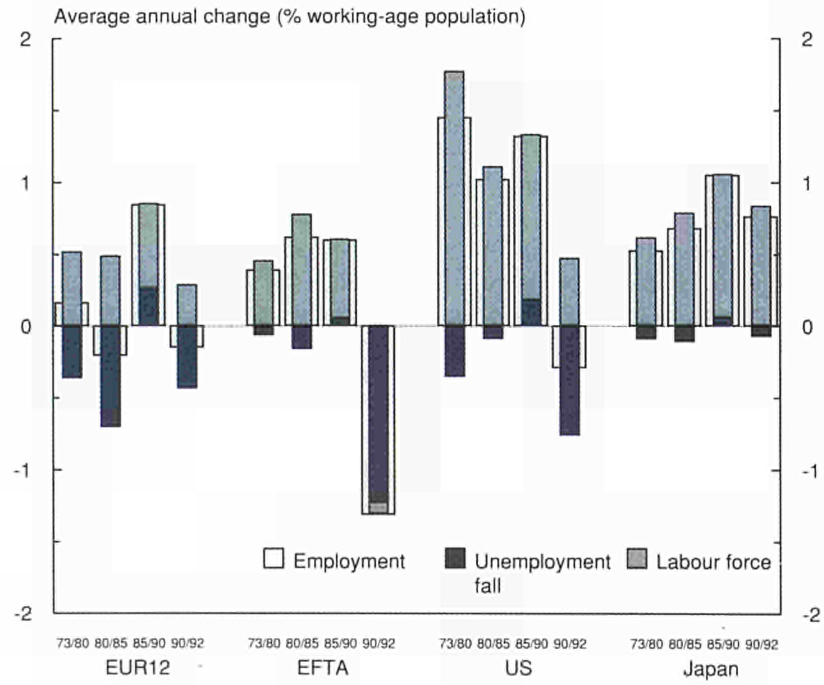
During these five years, however, an even more rapid rate of job creation was achieved in the US. There the employment rate increased by 4% and labour force participation went up by 3%. In the EFTA countries and Japan, the rise in the employment rate over this period, though more modest than in the Community, was also due much more to an increase in participation than to a fall in unemployment.

Although the figures for 1992 are still provisional, it seems that the fall in the employment rate which occurred in all countries, apart from Japan, broadly matched the rise in unemployment. The increase in participation, which in the US and the EFTA countries had gone on for 20 years, appears to have come to an abrupt halt or even to have gone into reverse. In the Community, while there may have been a slight rise in participation between 1990 and 1992, it was much smaller than in the preceding five years — perhaps because of the growing lack of jobs. In Japan, by contrast, the rise in participation seems to have accelerated.

The clear message from the experience of the 20-year period, 1970 to 1990, is that employment growth is related more to increased numbers entering the labour market than to falling unemployment. Moreover, what happened in the second half of the 1980s in the Community — when labour force participation rose by more than unemployment fell — is typical of wider international experience. Given the Community's low level of participation, by international standards, there is no reason to believe that future periods of employment growth will bring different results. Even if historically high rates of job creation could be restored, unemployment would be slow to fall unless fundamental changes take place in the workings of the Community's economies and labour markets.

The relationship between economic growth and job creation is examined in more detail in the next section.

3 Changes in the activity of the population in the Community and elsewhere, 1973-1992



Growth and employment

For the Community, as well as other countries, there is a close relationship between economic growth and the rate of job creation. Periods of high growth of output have always been accompanied by relatively large increases in employment, whereas periods of low growth have invariably been associated with little, if any, rise in the numbers in work.

The 1980s demonstrate this vividly. With a short lag, of around 6 months on average — though varying somewhat over time — the numbers employed tended to change more or less in proportion to changes in output as employers adjusted their workforces to match production levels. As the growth of GDP gradually picked up from 1981 to 1989 — with a small hiccough in 1987 — the extent of the fall in employment at first lessened and then became a rise after 1984 (Graph 4, in which GDP is lagged by two quarters to allow approximately for the average delay in adjustment of employment to output). By 1988, employment was rising at around 2% a year.

After 1989, GDP growth in the Community slowed significantly. Although employment was slow to respond after a prolonged period of accelerating growth, the rate of increase fell sharply in 1991 and became negative in 1992, when it became clear that the economic slowdown was unlikely to be quickly reversed.

While the pattern of GDP growth since 1980 has differed somewhat in other countries, there is some broad similarity in the timing of booms and slumps — though in Japan the scale of fluctuation is much smaller — reflecting the highly interrelated nature of the global economic system. In other developed countries, especially the EFTA countries and the US, the recovery in GDP growth, after the second oil price shock at the beginning of the 1980s, occurred a year or two sooner than in the Community. Up to 1989 in the US and 1990 in EFTA, GDP grew at around 3% a year or more. Since then it has declined sharply to zero or below (Graphs 5, 6 and 7).

There is also some broad similarity in the pattern of employment changes. In all the other countries, there is the same kind of correspondence between movements in output and the numbers in work as in the Community, though in the US especially the precise relationship between the two has tended to vary over time. In all the countries, employment increased at a relatively high rate over much of the 1980s when output growth was also high. Since then, it has either declined (in the EFTA countries), remained more or less unchanged (in the US) or risen more slowly (in Japan).

To summarise the relationship more precisely, GDP in the Community grew on average at only just over 1% a year between 1980 and 1985 and employment fell by almost $^1/_2$% a year (Graph 8). From 1985 to 1990, GDP growth averaged 3% a year and employment rose by over $1^1/_2$% a year. Between 1990 and 1992, GDP rose by only around $1^1/_2$% a year and employment fell slightly. From this, it would appear that GDP needs to grow by around 2% a year in the Community to generate an increase in employment. However, the experience of the 1985–1990 period is unusual in producing such a high rate of employment growth relative to the rise in output — a much higher rate of output growth was needed in earlier periods.

The relationship between GDP and employment growth in the EFTA countries seems to have changed over time, and now seems to be similar to that in the Community. Thus, between 1980 and 1985, output growth averaging 2% a year generated employment growth of only just under 1% a year, the same as in the next five years despite the higher GDP growth (Graph 8). From 1990 to 1992, the very small rise in output was accompanied by a fall in employment of over $1^1/_2$% a year.

By contrast, in the US, a rate of output growth over the 1980s similar to that in the EFTA countries — and not a great deal higher than that in the Community — generated much larger increases in employment. Moreover, the small fall in GDP between 1990 and 1992 led to no major reduction in the numbers in work. A relatively modest upturn in GDP would, therefore, seem to be sufficient to raise employment.

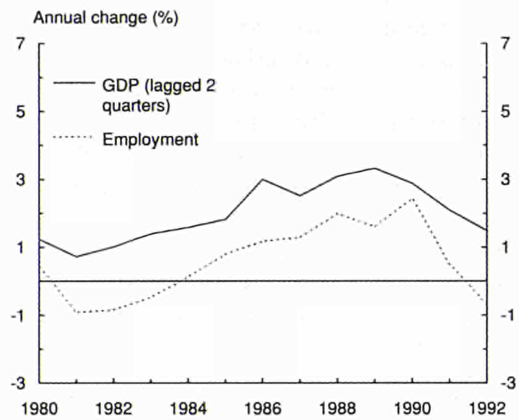
Finally Japan — with much smaller increases in employment than in the US — broadly matching the growth in its population of working age — has achieved significantly higher rates of GDP growth since 1980.

Growth and employment in Member States

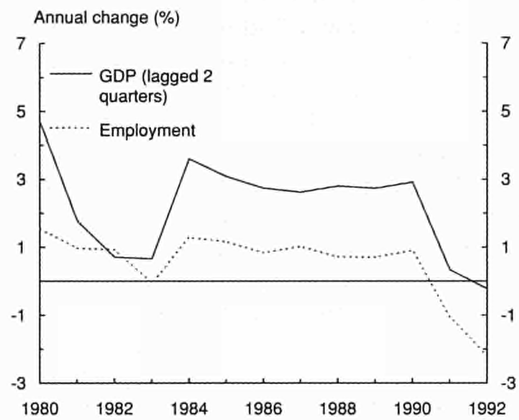
The growth of output in Member States since 1980 has tended to follow a similar pattern to that for the Community as a whole, with a few notable exceptions. In particular, in Denmark, the average growth

GDP and employment growth, 1980–1992

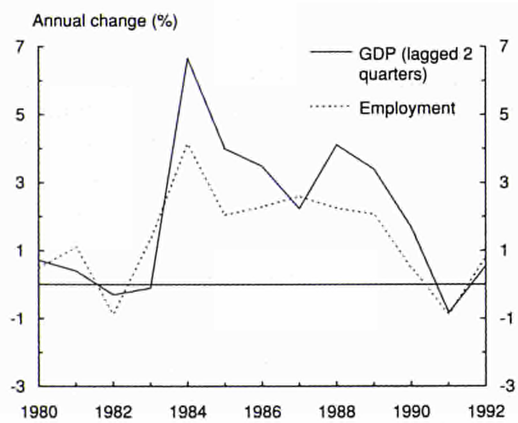
4 The Community



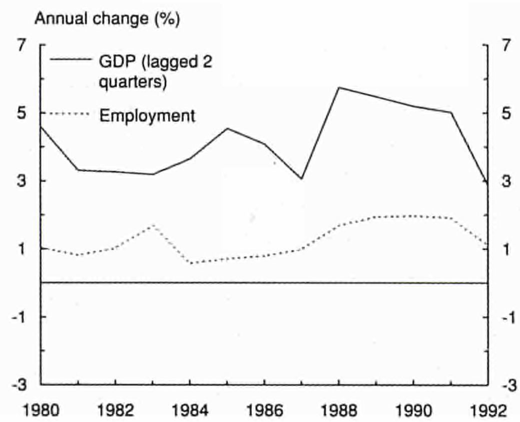
5 EFTA countries



6 The United States



7 Japan



rate in the period 1985 to 1990 was significantly lower than elsewhere, with the exception of Greece, and less than over the preceding five years. On the other hand, Danish growth between 1990 and 1992 was higher than the Community average (Graph 9). Growth in Germany over the latter period was also significantly higher, on average, than in other countries, because of the boost to output from the substantial expenditure in the new Länder, while in the UK, GDP fell significantly, reflecting the fact that the current recession started earlier than in other parts of Europe. These differences in the timing of the economic cycle will tend to affect the relationship between output growth and employment in individual Member States over the periods examined here.

For most Member States, GDP growth in the first half of the 1980s averaged barely 1% a year, increased to around 3% or more in the second half and has fallen to 2% or less since 1990 (Graphs 9, 10 and 11, in each of which average growth of GDP is lagged two quarters). Employment growth varied in a similar way.

Between 1980 and 1985, the only countries to achieve any significant growth in employment were Denmark, Portugal, the Netherlands and Greece. In both the former two, GDP growth was higher than elsewhere at over 2% a year. In the Netherlands, there was a big increase in part-time employment, as noted below, which effectively resulted in available work being shared among more people. In Greece, the numbers in work increased without any obvious explanation. In Ireland, there was a relatively high rate of GDP growth (over 2½%) without a corresponding rise in employment.

Between 1985 and 1990, employment rose in all Member States. Only in France, Italy, Belgium and Greece was the increase much below 1% a year, while in Spain, Portugal, the UK, Germany and the Netherlands, the rise was around 2% a year or more. In the former three countries, the rate of GDP growth was also well above the Community average. In the Netherlands, a high proportion of the additional jobs were taken by part-time workers — many of them working very few hours a week — as in the preceding period. (There is also a potential problem of discontinuity in the figures for employment caused by the major revision in the Dutch LFS in 1987.) Only Germany experienced a higher rate of employment creation than would have been expected given the growth of output.

Although the relationship between GDP and employment growth as between countries was by no means uniform over this period — France and Italy, for example, both achieved a higher rate of GDP growth than the Community average but only a small rise in employment — in general, few countries succeeded in increasing the numbers in work significantly without having an equivalently high growth of output.

Similarly, between 1990 and 1992, with the exception of Italy, the only countries to have experienced a significant increase in the numbers employed were those achieving an above average rise in GDP — Germany, Portugal, Belgium, Luxembourg and the Netherlands. At the same time, a relatively high rate of GDP growth was not sufficient to prevent employment from falling in Spain, or not increasing at all in Ireland.

The evidence of the period 1980 to 1992 demonstrates that, while few countries have succeeded in raising employment significantly without relatively high increases in output, the rate of job creation which has accompanied a given rate of GDP growth has varied markedly between countries. Some, like the Netherlands, have managed to increase the numbers in work more than others with higher rates of output growth. Equally, high growth countries like Ireland and Spain have not consistently translated this into job creation, despite a particularly acute need for more jobs in both Member States.

The role of increased part-time working and reductions in average hours of work in creating additional jobs is examined below.

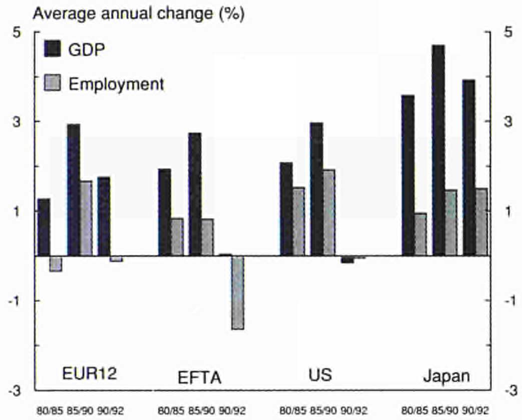
Growth of employment of men and women

Most of the additional jobs created in the Community in the 1980s were taken by women. Whereas the number of men in employment in 1990 was only around 1% higher than in 1980 (an additional 1 million employed) the number of women in work increased by almost 16% over the decade, or by over 7 million. In no other developed part of the world was the divergence in rates of employment growth of men and women so great.

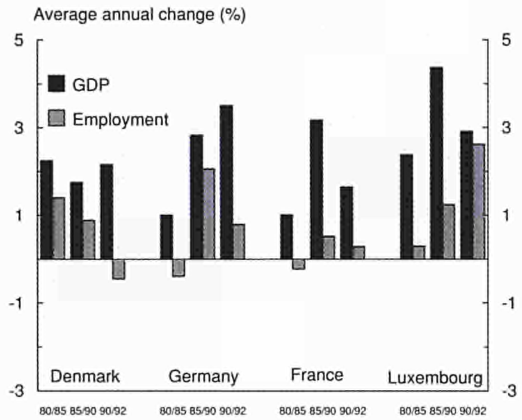
This divergence was particularly pronounced in the Community in the two periods of slow growth — in the early part of the 1980s and after 1990 — when total employment either fell or failed to increase. Between 1980 and 1985, the number of men in work declined by an average of ½% a year while the number

GDP and employment growth, 1980–1985, 1985–1990, 1990–1992

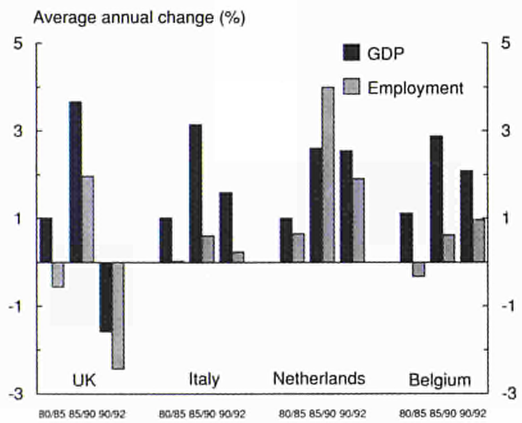
8 The Community and elsewhere



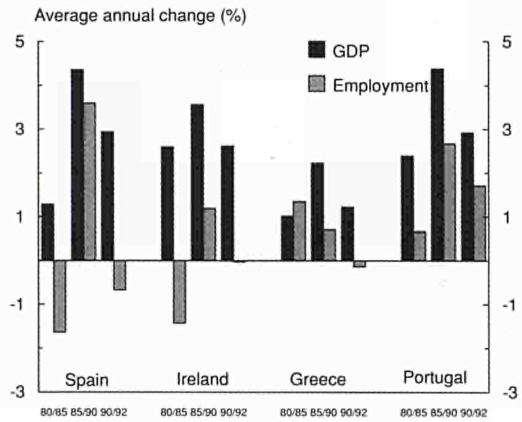
9 Denmark, France, Germany and Luxembourg



10 UK, Italy, the Netherlands and Belgium



11 Spain, Ireland, Greece and Portugal



of women employed rose (Graph 12). In 1991 — there are no data as yet for 1992 — employment of men fell significantly and employment of women increased by around ½%, partly reflecting the concentration of job losses in industry, as shown below, where many more men than women work. In the intervening five years of high job creation, women accounted for 60% of the increase in numbers employed, men for only 40%.

In other developed countries, although the number of women in employment has tended to rise by more than the number of men, in all cases there were significantly more men in work in 1990 than ten years previously.

In the EFTA countries and the US, the proportionate rise in women's employment in the 1980s was similar to that in the Community with, in the former, around 70% of the increased numbers in work being women and, in the latter, over 60%. In Japan, on the other hand, the division of additional jobs between men and women was more even, with only just over 50% of the rise in employment between 1985 and 1990 being accounted for by women.

As in the Community, men bore the brunt of the job losses in 1991 in both the US and in EFTA countries, accounting for around 80% of the reduction in the numbers employed.

Employment of men and women in Member States

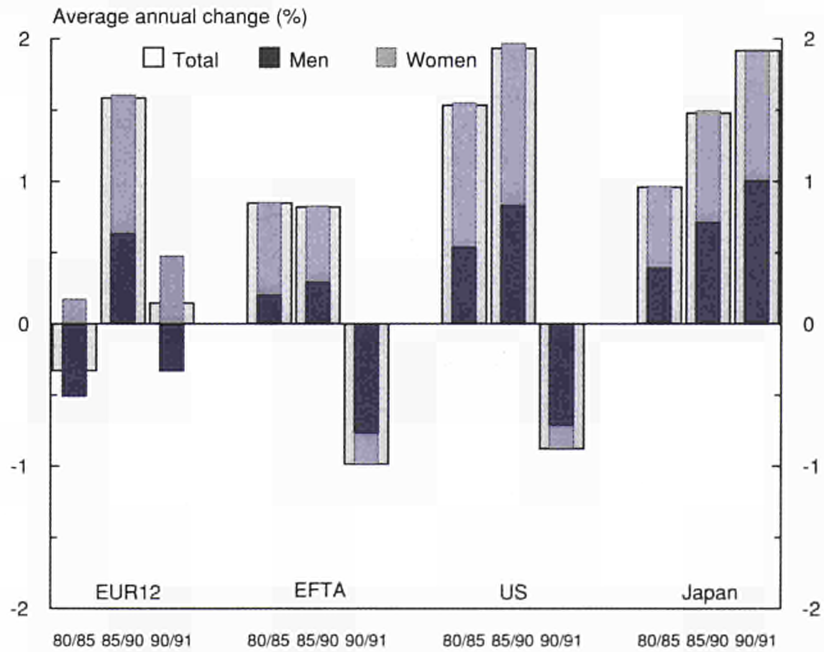
Women gained jobs relative to men throughout the 1980s in all Community countries. Between 1980 and 1985, the number of men in work declined in 8 of the 10 Member States for which data are available — and only increased significantly in Denmark. In all but Germany — where it remained unchanged — the employment of women increased.

Between 1985 and 1990, when the employment of both men and women rose everywhere except Belgium, only in Germany, the Netherlands and the UK did the growth of men's jobs broadly match that of women's, and only in Luxembourg was it more rapid.

In 1991, in three of the four countries in which employment fell, the reduction was predominantly among men, the exception being Greece where almost all the jobs lost were held by women.

The relative growth of women in employment is examined in more detail in Chapter 6.

12 Changes in employment by sex in the Community and elsewhere, 1980-1991



Changes in hours worked in Member States

Part of the explanation for differences between the growth in output and employment across the Community lies in the changes in average hours worked by the people employed in the different Member States. These changes in average hours reflect variations between countries in both the growth of part-time jobs and the standard working week.

Between 1983 (the earliest year for which comparable data are available) and 1991, the average hours worked per week by those employed in industry and services declined by 4% in the Community as a whole (Graph 13). Although all Member States (except for the UK, where there was a small rise) recorded a decline over this period, the extent of the reduction varied between them. In the Netherlands, the drop in hours was 13% — or around 1% a year — which goes some way to explaining the relatively high rise in numbers employed noted above. In Belgium, Denmark and Germany, the reduction was 5% or more. In the other countries, however, the decline in average hours was less than 2% over these 11 years (see Box, p. 33, for a description of the data referred to here).

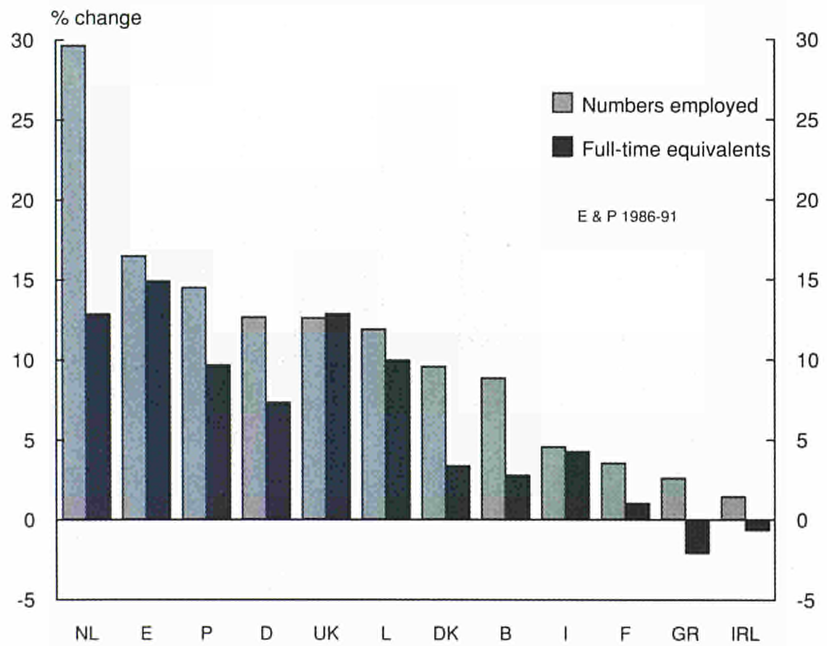
Since the countries which showed the largest reductions in hours between 1983 and 1991 also tended to be those with a relatively low average at the beginning of the period, there is no evidence of convergence over the 1980s.

Because of these relative changes in hours worked, employment growth measured in terms of the numbers in work can give a highly misleading impression of the change in the amount of work performed. In terms of full-time equivalent workers, employment in Belgium, Denmark and France between 1983 and 1991, rose by only around a third of the increase in numbers (3% as opposed to 9% in the former two, 1% as against over 3% in the last) (Graph 14 and Box, p. 33). In the Netherlands, the rise was much less than half and in Germany only slightly more than half. In both Greece and Ireland, small increases in numbers employed were actually small decreases if measured in full-time equivalent terms.

An alternative way of looking at this is that these countries have managed to convert a given rate of growth in the amount of work into significantly more jobs than others through a reduction in the average

13 Hours worked in industry and services in the Member States, 1983 and 1991

14 Changes in employment in the Member States, 1983-1991



hours worked per person. In Denmark, for example, over twice as many new jobs were generated over this period as in Italy, despite the fact that the amount of work performed increased by less. Similarly, in Germany, the number of people employed went up by slightly more than in the UK, while the volume of work rose by only half as much.

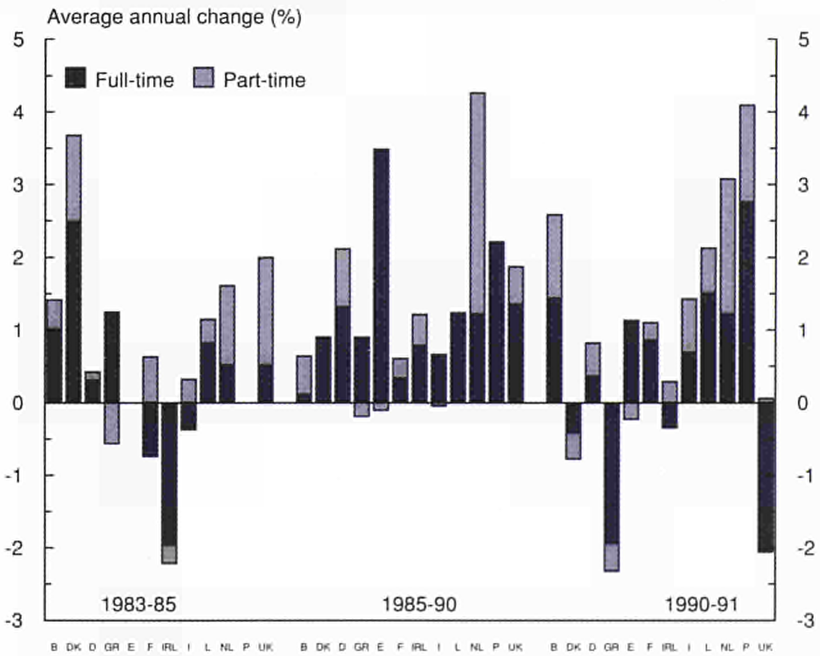
Part-time working

The Member States where the numbers employed have risen most, relative to the volume of work, tend to be those in which part-time working has increased most. This is particularly true of the Netherlands, where two-thirds of the net addition to jobs in the 1980s were part-time rather than full-time (Graph 15). In Germany, France and Belgium, part-timers also accounted for a significant proportion of the additional jobs over this period.

On the other hand, in Greece — where there was also a marked rise in the numbers in work relative to full-time equivalent employment — part-time jobs actually declined while full-time jobs rose. In this case, the explanation for the rise in numbers employed lies in a reduction in hours worked by those employed full-time — resulting partly from the decline of agriculture. In Spain, Portugal and Italy, as well as in Denmark, full-time employment rose over much of the period 1985 to 1990, while the number of part-time jobs either declined or remained unchanged.

In 1991, the decline in numbers employed was predominantly among full-time workers — specifically in the UK and Ireland — while a high proportion of additional jobs created in those countries where employment rose — Belgium, Germany, Italy, the Netherlands and Portugal — were part-time. (It should be noted, however, that in Belgium, the increase in numbers employed in 1991 shown by the LFS, of around $2^1/_2$% or some 100 thousand, was not matched by any significant fall in unemployment and was much greater than that shown by other sources.) By contrast, in Spain, the number of part-time jobs fell whereas full-time jobs rose (though Spanish LFS figures for the end of 1991 show a similar fall in both part-time and full-time employment). In Denmark, the reduction in employment was evenly split between the two.

15 Changes in full-time and part-time employment in the Member States, 1983-1991



Self-employment

A higher proportion of those in work in the Community are self-employed than in other comparable countries. In part this is due to the greater importance of employment in agriculture in the Community. In most countries of the Community, around half or more of the people employed in the sector work for themselves. In 1990, 50% of the agricultural workforce was self-employed in the Community, slightly more than in the US and Japan (43% and 47%, respectively), but less than in the EFTA countries (59%) (Graph 16).

Nevertheless, self-employment is more important in industry and services in the Community than elsewhere, accounting for 13% of the numbers in work in 1990 as compared with under 12% in Japan and only around 7–8% in the EFTA countries and the US. Moreover, the proportion of self-employed in these two sectors taken together increased by more in the Community than in the other countries

Data on hours worked and full-time equivalents

The figures on average hours in the text, which are used to generate full-time equivalent figures, come from the Community Labour Force Survey and are for usual hours worked rather than for actual hours. In some ways, it would have been preferable to use the latter, since there is more reason to believe that respondents to the survey know how many hours they actually worked during the reference week than the number they usually work. Moreover the actual number of hours will in some degree tend to reflect the level of economic activity at the time — or the extent to which production is more or less than the normal level — and so, in principle, give a better indication of the relationship between the volume of employment and output.

In practice, there are more problems with the actual hours data than with those for usual hours. Most importantly, the most frequently given reason for people working less than usual hours is holidays. Some 50% of those working fewer hours than usual — around 9% of the total number employed full-time — were on holiday for at least part of the reference week. This was the case for virtually all surveys carried out between 1983 and 1991, despite the fact that the reference week is supposed to be chosen so as to exclude periods when people are likely to be on holiday.

Moreover, the distribution of people working less than normal hours, as well as of those who were on holiday, varies considerably across the Community. Around 40% of all those working less than usual hours and around a third of all those on holiday were in the UK in all survey years since 1986, while before 1986 — and the inclusion of Spain and Portugal — the figures were over a half in both cases. Spain accounts for around 15% of all those working less than usual hours in the Community and for some 30% of those on holiday.

In the UK, therefore, only around a half of respondents to the survey in 1991 worked normal hours during the reference week, which is also true of earlier years. Similar figures apply to Denmark and the Netherlands, holidays in both cases being the major reason for spells of absence. By contrast in all other countries apart from Spain and France, where the figures was around two-thirds, over 80% of respondents worked usual hours.

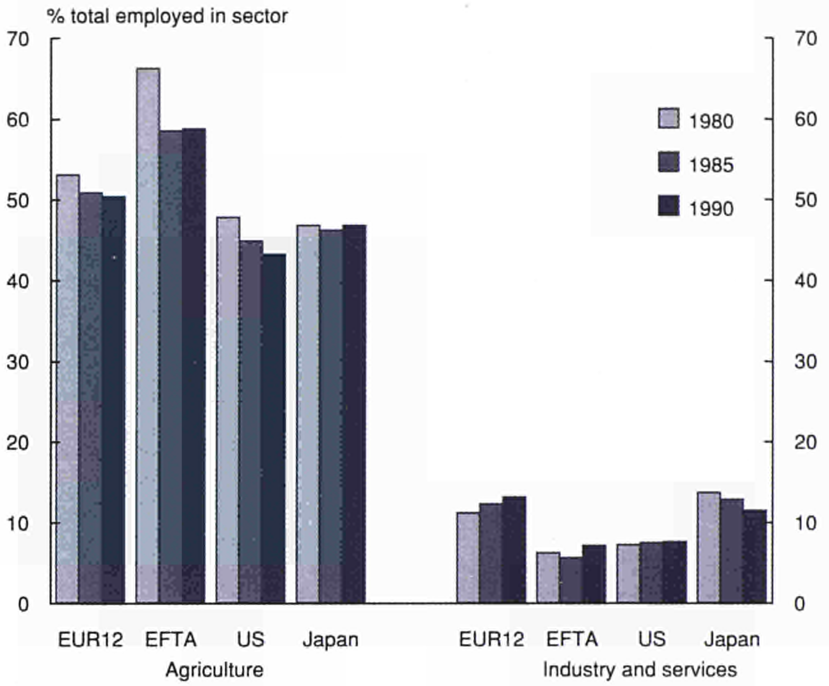
Since it is unlikely to be the case that people in the UK and Spain have significantly more time off for holiday in total than in other Member States — though it might be true of Denmark and the Netherlands — and since, with the information available, it is not possible to adjust the figures for this factor, the data for actual hours are liable to be misleading.

The analysis in the text is, therefore, based on the data for usual hours. Although this is not an ideal solution, because of the possibility that people may have an inaccurate impression of the hours they usually work, some reassurance is gained from the fact that for most countries usual and actual hours are not significantly different, the exceptions being the countries noted above. In these countries, moreover, the difference between the two has remained reasonably stable over time.

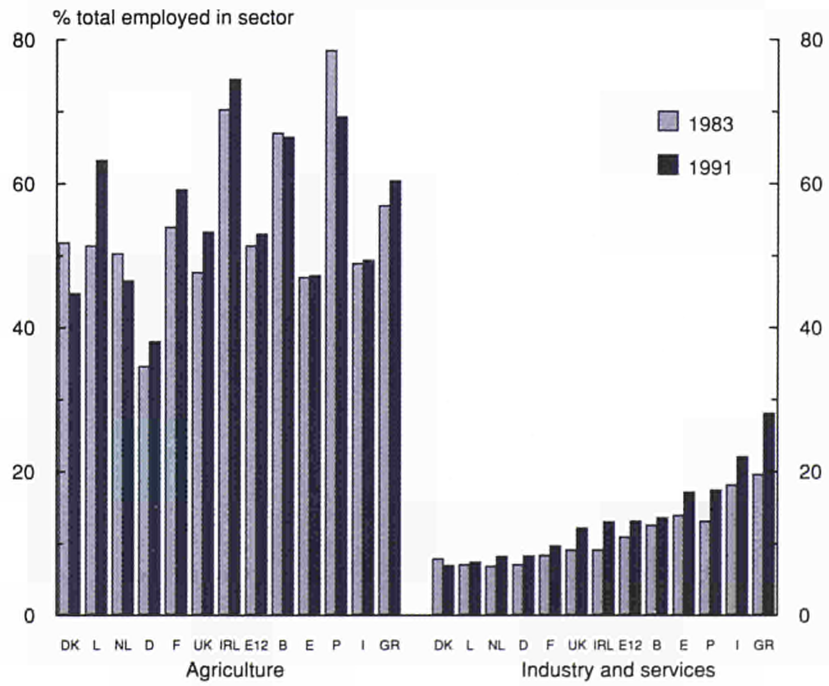
It is also the case that in every survey year only a very small proportion of respondents — around 1% for the Community as a whole — worked fewer hours than usual during the reference week because of economic reasons. This proportion, furthermore, does not seem to vary with economic conditions — it was much the same in 1991, a year of low growth in the Community, as in 1989, a year of high growth. This seems to suggest that variations in working time are not a common device for adjusting the volume of employment to the pressure of demand. Since, therefore, this effect is at most marginal, it is not a compelling reason for using actual hours data.

Changes in full-time equivalent employment are estimated by multiplying the data for average usual hours worked per week by the numbers in employment. This, it should be noted, leaves out of account changes in the number of hours worked per year — for which no complete set of data exists — but it should give a reasonable indication of how the volume of employment changed over the period.

16 The importance of self-employment in the Community and elsewhere, 1980, 1985 and 1990



17 The importance of self-employment in the Member States, 1983 and 1991



— by 2% of total employment. Indeed in the US, there was hardly any change over this period, while in Japan, the proportion fell by 2%.

Self-employment in Member States

Within the Community, the importance of self-employment is greater in the Southern countries of Greece, Italy, Portugal and Spain than elsewhere. This is due, however, to the relatively high numbers of self-employed in industry and services in these countries rather than to more being employed in agriculture. Indeed, in Italy and Spain, the proportion of self-employed working in agriculture was lower than the Community average in 1991 — though Portugal along with Ireland had the highest proportion (Graph 17).

In industry and services, self-employed accounted for 28% of total employment in Greece in 1991, 22% in Italy and for around 17% in Spain and Portugal. Apart from these four, only in Belgium was the proportion higher than the Community average (13%), though in Ireland and the UK the figure was only marginally below. By contrast, the proportion in Germany and the Netherlands was only around 8% and in Denmark and Luxembourg 7%.

Although the countries where self-employment is most important in the Community tend predominantly to be the less developed, these nevertheless were also the ones which showed the largest rise in self-employment over the 1980s. In Greece, the share of self-employed in total employment in industry and services increased by 8% between 1983 and 1991, in Ireland and Italy, it rose by some

4% and in Portugal by over 3% — as compared with a Community average increase over just over 2%. Only the UK of the more developed Northern countries experienced a rise of a comparable amount, though at the same time only Denmark showed a fall in the share.

The importance of self-employment in agriculture also went up over this period, though by slightly less than in industry and services. In this case, however, no systematic tendency is evident as regards the pattern of relative increases. The largest rises occurred in France and the UK, as well as Luxembourg — of over 5% of employment in each case — while four countries, the Netherlands, Belgium, Denmark and especially Portugal (where the fall was 9%) experienced a decline. Except in Portugal, the share of self-employment in all these countries was very similar (at around the Community average).

Movements into and out of self-employment

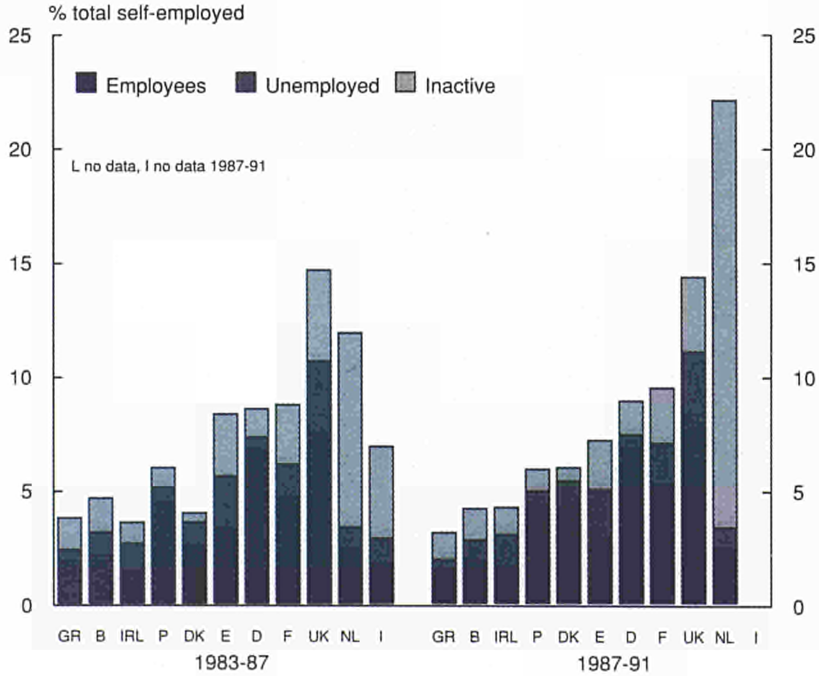
A number of Member States during the 1980s attempted to encourage the development of self-employment, and of small businesses, largely as a response to high unemployment, but partly to increase the growth potential of the economy. The success or failure of this kind of policy is reflected in changes in the number of self-employed, but these show only the net change in those becoming self-employed relative to those who are no longer so. They reveal neither the scale of movement into and out of self-employment nor what those becoming self-employed were doing beforehand.

The Community Labour Force Survey gives an insight into both of these questions, insofar as respondents were asked their employment status one year earlier. As always when the results depend on people's power of recall, they are inevitably surrounded with some uncertainty. Nevertheless they should give an indication of the numbers involved. (To increase the reliability of the data, given the small size of the effective sample, the responses to all the surveys between 1983 and 1987 and between 1987 and 1991 have been averaged and obviously rogue figures have been excluded.)

The results show that movements into and out of self-employment over the period 1983 to 1991 varied considerably between Member States. For most countries, however, there was relatively little difference between the first and the second half of the period. In all countries, as would be expected, the great majority of those who were self-employed at the time of the survey were also self-employed one year previously. For the ten Community countries for which data are available (ie the 12 excluding Italy and Luxembourg), over 90% of those in self-employment had, on average, been self-employed for at least a year (Graph 18, in which those who were self-employed the previous year are all those who were not employed, unemployed or inactive).

People becoming self-employed, therefore, added less than 10% a year on average to the total numbers over this period. The number of new entrants each year, however, varied from 15–20% of total self-employment in the UK and the Netherlands — a much higher rate of entry than anywhere else in the Community — to under 5% in

18 Status of the self-employed one year earlier in the Member States, 1983-1991



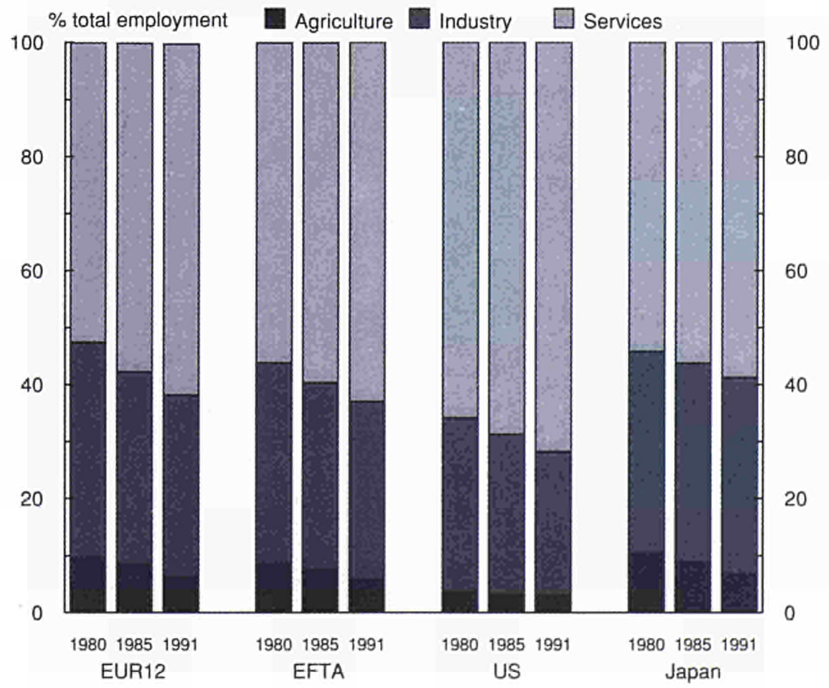
Greece, Belgium, Ireland and Denmark.

If the numbers of people becoming self-employed are compared with the rate of change in total numbers of self-employed, they indicate not only the rate of entry but also the rate of exit. For the ten Member States taken together, they imply that while new entrants added some 8–9% to self-employment each year over this period, around 7% of those who were self-employed one year were no longer so the next. This is at least twice the number which would be expected from people retiring.

In the UK and the Netherlands, however, the implied rate of exit was significantly greater than the Community average. In the UK, an average of almost one in ten of the self-employed in any one year during this period were no longer self-employed one year later, while in the Netherlands, the figure was around one in seven. In both cases, these figures are much higher than for other Community countries. In Germany, France and Spain, the figure for exits averaged around one in 15, in the other Member States, around one in 25 — not much higher than the rate of natural retirement. While many more people in the UK and the Netherlands, therefore, joined the ranks of the self-employed between 1983 and 1991, the risk attached to being self-employed was also significantly greater.

Of those becoming self-employed, most were formerly working for someone else. For the ten Community countries, almost 60% of new entrants into self-employment over the period had previously been employees. Most of the other new entrants had previously been inactive, while only a very small proportion — only around 15% of those becoming self-employed — had been unemployed. These relative proportions were much the same in most Member States, the main exceptions being the Netherlands where the great majority of new entrants — 80% or more — were previously inactive, many of them young people in education.

19 Employment by broad sector in the Community and elsewhere, 1980, 1985 and 1991



Sectoral trends in employment

One of the most marked features of economic development is the tendency for employment in services to increase as countries pass through the various stages of industrialisation. This tendency is common to all countries inside and outside the Community.

In the Community as a whole, the proportion of those in work employed in services increased from 53% in 1980 to 58% in 1985 and 62% in 1991. This still leaves the Community at a level significantly lower than in the US (72%), but only marginally lower than in the EFTA countries (63%) (Graph 19).

The rate of increase in the share of services in the Community over the 1980s was significantly greater than in the EFTA countries — where it rose by 7% — in the US — where the rise was 6% — and Japan — where it went up by only 5%. This reflects differential changes in the share of employment in agriculture and industry, especially in the latter two countries. Thus in the US, the decline in the share of agriculture — already very low — was much less than in the Community ($^1/_2$% as opposed to $3^1/_2$%), while in Japan, the share of industry fell only slightly (by under 1% as compared with almost 6% in the Community).

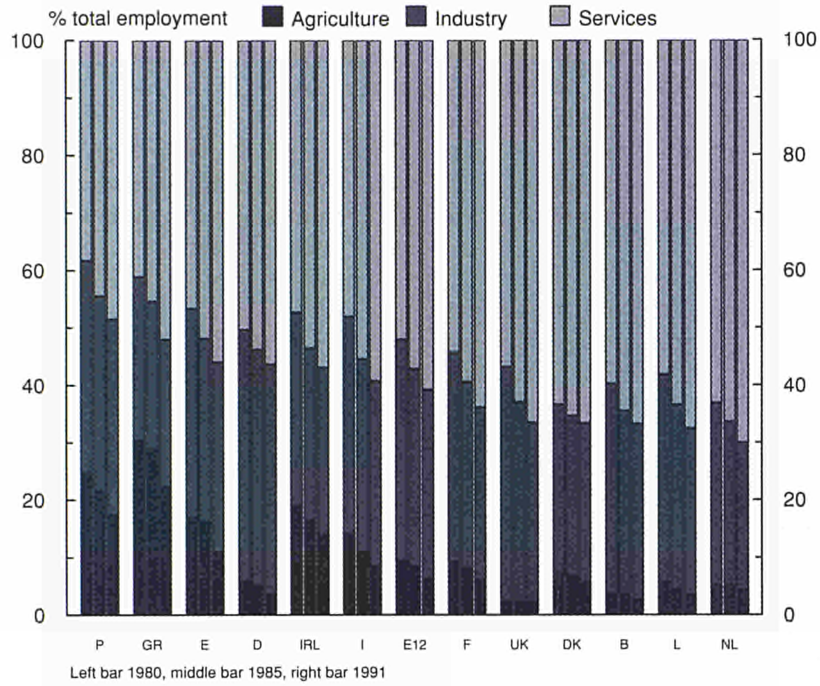
Sectoral trends in Member States

Within the Community, the countries with the highest share of employment in services tend, for the most part, also to be the most developed economies with the highest levels of income per head. The service share, therefore, tends to vary inversely with the share of employment in agriculture. The Member States with the lowest numbers employed in agriculture relative to the total numbers in work — Belgium, the UK and Luxembourg — have service shares significantly above the Community average. On the other hand, those with the largest agricultural sectors — Portugal, Greece and Spain — have a relatively small proportion employed in services (Graph 20).

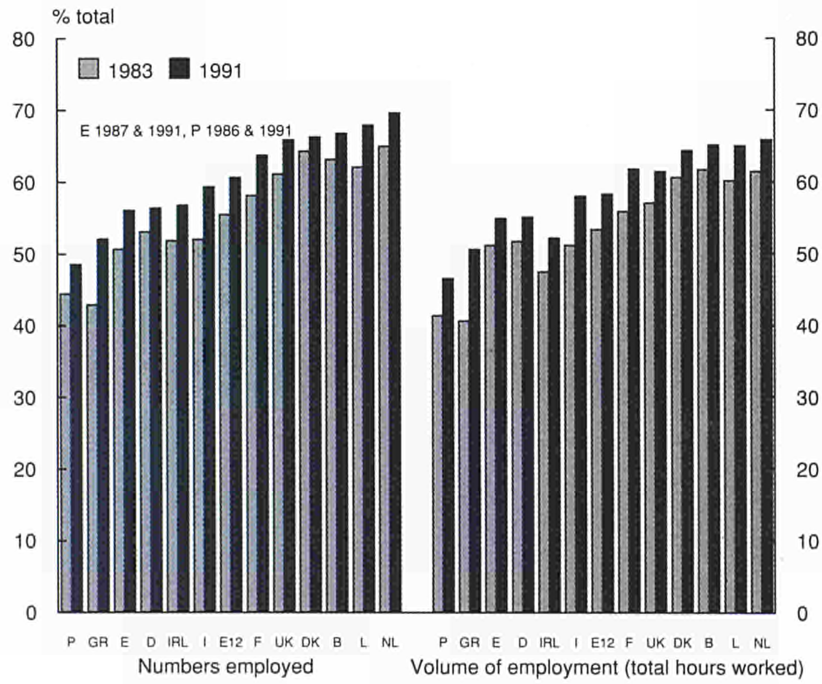
There is one exception to this pattern. Germany, with a share of employment in agriculture much less than the Community average and one of the highest levels of income per head of all, had proportionately fewer people employed in services (just over 56%) than Ireland or Italy (57% and 59%, respectively) and only marginally more than Spain (56%).

Over the 1980s, the share of employment in services increased in all Member States. Moreover there was a clear tendency for the increases to be greater in the less developed parts of the Community than in the more developed. The numbers employed in services relative to the total numbers in work increased most between 1980 and 1991 in Greece, Italy, Spain, Portugal and Ireland — by around

20 Employment by broad sector in the Member States, 1980, 1985 and 1991



21 Contribution of services to total employment in the Member States, 1983 and 1991



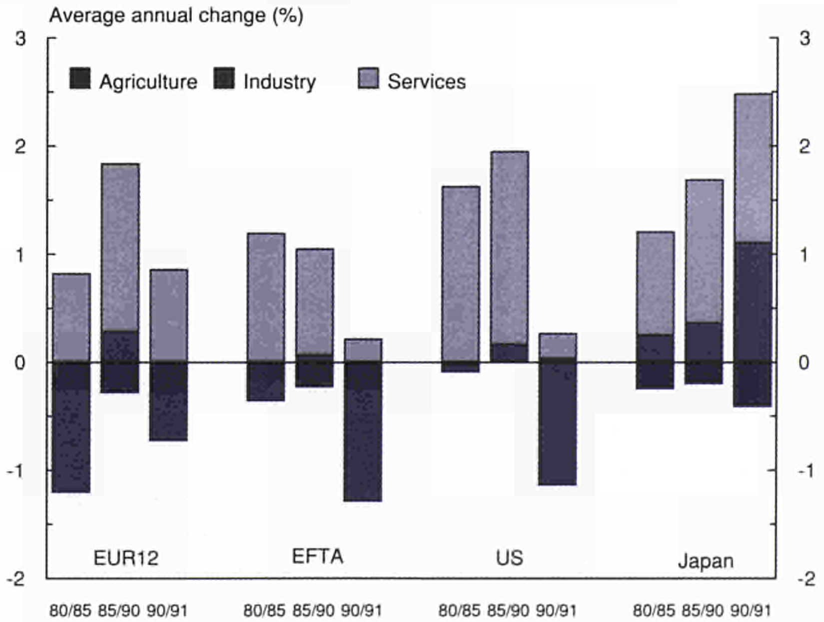
10% or more in each case. The rise in France, the UK and Luxembourg, however, was only marginally lower.

The smallest increase in the service share — only 3% — was recorded by Denmark, while in Germany, the rise was only 6%, much less than the Community average and with no sign of any convergence towards that average.

Although much of the explanation for the high and rising share of employment in services lies in the propensity of people to spend proportionately more on services as their income increases, the employment figures tend to overstate the extent of the trend. This is partly because a relatively high proportion of those employed in services work part-time rather than full-time. This is especially the case in the more developed economies. Measuring employment in terms of hours worked instead of numbers, therefore, tends to reduce the difference in employment patterns between countries.

This is particularly significant in the Netherlands and the UK. When measured in terms of hours, the share of services in employment is reduced in the former from 70% to 66% and in the latter from 66% to 62%, in both cases much closer to the Community average (Graph 21). The effect on the less developed countries is less marked. The one exception is Ireland, where changing the unit of measurement from numbers to hours reduces the service share from above Germany to below it, to a level only slightly above Greece.

22 Changes in employment by broad sector in the Community and elsewhere, 1980-1991



Employment growth by broad sector

The contribution of the various sectors to employment growth was broadly similar over the 1980s in different parts of the economically developed world. In all countries, jobs were created predominantly in services and jobs were either lost or expanded by a relatively small amount in agriculture and industry.

In the first half of the 1980s, industrial employment declined markedly in the Community, contributing to an overall job loss of around 1% a year (Graph 22). The extent of the reduction was much greater than in the EFTA countries or the US, while in Japan, jobs were gained in this sector. The growth of service employment in the Community over this period — which was at a similar rate to that in Japan — was not enough to compensate for the losses in other sectors.

In the second half of the 1980s, the positions changed considerably. The growth of service employment accelerated in the Community, almost to match the increase in the US. At the same time, an increase in the number of jobs in industry more than offset the continued decline in agricultural employment.

In 1991, although the number employed in services continued to rise in the Community, the rate of job creation slowed appreciably and was accompanied by a renewed fall in industrial employment. The extent of this fall, however, was much less than in the EFTA countries or the US, where it served to reduce employment in the economy as a whole by over 1%. Moreover, the growth in service jobs in these countries was also much lower than in earlier years.

By contrast, in Japan, employment in both industry and services — the former in particular — seems to have continued to expand, as it did throughout the 1980s, thereby more than offsetting the continuing loss of jobs in agriculture (which has been on a similar scale to that in the Community).

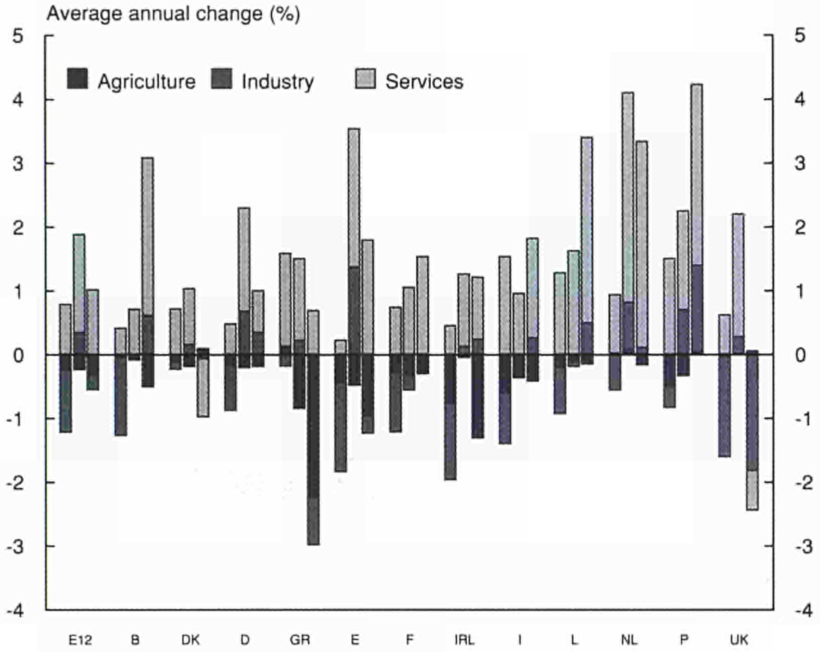
Employment growth by broad sector in Member States

The sectoral pattern of employment growth which occurred in the Community as a whole over the period 1980 to 1991 was broadly repeated in each Member State. In virtually all Member States, the number employed in services grew almost continuously over the period, while the number employed in agriculture declined. Employment in industry increased in some years and fell in others. There are, however, important exceptions to this general pattern of change.

In the period of slow growth between 1980 and 1985, the numbers employed in industry fell in all Member States, but especially in the UK, Belgium, Spain and Ireland. In each case the fall amounted to an overall loss of jobs in the economy as a whole of over 1% a year (Graph 23). At the same time, employment in services increased everywhere — by enough in five of the countries more than to compensate for the decline in jobs in other sectors.

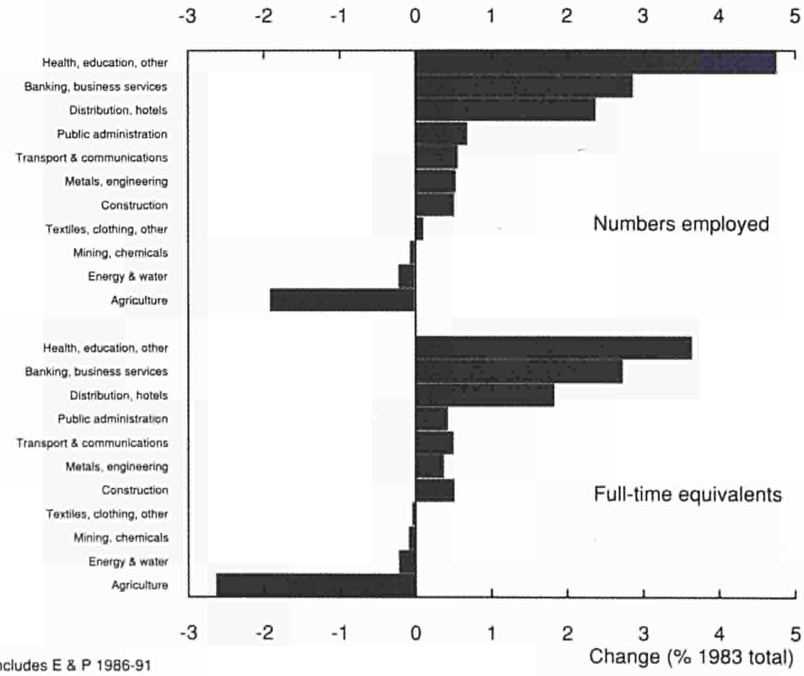
Between 1985 and 1990, when employment grew throughout the Community, the increase in jobs occurred mainly in services, though

23 Sectoral division of changes in employment in the Member States, 1980-1991



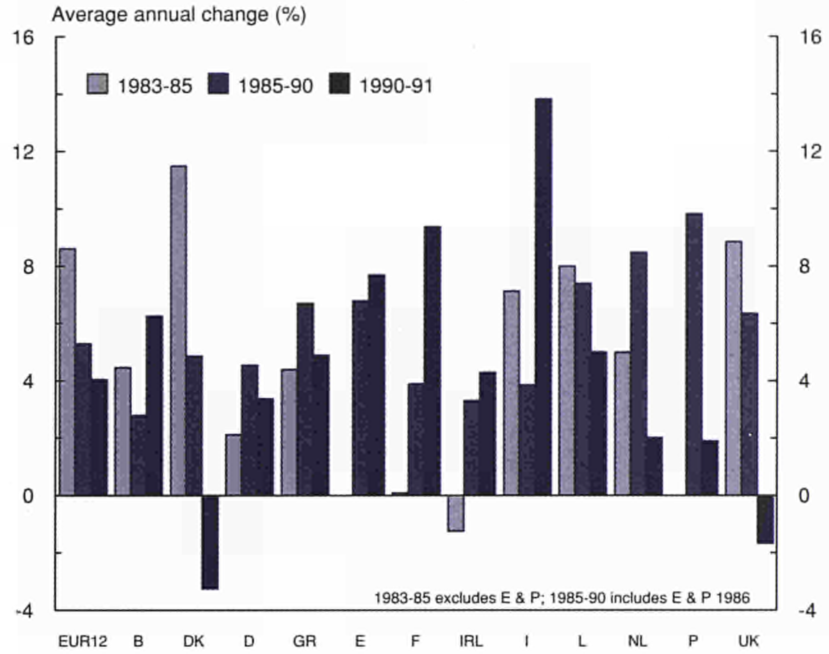
Left bar 1980-85, middle bar 1985-90, right bar 1990-91

24 Sectoral contribution to employment growth in the Community, 1983-1991

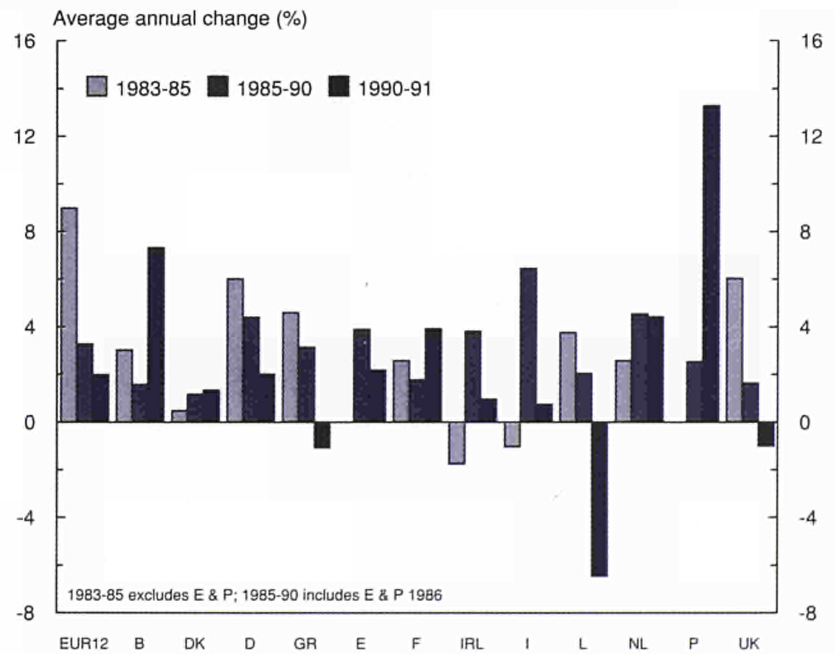


Includes E & P 1986-91

25 Changes in employment in banking, finance and insurance in the Member States, 1983-1991



26 Changes in employment in other services in the Member States, 1983-1991



most countries also recorded a rise in industrial employment. Indeed this added significantly to jobs in Spain, Portugal and Germany. In the Netherlands and the UK, there was even a rise, albeit very small, in the numbers working in agriculture.

In 1991, although jobs losses were largely concentrated in agriculture and industry, two countries experienced a decline in the numbers employed in services — the first time for many years. In Denmark, a reduction in service employment caused an overall loss of jobs of 1% in that year while in the UK, it served to reduce total employment by only slightly less. Nevertheless in the Benelux countries and Portugal, service employment increased strongly in 1991, more so indeed than over the preceding five years.

Employment growth by detailed sector

Between 1983 and 1991, the “Other services” sector, which covers health and education as well as recreational services, provided almost half of the additional jobs created over this period in the Community as a whole. By itself, it was responsible for increasing the total numbers in employment by almost 5% during these 8 years (Graph 24). Banking, finance and insurance, the second main provider of jobs, is much smaller in terms of the numbers employed. It nevertheless was responsible for increasing total employment by some 3%, accounting for just under 30% of the net addition to jobs, while distribution, hotels and catering accounted for just under 25% — largely because of its size rather than a high rate of employment increase.

These three sectors between them provided more than enough new jobs to offset the decline in employment in agriculture, which caused a loss of jobs in the Community economy of almost 2% over this period.

Employment growth in services in Member States

As noted above, two countries, Denmark and the UK, suffered a fall in employment in services in 1991. Since this was a novel experience for any Community country, it is of some interest to examine in which activities the job losses occurred. In both countries, employment fell not only in distribution and transport — areas of slow growth or decline in the past — but also in the sectors which had been most dynamic in the 1980s.

In the case of Denmark, the largest reductions in 1991 were in public administration (of over 4%) and in banking, insurance and business services (of over 3%), while in the UK, employment in health, education and other services fell by 1% and in banking and insurance by 2%. The job losses in banking, insurance and business services are particularly significant so far as the prospects for job creation in the future are concerned, since this was the sector which expanded by most in the 1980s. Indeed in the 7 years before 1991, employment increased in this sector almost continuously in all Member States (Graph 25).

Similarly, in health, education and other services, the main area of job creation in the 1980s, employment reductions in Member States were rare events. Yet both Greece and Luxembourg, in addition to the UK, experienced job losses in this group of activities in 1991 (Graph 26).

Unemployment in the Community

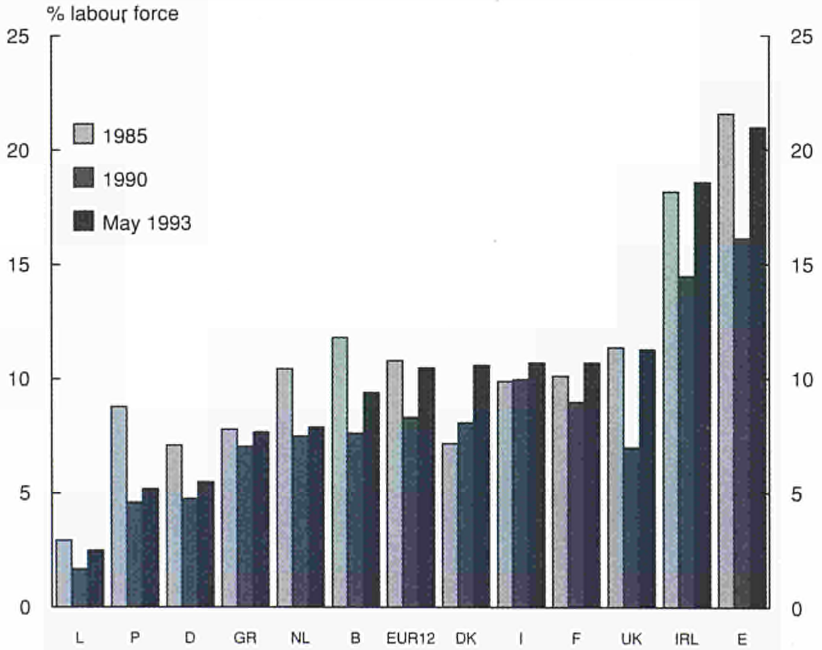
Unemployment is very unevenly distributed across the Community, both between regions and social groups.

With the slowdown in economic growth in 1991 and 1992, unemployment at the latest count (May 1993) rose above 10% of the workforce in the Community as a whole (Graph 27). Unemployment levels ranged from close to 20% in Spain and Ireland to only just over 5% in Portugal and $2^1/_2$% in Luxembourg. In six of the 12 Member States — the UK, France, Italy and Denmark as well as Spain and Ireland — unemployment was above the Community average, while in Germany as well as in Luxembourg and Portugal, it was still below 6%.

At the regional level, however, the variation is even more marked. Rates ranged from below 5% in parts of Southern Germany, Northern Italy and Northern Portugal as well as in Luxembourg, to rates of over 20% in parts of Spain, Ireland and Southern Italy (Map 1).

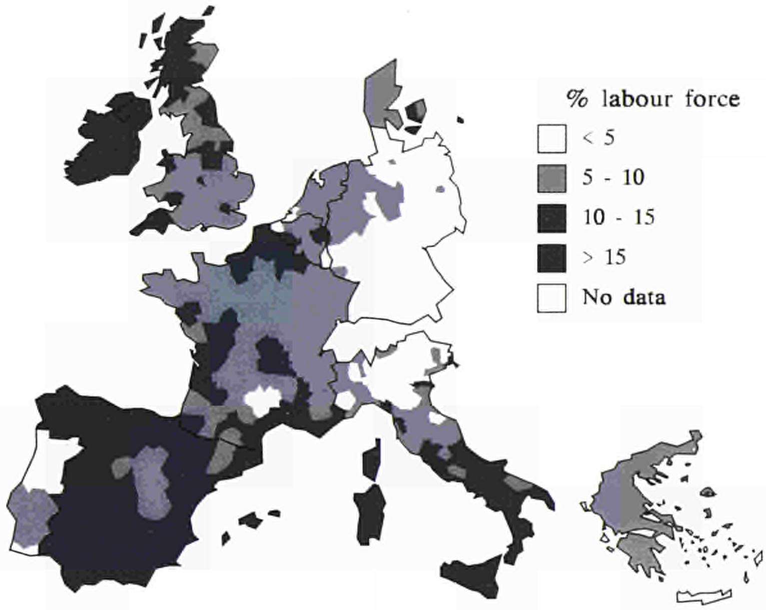
Although the impact has varied between regions, no country has escaped the employment effects of the present recession. In all Member States, unemployment was higher in May 1993 than one year before. Moreover, in five countries — Denmark, France, Ireland, Italy and the UK — the rate of unemployment had climbed to a similar or higher level than in 1985, the year when the rate in the Community as a whole was at its peak. In these countries, the progress made over the five years 1985 to

27 Unemployment in the Member States, 1985, 1990 and May 1993

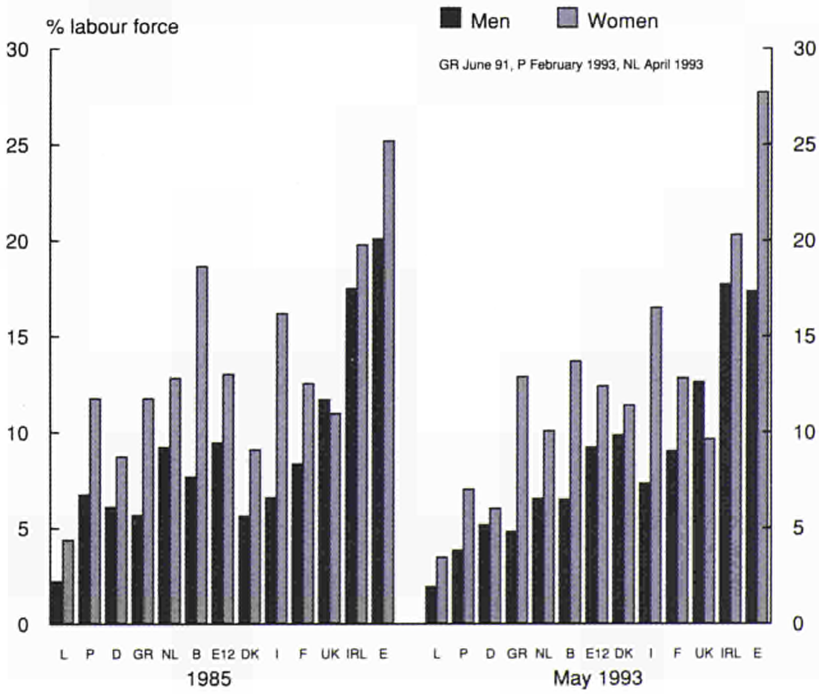


GR June 91, P February 1993, NL April 1993

M1 Unemployment rates, 1992



28 Unemployment of men and women in the Member States, 1985 and May 1993



1990 in reducing the numbers out of work towards more acceptable levels was completely reversed in just two years of recession.

Unemployment of men and women

The incidence of unemployment among women in the labour force in the Community is significantly higher than among men. In May 1993, the unemployment rate for women averaged over 12% whereas for men it was around 9% (Graph 28). With the sole exception of the UK, this disparity in rates between men and women prevails in all Member States.

In Belgium, Italy and Greece, the rate of unemployment for women at the last count (the average for 1992, in the case of Greece) was over twice the rate for men. In Portugal, Luxembourg and Spain, it was over 65% higher. In all these countries, except for Spain where there was little difference between the two, there were more women unemployed than men — in the former three cases, substantially more — something which was also true of Denmark, France and the Netherlands.

In only three countries in the Community, therefore — the UK, Ireland and Germany — were there more men than women out of work in May 1993, and in the case of Germany, if the Eastern Länder are included, the reverse is true. Nevertheless, the atypical situation in the UK, where considerably more men than women are unemployed — over 75%, or almost 1 million, more — is sufficient to ensure that, for the Community as a whole, fewer women than men are recorded as being out of work.

Between 1985 — the previous peak — and May 1993, the disparity in unemployment rates between men and women showed some signs of narrowing over the Community as a whole (the gap was reduced from 3.6% to 3.2%), though the relative movement in the two rates was by no means uniform as between countries. In five countries — Belgium, Germany, Portugal, Denmark and the Netherlands — the difference between the male and female rate narrowed significantly, while in another two countries — France and Italy — it narrowed slightly (Graph 28). Moreover, in the UK, unemployment among men rose considerably relative to the rate for women.

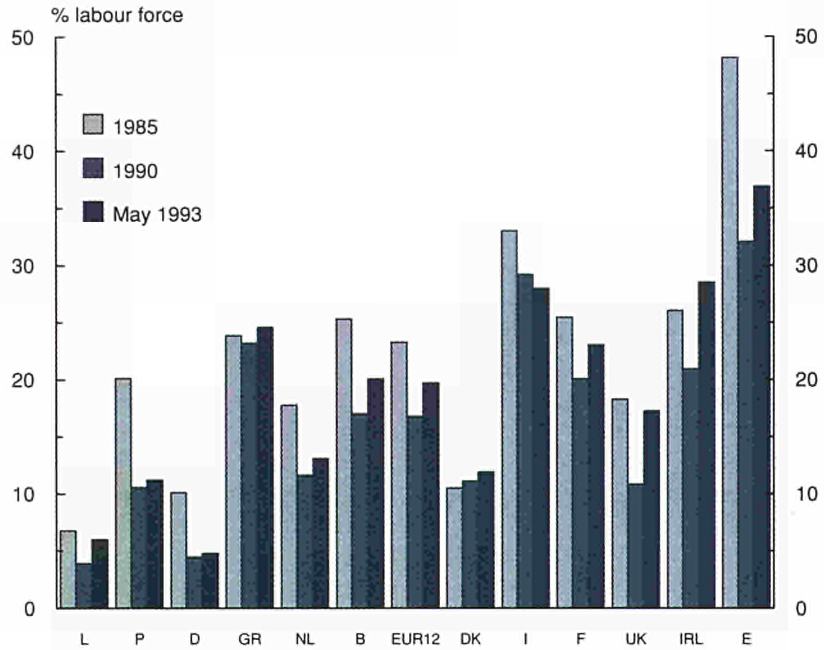
On the other hand, two countries — Spain and Greece — showed a pronounced widening of the difference, in the former case, of over 5%, while in Ireland and Luxembourg, there were much smaller increases. Overall, there has been some tendency for the unemployment of women to have risen over this period relative to that of men in the less developed parts of the Community, and to have fallen in the more developed parts.

Youth unemployment

With the sole exception of Germany, unemployment among young people aged under 25 is higher throughout the Community than for older people. This is especially the case in the less developed parts, though the difference is also substantial in many of the more developed areas.

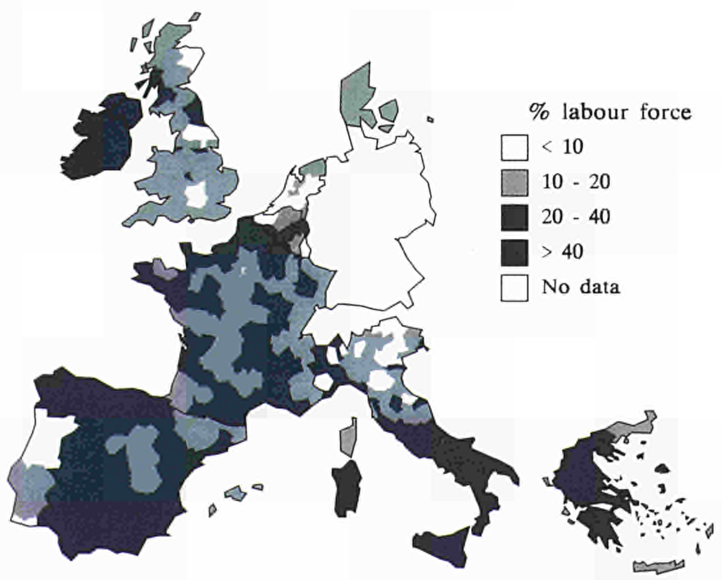
In Spain, the rate of youth unemployment in May 1993 was over 35%, while in Italy and Ireland it was over 25% and in Greece, in

29 Unemployment of young people (<25) in the Member States, 1985, 1990 and May 1993



GR June 91, P February 1993, NL April 1993

M2 Youth unemployment rates, 1992



1992, it was just under 25% (Graph 29). At the same time, the rate in France was over 20%, and in the UK and Belgium, it was only slightly below this level. Only in Luxembourg and Germany was the unemployment rate of young people less than 10%.

At a regional level, youth unemployment tends to be concentrated particularly in the Southern areas of the Community where agriculture remains important. This is the case over much of Spain, the South of Italy and Greece, as well as in the centre of Ireland — though it is not much lower in a number of industrial areas in the North — in Belgium and Northern France, for example (Map 2).

Nevertheless, up to 1990, the rate of youth unemployment fell relative to other age groups. From April 1984 to April 1990, the rate of unemployment for both young men and women of under 25 fell almost continuously, in absolute terms as well as in relation to people of 25 and over (Graph 30, which shows monthly unemployment rates for the two age groups). For both men and women, the fall in youth unemployment over this period was substantial — for men from 22.5% to 14.5% and for women from 26% to 19%.

A number of countries achieved considerable success over this period in reducing unemployment among young people. In Spain, the youth unemployment rate fell from 48% in 1985 to 32% in 1990 (and to 31% in 1991), in Portugal, from 20% to $10^1/_2$% over the same period, in the Netherlands, from 18% (and from 22% in 1983) to $11^1/_2$% and in Germany, from 10% (12% in 1983) to $4^1/_2$%. These reductions were made possible by a combination of special measures to combat the problem — considered further below — and the favourable demographic trends which had the effect of reducing the number of people in the Community in the 15 to 24 age group by almost 5% between 1985 and 1990 and, therefore, the number who entered the labour market.

By contrast to the fall in youth unemployment, the reduction in unemployment among the older age group from its peak level, reached much later — in June 1985 for men and in August 1987 for women — to the lowest point, reached in mid to late 1990, was relatively modest. In the case of men aged 25 and over, the rate fell from a high of only 6.5% to a low of 5% over this five year period. For women in the same age group, the decline over three years was from 10% to 8.5%.

Since 1990, the renewed increase in unemployment in the Community has hit young men especially. In the three years up to May 1993, the rate for this group rose from 14.5% to 19%, with an increase of almost 2% in 1992 alone. By comparison, the rate for young women aged under 25, went up by only just over 1% — to 20% — over the same period.

This relative increase in unemployment among young men was common to a number of Member States. However, it was particularly pronounced in Spain (where the rate for men rose by 6% during the course of 1992, as opposed to 2% for women), the Netherlands and France (in both of which the male rate went up by 1.5% in 1992 and the female rate declined in the former case and remained unchanged in the latter), Belgium (where the rate for men rose by $2^1/_2$% in 1991 and 1992 and the rate for women by only just over $^1/_2$%) and the UK (where the rate for men increased by over 11% in the three years to

30 Unemployment by sex and age in the Community, 1983 - May 1993

May 1993 and the rate for women by under 8%).

Despite these increases, the rate of youth unemployment in May 1993 in most countries was still below the peak level reached in the 1980s (Graph 29). Only in Ireland was the rate at a new high. (In Denmark and Greece, although the rate was higher in May 1993 than in 1985, it was nevertheless lower in both cases than the highest level reached during the decade.)

For those aged 25 and over in the Community, the rise in unemployment during 1991 and 1992 was also greater for men than for women, though the difference was much less marked than for those under 25. In the case of men in the older age group, the average rate increased from 5% in mid-1990 to just over 7% in May 1993, and in the case of women from 8½% to 10%. In both cases, however, the rate is above the peak level reached in the 1980s.

Youth unemployment and the youth labour force

Unemployment among young people, which reached substantial proportions in the recession of the early 1980s, was tackled in the Member States through a variety of special measures. These aimed not only at creating jobs for young people, but more especially at improving their skills and, hence, their employability. Training provision was increased — with increased financial support from the European Social Fund — and young people were encouraged to stay longer in education.

Whatever the merits of these programmes, they also had the effect in many countries of shifting people out of the unemployment figures into the inactivity figures, thereby reducing the apparent scale of the problem. Over the Community as a whole, the number of people aged 15 to 24 who were recorded as being in the labour force declined by 9% between 1985 and 1991. In Belgium, however, the decline was as much as 23%, in France, it was over 20% and in Germany, over 16% (Graph 31). In all of these countries together with another five, the fall was greater than the fall in population. By contrast, in the Netherlands, the numbers in the labour force rose by almost 19% and in Italy and Greece by 2–3%, though in both these two countries the rise was much less than the growth of population.

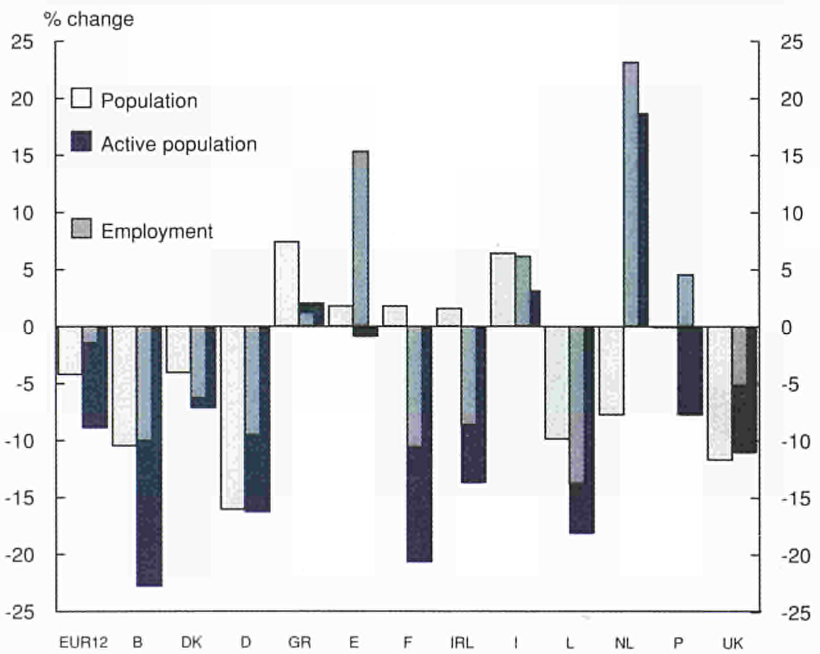
The success of Member States in reducing youth unemployment rates should, therefore, be considered in the light of these figures.

In practice, only five Member States experienced an increase in employment of young people over this period — the four Southern Community countries, Spain (where the rise was over 15% between 1986 and 1991, expressed in relation to active population in 1986, Italy, Portugal and Greece, plus the Netherlands (of over 23%) (Graph 31). In four countries, where youth unemployment also declined — Denmark, France, Ireland and Luxembourg, the fall of employment among the young was greater than the fall in population of this age and in another, Belgium, it was about the same.

Long-term unemployment

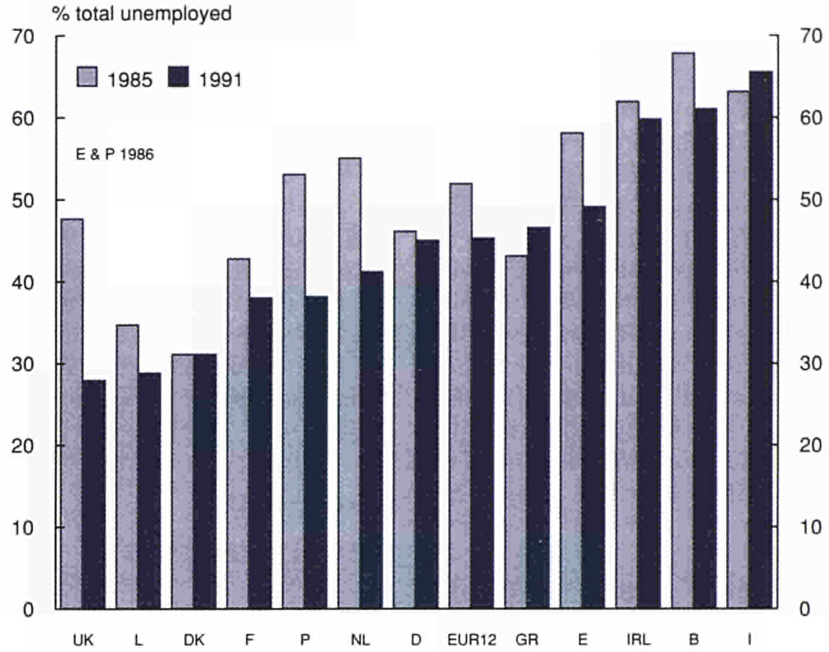
Long-term unemployment is very high in the Community. Nevertheless, the share of the unemployed

31 Changes in population, active population and employment of young people (15-24) in the Member States, 1985-1991

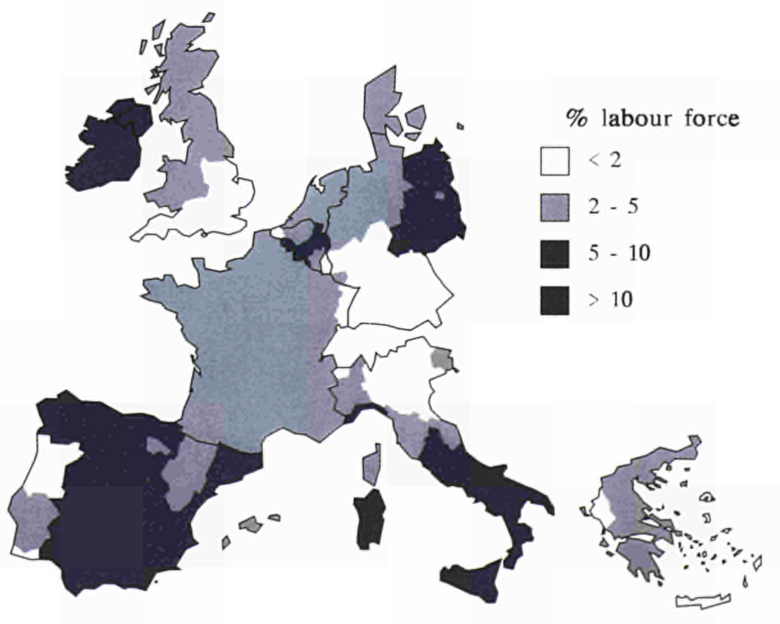


E & P 1986-91; Employment change as % active population 1985

32 Long-term unemployment (>1 year) in the Member States, 1985 and 1991



M3 Long term unemployment rates, 1990



who have been out of work for a year or more did decline between 1985 and 1991 from 52% to 45%, to about the same level as in 1983 (Graph 32). In three countries, however, — Italy, Belgium and Ireland — the share remains around 60% or more (over 65% in Italy). In Spain and Greece, it is only slightly below 50%.

Long-term unemployment is a particular problem of the less developed parts of the Community. Only Portugal of the less developed countries is below the Community average in terms of the relative numbers involved. Long-term unemployment is, therefore, concentrated in much the same areas as youth unemployment (Map 3).

Moreover, in Italy and Greece — two countries where the overall rate of unemployment changed little between 1985 and 1991 — the share of the long-term unemployed in the total increased over this period. In Ireland, there was also little change in unemployment as a whole, and the share fell only slightly. In Belgium and Spain, on the other hand, the long-term share declined by more than the Community average. In Portugal as well as the Netherlands, two countries with relatively high long-term unemployment in 1985, the share was reduced by as much as 14–15%. All four of these countries, especially the latter two, experienced a significant reduction in overall unemployment over these six years.

By contrast, in the UK, where total unemployment fell less sharply, the proportion of the unemployed out of work for a year or more also declined markedly — by 20%. In Germany the proportion hardly changed at all despite a greater than average fall in the overall rate.

The evidence of the past suggests that, in general, the relative importance of long-term unemployment increases as the total numbers out of work increase. It is to be expected, therefore, that the problem will become more serious again during the present recession. Indeed, figures for the UK, the country where unemployment has risen by most since 1990, already indicate that the relative numbers of long-term unemployed rose significantly in 1992.

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	8.2
Share of employment in industry (%)	31.9	27.9	41.0	25.7	31.9	32.4
Share of employment in services (%)	64.5	65.4	53.8	45.4	52.0	59.4
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	37.2	50.8	30.4	38.1	41.7
Share of employment in services (%)	56.1	52.9	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	13.9	7.1
Share of employment in industry (%)	16.7	15.8	25.6	16.5	16.8	19.3
Share of employment in services (%)	80.3	80.7	68.1	45.6	69.3	73.6

Note : E 1986

Key employment indicators in the Member States, 1991

Units : 1000s
Unless otherwise specified

	B	DK	D	GR	E	F
Total						
Total population	9925	5127	62945	9919	38527	55180
Population of working-age (15–64)	6625	3461	43478	6638	25359	36304
Total employment	3719	2635	29238	3632	12622	22115
Ratio of employment to working-age population (%)	56.1	76.1	67.2	54.7	49.8	60.9
Total unemployment	279	264	1250	303	2391	2232
Unemployment rate (%)	7.0	9.1	4.1	7.7	15.9	9.2
Youth (<25) unemployment rate (%)	14.0	11.5	3.7	24.6	30.5	19.8
Employment in agriculture	101	149	1026	807	1376	1332
Employment in industry	1135	723	11719	933	4171	6625
Employment in services	2483	1746	16493	1892	7076	14093
Share of employment in agriculture (%)	2.7	5.7	3.5	22.2	10.9	6.0
Share of employment in industry (%)	30.5	27.6	40.1	25.7	33.0	30.0
Share of employment in services (%)	66.8	66.7	56.4	52.1	56.1	63.9
Men						
Total population	4836	2523	30461	4824	18662	26687
Population of working-age (15–64)	3317	1749	21940	3221	12467	17868
Total employment	2290	1420	17372	2407	8549	12585
Ratio of employment to working-age population (%)	69.1	81.2	79.2	74.7	68.6	70.4
Total unemployment	109	128	647	121	1161	975
Unemployment rate (%)	4.6	8.3	3.6	4.8	12.0	7.2
Youth (<25) unemployment rate (%)	11.0	10.7	3.7	17.1	25.2	17.0
Employment in agriculture	69	112	586	479	1002	859
Employment in industry	923	525	8737	719	3493	4976
Employment in services	1299	776	8050	1209	4055	6710
Share of employment in agriculture (%)	3.0	7.9	3.4	19.9	11.7	6.8
Share of employment in industry (%)	40.3	37.2	50.3	29.9	40.9	39.7
Share of employment in services (%)	56.7	54.9	46.3	50.2	47.4	53.5
Women						
Total population	5089	2605	32484	5095	19865	28492
Population of working-age (15–64)	3308	1713	21538	3417	12892	18436
Total employment	1428	1215	11866	1226	4073	9530
Ratio of employment to working-age population (%)	43.2	70.9	55.1	35.9	31.6	51.7
Total unemployment	170	135	603	181	1231	1257
Unemployment rate (%)	10.6	10.0	4.8	12.9	23.2	11.7
Youth (<25) unemployment rate (%)	17.1	12.3	3.6	33.5	37.1	22.6
Employment in agriculture	32	37	440	327	374	473
Employment in industry	212	198	2982	215	678	1648
Employment in services	1185	971	8443	683	3021	7383
Share of employment in agriculture (%)	2.2	3.1	3.7	26.7	9.2	5.0
Share of employment in industry (%)	14.8	16.4	25.1	17.5	16.6	17.3
Share of employment in services (%)	82.9	80.5	71.2	55.8	74.2	77.7

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	20583	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	2154	4	601	408	3151
Unemployment rate (%)	18.0	9.5	3.0	10.5	8.8	11.5
Youth (<25) unemployment rate (%)	25.1	32.2	6.5	17.7	20.3	18.2
Employment in agriculture	176	2258	7	269	909	563
Employment in industry	318	6702	47	1436	1431	8273
Employment in services	569	11422	93	3378	1878	15040
Share of employment in agriculture (%)	16.6	11.0	4.7	5.3	21.5	2.4
Share of employment in industry (%)	29.9	33.5	31.8	28.3	33.9	34.6
Share of employment in services (%)	53.5	55.5	62.8	66.3	44.4	63.0
Men						
Total population	1748	27267	175	6989	4879	27176
Population of working-age (15–64)	1053	18601	125	4907	3152	18333
Total employment	738	13955	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	947	2	353	186	1903
Unemployment rate (%)	17.4	6.4	2.2	9.5	6.8	11.8
Youth (<25) unemployment rate (%)	26.4	26.5	6.4	18.7	16.5	19.6
Employment in agriculture	152	1496	5	215	472	438
Employment in industry	255	5278	42	1229	1019	6327
Employment in services	327	7180	50	1904	1044	7145
Share of employment in agriculture (%)	20.7	10.7	5.2	6.4	18.6	3.1
Share of employment in industry (%)	34.7	37.8	43.3	36.7	40.2	45.5
Share of employment in services (%)	44.6	51.5	51.5	56.9	41.2	51.4
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	1207	2	247	222	1248
Unemployment rate (%)	19.1	15.4	4.3	12.4	11.7	11.0
Youth (<25) unemployment rate (%)	23.4	39.3	6.5	16.7	25.3	16.6
Employment in agriculture	23	762	2	54	436	125
Employment in industry	63	1624	5	206	412	1946
Employment in services	242	4242	43	1473	834	7895
Share of employment in agriculture (%)	7.0	11.5	4.0	3.1	25.9	1.3
Share of employment in industry (%)	19.2	24.5	10.0	11.9	24.5	19.5
Share of employment in services (%)	73.8	64.0	86.0	85.0	49.6	79.2

Note : P 1986

Key employment indicators in the Member States, 1991

Units : 1000s
Unless otherwise specified

	IRL	I	L	NL	P	UK
Total						
Total population	3469	56866	384	14716	10311	56705
Population of working-age (15–64)	2152	39088	266	10234	6814	37033
Total employment	1134	21520	162	6420	4839	26207
Ratio of employment to working-age population (%)	52.7	55.1	61.1	62.7	71.0	70.8
Total unemployment	213	2427	2	507	199	2451
Unemployment rate (%)	15.8	10.1	1.5	7.3	3.9	8.6
Youth (<25) unemployment rate (%)	23.2	28.2	2.6	11.3	8.7	13.9
Employment in agriculture	158	1825	6	279	842	593
Employment in industry	328	6933	47	1632	1643	8107
Employment in services	644	12763	110	4470	2347	17263
Share of employment in agriculture (%)	14.0	8.5	3.5	4.4	17.4	2.3
Share of employment in industry (%)	29.0	32.2	28.9	25.6	34.0	31.2
Share of employment in services (%)	57.0	59.3	67.6	70.1	48.6	66.5
Men						
Total population	1737	22989	188	7287	4941	27700
Population of working-age (15–64)	1091	19282	135	5169	3270	18536
Total employment	751	14041	105	3957	2758	14753
Ratio of employment to working-age population (%)	68.8	72.8	77.7	76.6	84.3	79.6
Total unemployment	136	1028	1	235	74	1536
Unemployment rate (%)	15.4	6.8	1.1	5.6	2.6	9.4
Youth (<25) unemployment rate (%)	24.8	23.9	0.0	10.4	6.2	15.9
Employment in agriculture	144	1166	4	205	407	46
Employment in industry	258	5271	41	1367	1126	6208
Employment in services	347	7605	60	2362	1220	7938
Share of employment in agriculture (%)	19.2	8.3	3.8	5.2	14.8	3.2
Share of employment in industry (%)	34.5	37.5	39.4	34.8	40.9	42.5
Share of employment in services (%)	46.3	54.2	56.9	60.0	44.3	54.3
Women						
Total population	1733	33624	196	7429	5370	29005
Population of working-age (15–64)	1061	19806	131	5065	3544	18498
Total employment	383	7479	57	2463	2082	11454
Ratio of employment to working-age population (%)	36.1	37.8	44.0	48.6	58.7	61.9
Total unemployment	76	1399	1	272	125	915
Unemployment rate (%)	16.6	15.8	2.0	10.0	5.7	7.4
Youth (<25) unemployment rate (%)	21.1	33.6	0.0	12.2	11.8	11.4
Employment in agriculture	15	659	2	74	435	126
Employment in industry	70	1663	6	265	518	1899
Employment in services	297	5158	50	2109	1127	9325
Share of employment in agriculture (%)	3.8	8.8	2.9	3.0	20.9	1.1
Share of employment in industry (%)	18.4	22.2	9.9	10.8	24.9	16.7
Share of employment in services (%)	77.8	69.0	87.2	86.1	54.2	82.2

Key employment indicators in the Community

Units : Millions
Unless otherwise specified

	1965	1975	1985	1990	1991	1992
Total						
Total population	293.2	312.4	321.9	328.0	328.7	330.0
Population of working-age (15–64)	188.0	197.9	215.8	220.7	221.2	221.7
Total employment	122.6	124.3	125.3	135.0	135.2	134.8
Ratio of employment to working-age population (%)	65.2	62.8	58.1	61.2	61.1	60.8
Total unemployment	2.6	5.3	14.9	12.2	12.8	14.1
Unemployment rate (%)	2.1	4.1	10.8	8.3	8.7	9.5
Youth (<25) unemployment rate (%)			23.3	16.8	17.6	18.5
Employment in agriculture	20.1	13.9	10.4	8.6	8.2	8.0
Employment in industry	49.5	48.3	41.1	42.9	42.3	41.5
Employment in services	53.1	62.2	73.8	83.1	84.2	85.0
Share of employment in agriculture (%)	16.4	11.2	8.3	6.4	6.2	5.9
Share of employment in industry (%)	40.4	38.8	32.8	31.8	31.3	30.8
Share of employment in services (%)	43.3	50.0	58.9	61.5	62.3	63.1
Men						
Total population	142.3	152.0	156.5	159.8	160.3	161.5
Total employment	83.0	81.9	78.7	82.1	81.8	80.9
Total unemployment		3.3	8.0	5.8	6.3	7.2
Unemployment rate (%)		3.9	9.4	6.6	7.2	8.1
Youth (<25) unemployment rate (%)			21.4	14.7	16.1	17.4
Employment in agriculture	13.3	9.1	6.8	5.6	5.4	5.2
Employment in industry	38.0	37.1	31.8	32.8	32.3	31.6
Employment in services	31.6	35.7	40.1	43.7	44.1	44.0
Share of employment in agriculture (%)	16.0	11.1	8.6	6.8	6.5	6.4
Share of employment in industry (%)	45.8	45.3	40.4	39.8	39.4	39.1
Share of employment in services (%)	38.0	43.6	51.6	53.2	53.8	54.4
Women						
Total population	151.0	160.2	165.3	168.1	168.6	168.5
Total employment	39.6	42.5	46.6	52.5	53.4	53.9
Total unemployment		2.3	6.9	6.4	6.5	6.9
Unemployment rate (%)		5.1	12.9	10.8	10.9	11.5
Youth (<25) unemployment rate (%)			25.0	19.1	19.3	19.7
Employment in agriculture	6.8	4.8	3.6	3.0	2.9	2.8
Employment in industry	11.5	11.2	9.4	10.1	10.0	9.8
Employment in services	21.5	26.5	33.4	39.4	40.3	41.0
Share of employment in agriculture (%)	17.2	11.3	7.7	5.7	5.5	5.2
Share of employment in industry (%)	29.0	26.4	20.2	19.2	18.8	18.2
Share of employment in services (%)	54.2	62.4	71.7	74.8	75.5	76.1

Chapter 2 Short-term economic and employment outlook

The current short-term economic outlook for the Community is the most unfavourable since the mid-1970s. Unemployment is set to reach record levels in 1994.

Instead of the hoped-for recovery, 1993 will bring a third year of slow growth. Recovery, if any, is unlikely to materialise before Spring 1994 at the earliest. In the presence of continued recession of the Community economy, employment fell in 1992 and is set to continue to fall further in 1993. The level of unemployment has risen sharply, approaching 10% at the end of 1992, and is expected to keep on rising throughout 1993 and 1994, wiping out all the gains made during the previous boom period.

In 1994, the expected recovery in the Community should be almost sufficient to halt the reduction in employment. Because of growth of the labour force, however, it will be insufficient to prevent the rate of unemployment from increasing further to almost 12%.

The poor prospects for growth

Given the recent trend in economic indicators, the policies being implemented and the forces at work in the Community economy, GDP in the Community is expected to fall by ½% in 1993 (Graph 33 — note that "EC" in this and subsequent graphs refers to the Community excluding the East German Länder, "EC+" to the Community including these). An export and investment-led recovery, supported by a considerable easing of monetary conditions, could result in renewed growth of 1¼% in 1994. These figures, however, imply that the current phase of weak growth is expected to continue for some time before output growth starts picking up.

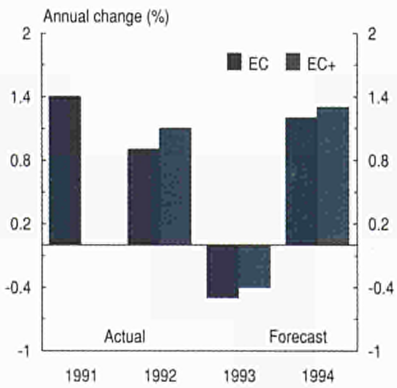
The outlook for continued sluggishness followed by only slow and moderate recovery is essentially predicated upon the following factors:

- business and consumer confidence has fallen to a very low ebb, particularly in the wake of monetary and political uncertainties in the Community since mid-1992;
- the tight stance of monetary policy which was maintained in most parts of the Community up to the beginning of 1992 is likely to depress growth throughout most of 1993;
- in the years ahead, budgetary policy is unlikely to lend much support to economic activity as the necessity of correcting structural budget deficits leads to a tightening of policy in many Member States, despite the gloomy prospects for growth;
- growth of the world economy, while expected to pick up, is likely to remain modest.

Slow growth is a feature of most parts of the Community. In 1993, the change in GDP in Member States is expected to range from a fall of 2½% in West Germany to a rise of 2% in Ireland. Less variation is expected for 1994 with the rate of change ranging from zero in West Germany to 2½% in the UK and Ireland. For most countries, little or no growth is expected over these two years.

Because of its importance, current and prospective developments in Germany are likely to play a pivotal role in shaping economic activity in the Community in the short and

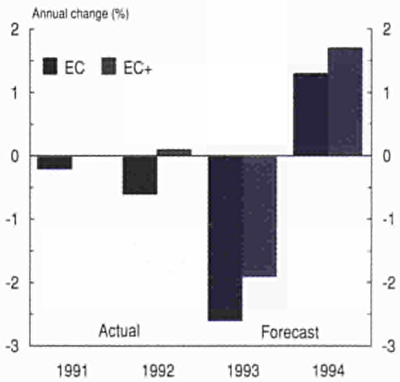
33 GDP, 1991-1994



medium-term. Two years after unification, in the second half of 1992 the German economy entered a period of recession and output is expected to decline up to the end of 1993 if not longer. Over 1993 as a whole, GDP in West Germany is likely to show an average fall of around 2½%, as noted above, as compared with the previous year. This decline in output reflects the combined effects of tight monetary policy, the strength of the Deutsch Mark and depressed exports. GDP is expected to remain unchanged in 1994, though this is strongly contingent on an upturn in the world economy.

The depressed state of the German economy and its close trading links with other Member States is a major reason why output growth in the rest of the Community is expected to be depressed and why any recovery is likely to be slow in coming. GDP in France, Belgium and the Netherlands, is, therefore, expected to fall by between ½% and 1¼% in 1993. Denmark will also suffer from the recession in Germany, but relatively stable domestic demand, supported by fiscal expansion, is expected to prevent any fall in GDP. In these four countries, some improvement in output is forecast for 1994 in line with the unchanged level of GDP projected for Germany and the recovery in the world economy.

34 Investment, 1991-1994



Growth prospects in the UK, Italy and Spain, though adversely affected by the German recession, are likely to be boosted by the significant devaluations in their exchange rates which occurred in the wake of the turmoil on European foreign exchange markets in the Autumn of 1992. Indeed, in Italy and Spain the contribution of net exports to GDP growth in 1993 is expected to be considerable — around 1½%. This, however, is likely to be largely at the expense of other Community countries whose currencies have remained within the narrow ERM band, where growth will be depressed because of a sharp deterioration in net exports.

As a result of this marked improvement in net exports, the change in output in Spain and Italy, is expected to be equal to or above the Community average in 1993, despite a significant reduction in domestic demand. Nevertheless, in these two countries, this still implies a marked deterioration as compared with 1992. In 1994, however, both countries are likely to experience a fall in the contribution of net exports to growth as the effects of devaluation unwind and as the structural weaknesses in their trade performance reassert themselves. Yet, thanks to markedly stronger growth of domestic demand, output should expand.

Falling investment in 1992 and 1993

Investment has been particularly affected by the current phase of slow growth in the Community economy. Following a fall of almost 1% in 1992 (excluding the new German Länder), investment is expected to decline further, by 2½%, in 1993 under the combined effect of sluggish demand, a declining rate of capacity utilisation and tight monetary conditions (Graph 34). This is especially true of investment in equipment which is expected to decline by 4% in 1993. While investment in construction held up in 1992, it is also likely to contract in 1993, though by less than other investment. In the context of improving demand prospects and looser monetary conditions, both components of investment are likely to recover in 1994, growing by 1% or slightly more over the Community as a whole. Particularly large increases are expected in Greece, Portugal and the UK — over 3½% in each case. Countries which are expected to experience significant deceleration in investment in 1993 — France, Spain, Italy and Germany — are likely to show relatively low growth or a fall in 1994.

Weak recovery of consumption in 1994

Private consumption is forecast to fall by ¼% in 1993 as compared with the modest growth of under 1½% in 1992 (Graph 35). This slowdown, which is in spite of an assumed fall in household savings, is attributable to the expected stagnation in real disposable income, resulting from expected wage moderation and a fall in the numbers in employment. Real disposable income is projected to remain unchanged in 1994, due mainly to an expected fall in inflation. This, combined with a further reduction in savings, is expected to result in a modest upturn in private consumption in 1994. At the same time, growth of public consumption, limited by budget constraints, is forecast to increase by less than 1% in both 1993 and 1994.

Inflation to fall in 1994

As would be expected, inflationary pressures throughout the Community have diminished as economic activity has declined. However, any reduction in the rate of price increase resulting from depressed demand is likely to be offset in 1993 by the upward pressure on prices caused by the exchange rate devaluations which have occurred in a number of Member States since the Autumn of 1992. Nevertheless, present indications are that price inflation can be expected to decline slightly from 4% in 1993 to 3¾% in 1994 (Graph 36).

Continued moderation in wages is likely to mean growth of compensation per employee falling to just over 4% in 1993. This compares with increases of 7% in 1991 and of just under 6% in 1992. No further fall in the growth rate is anticipated in 1994.

Given that growth of labour productivity is expected to remain at around 1¼% in both 1993 and 1994, unit labour costs in the Community as a whole are expected to decline in line with wage rises, falling to below 3% in both years.

Indirect tax increases which fed into price increases during 1991 and 1992 will continue to do so in 1993, but their effect should be much less in 1994, unless Member governments introduce new tax measures.

A positive feature of the outlook for inflation is that disparities in the rate of price increase between Member States are expected to narrow in 1993 and 1994. Closer convergence, however, could have occurred if recent currency movements could have been avoided or had been less marked. Price stability still remains elusive in several Member States. Nevertheless, at the end of 1994, in 5 Member States, including the UK despite substantial devaluation, inflation rates are forecast to be within 1½% of the three countries with the lowest rates — Denmark, France and the Netherlands. In Spain, Italy and Portugal, inflation is unlikely to be more than a further 2½% above the rates in these countries and only in Greece is the rate expected to be substantially more — at around 9½%.

Budget deficits to rise in 1993, but to fall in 1994

The aggregate budget deficit of Member States, measured by general government net borrowing, is projected to increase to 6¼% of GDP in 1993, up by 1¼% from the level in 1992.

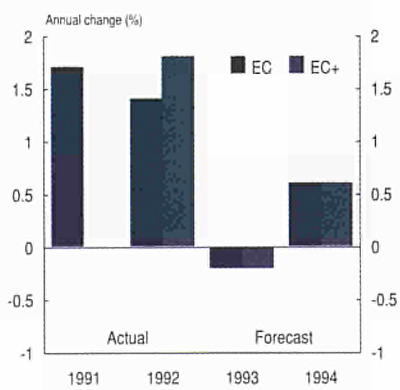
At the Community level, this expected increase in the budget deficit between these two years is entirely due to substantial cyclical effects, which are depressing tax receipts and pushing up expenditure. Indeed, because of budgetary consolidation in several Member States and lower interest rates, the increase in deficits which is forecast is significantly smaller than it would otherwise have been. Despite the very sluggish growth of output in 1993, government current receipts are projected to increase slightly more rapidly than GDP, so that the overall burden of taxation is likely to increase a little.

If economic activity recovers and if policy remains unchanged, the observed upward trend in budget deficits since 1990 is expected to be reversed and net general government borrowing could fall slightly in relation to GDP in 1994. Based on current projections, only Luxembourg is likely to have a budget deficit of less than 3% of GDP in 1994. On the other hand, only five Member States — Italy, the UK, Greece, France and Belgium — are forecast to have budget deficits above 5% of GDP.

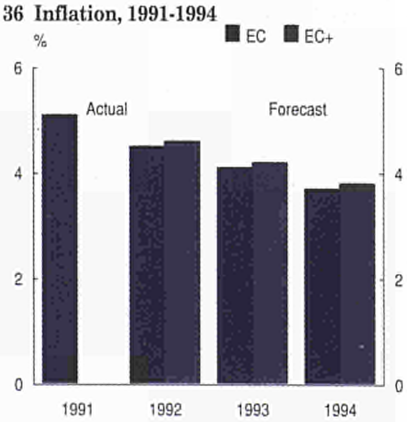
External accounts to remain in small deficit

The external position of the Community is likely to change little over the short-term, with the current

35 Consumption, 1991-1994



36 Inflation, 1991-1994



account continuing to show a deficit of about 1% of GDP or slightly more and with a small trade deficit in both 1993 and 1994. In contrast to historical experience, therefore, depressed economic activity in the Community is expected to be accompanied by, at most, only a very modest improvement in the external account, partly because of the depressed state of world markets (Graph 37).

These forecast outturns are the result of two strongly opposing forces. After two years of marked improvement (1½% on average), the terms of trade on goods and services are set to deteriorate by 1½% in 1993, as a result of the substantial depreciation (6%) of Community currencies relative to the US dollar and Japanese yen. Any adverse effect of this deterioration on the trade balance is, however, expected to be compensated by a considerable increase in the value of exports relative to the value of imports. This is entirely the result of a sharp fall in the growth of imports in line with the near stagnation of domestic demand in the Community in 1993. Exports, on the other hand, are expected to rise no faster than the growth of export markets.

Falling employment leading to record unemployment

As a consequence of the outlook for economic activity, labour market conditions are likely to continue to deteriorate in 1993 and for a large part of 1994.

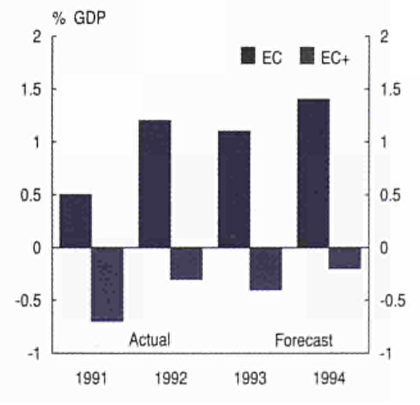
With the slowdown in economic growth in the Community in 1993, employment is projected to fall by 1¾% following a fall of ¾% in 1992. As the hoped-for recovery gathers momentum, employment is still likely to decline in 1994, but only slightly (Graph 38). If this forecast proves correct, employment in the Community would have declined by over ½% a year, in the four years 1990 to 1994. This contrasts sharply with the period of strong job creation between 1986 and 1990 when the rate of growth averaged 1½% a year.

The further fall in employment which is forecast to occur in 1993 in the Community as a whole is largely attributable to particularly unfavourable developments in Spain and Germany. Spain is forecast to show a fall in employment by 4½% in 1993, the largest in the Community. In West Germany, in sharp contrast to the experience in 1992, when it was one of the few countries recording an increase, employment is expected to decline by over 2% in 1993. In France and Portugal, the decline in employment is expected to be around 1½% and in Belgium and the UK, just over 1%. Only Luxembourg and Ireland are forecast to record an increase in employment, the latter only a marginal one at that.

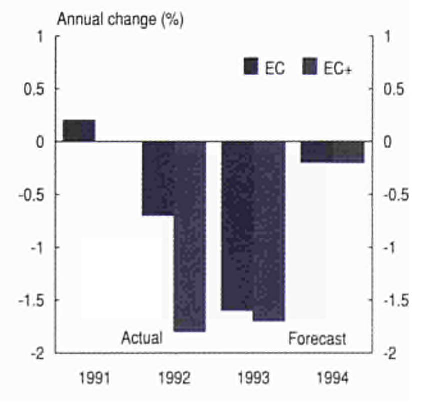
In all Member States, employment conditions are forecast to improve slightly in 1994. This is particularly true of the UK, which is projected to show an increase in employment of 1% after three years of significant decline. Only four other Member States, however, are forecast to record a rise in employment — Italy, if only marginally, Greece and Ireland as well as Luxembourg.

The implication of this unfavourable outlook for employment in a context where the labour force in the Community is expected to continue expanding significantly — by around ½% a year in both 1993 and 1994 — is that unemployment will continue to rise over the short-term from a rate which was already unacceptably high, 10%, at the beginning of 1993

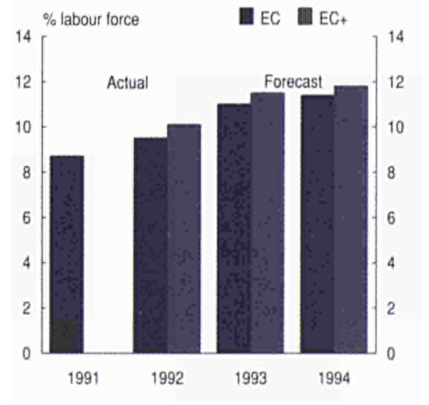
37 Trade Balance, 1991-1994



38 Employment, 1991-1994



39 Unemployment, 1991-1994



(Graph 39). The increase is expected to be particularly pronounced during 1993. As a result, the average rate of unemployment for the year is forecast to be 11% for the Community, excluding the East German Länder, and 11½% including them.

A further rise is expected to occur in 1994, taking the average rate to 11½% if the East German Länder are excluded and to almost 12% if they are included. On either basis, this means that unemployment is likely to surpass its previous peak rate of 10.8% reached in 1985 before the end of the year. The progress made over the period 1986 to 1990 in reducing unemployment will therefore have been more than reversed.

Apart from in Luxembourg, where little change is forecast, the rate of unemployment is expected to rise significantly in all Member States in 1993 and seems set to go on increasing in most of them in 1994. The main exception is the UK, where on the basis of the growth in employment now projected, unemployment is forecast to decline from 11½% to under 11%, taking it back to the level in 1992. In half the Member States — Belgium, Germany, Spain, France, the Netherlands and Portugal — the rise in the unemployment rate between 1992 and 1994 is expected to be 2 percentage points or more.

As a result, in 8 Member States, if Germany is defined to include the new Länder, unemployment in 1994 is expected to be around 10% or more and in the two worst affected countries — Spain and Ireland — close to 20% or more.

Part II The European labour market

Chapter 3 The Community in the world economy

The Community is closely integrated into the world economy with a major share of trade, but located in a region with acute economic problems. Its long-term prospects for growth and employment depend not only on the competitiveness of its producers but on sustained development in key areas in the rest of the world.

The Community is one of the most prosperous areas of the world. It accounts for a significant proportion of global income and an even greater share of manufacturing production and international trade. Its people, because of the productivity of the labour force, enjoy one of the highest standards of living anywhere and, despite the present recession, have seen their real income levels increase steadily year after year.

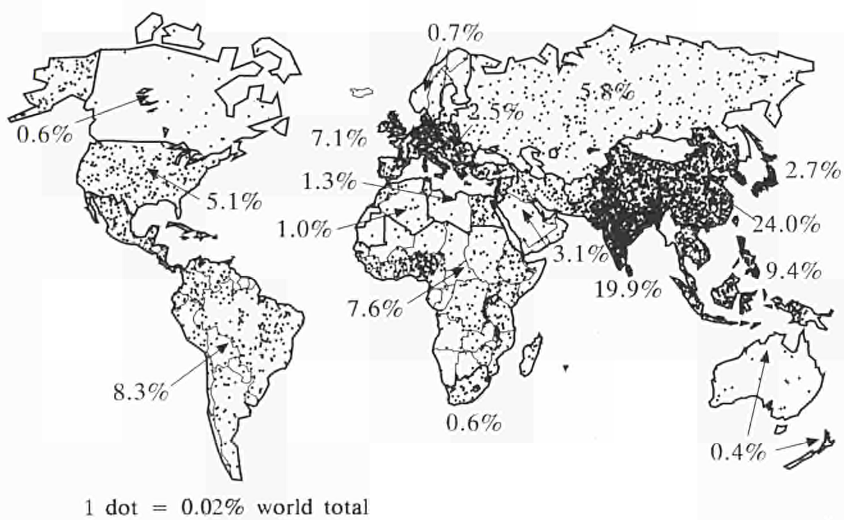
Population and the potential labour force

In terms of population, the Community is only a very small part of the world. Of the global population of around 5,500 million, only some 6½% — 345 million — live in the Community. Although it accounts for a slightly higher proportion of population of working age, around 7% (with working age defined as 15–64), the size of the potential labour force which Member States have to draw upon is a very small fraction of that in the world as a whole (Map 4). It compares, for example, with China, which accounts for just under 25% of world population of working age, with the rest of developing Asia contributing a further 30% or so.

Nevertheless, the Community's potential labour force is over 40% larger than that of the US, and over 2½ times larger than that of Japan. In total, the Community accounts for over 40% of working-age population in industrialised (OECD) countries.

For some years, however, population in the Community has been growing much more slowly than in most other parts of the world and

M4 Distribution of working-age population, 1990



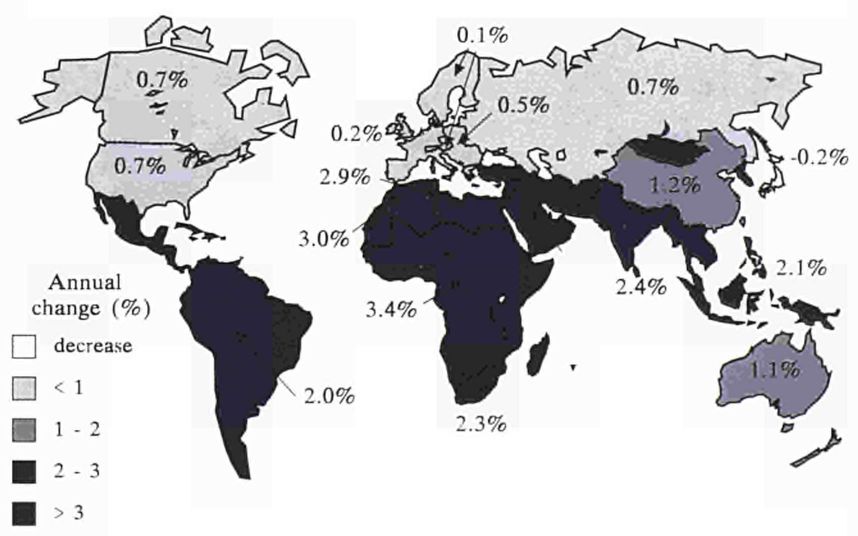
projections suggest that over the next two decades, population will continue to expand but growth will remain relatively slow. While this fall in population growth has not yet been fully reflected in the growth of working-age population — or the potential labour force — the increase in those aged 15–64 in the Community over the past 20 years has averaged under 1% a year (around 0.7%). Though above the rate in other parts of Western Europe — where it was only around $^1/_2$% — it is below the rate in other developed countries outside Europe — the US, for example, experienced growth of $1^1/_2$% a year over this period, partly because of inward migration, and Japan 1% a year.

It is even further below the growth rate in developing countries — which averaged 2–3% — where population rose particularly rapidly during this period, partly because of improvements in health care which have helped to reduce infant mortality.

Growth of the potential labour force in neighbouring regions to the South of the Community, in the Maghreb and Machrek countries in North Africa, was particularly high even relative to other developing countries. Working-age population grew at a higher rate — at almost $3^1/_2$% a year — in the Maghreb region than anywhere else in the world, while in the Machrek countries, it rose at over $2^1/_2$% a year.

This means the potential labour force in North Africa as a whole is now around half the size of that in the Community as opposed to only a third just 20 years ago. More significantly perhaps so far as potential migratory pressure is concerned, over a third of working-age population in these countries is aged between 15 and 24 — as against just over 20% in the Community — which means that in terms of numbers, at some 45 million, the young people in this age group are only slightly fewer than in the Community.

M5 Projected growth of working-age population, 1990-2010



In countries to the East of the Community, in Central and Eastern Europe, growth of working-age population over the past 20 years has been similar to that in the Community, with Hungary and Bulgaria showing hardly any increase at all. Although working-age population has risen more rapidly in the countries of the former Soviet Union, especially in the less developed areas in the South and East, growth, nevertheless, has averaged only 1% during this period.

In terms of absolute numbers, the potential labour force in Central and Eastern Europe, at just over 80 million, is some 35% of that in the Community, while that of the former Soviet Union republics taken together is around 80%. In aggregate, therefore, working-age population in these two regions is larger than in the Community and slightly larger than in Western Europe as a whole.

Over the next 20 years — a period of time over which working-age population can be predicted fairly accurately since most of those coming of age will already have been born — population of working age in the Community will probably grow more slowly than in the past. However, if immigration, which is at present running at around 1 million a year, does not fall much below 750 thousand, it is unlikely that there will be any marked reduction in the present rate of growth (0.7% a year). Such low growth is common to most other developed parts of the world, with other countries in Western Europe projected to show hardly any rise at all and the US a rate of increase well below 1% a year, while Japan is forecast to experience a decline in its potential labour force (Map 5).

In developing countries, on the other hand, according to the latest United Nations projections, growth of working-age population is set to continue at a similar or even higher rate than over the past 20 years. This would mean that by the year 2010, some 88% of the world's total potential labour force would be located in countries which are now classified as developing, including the countries in transition in Central and Eastern Europe and the former Soviet Union — as opposed to some 84% at present and 78% in 1970 — and only 12% in the present industrialised countries.

Over the next 20 years, only in Australia and New Zealand among industrialised countries is working-age population expected to grow by more than 1% a year, while only in China among developing countries is growth projected at below 2½% a year. To illustrate the implications of these projections, an annual growth rate of 1% implies a doubling of working-age population in around 70 years, while at a rate of 2½% a year this will happen in less than 30 years.

By 2010 the potential labour force of the present Community of 12 Member States would represent only 5% of the world total. Including the present EFTA countries would add only ½% to this figure and the present Central and Eastern European countries, only another 2%. This reflects the likelihood that working-age population growth in these latter countries will be only slightly greater than in the Community over the next 20 years — assuming that there is no marked rise in the rate of outward migration. This is also true of the former Soviet Union countries, where in aggregate population of working-age is forecast to grow by 0.7% a year in this period in the absence of an acceleration in emigration.

In neighbouring regions to the South of the Community, however, in the Maghreb and Machrek countries of North Africa as well as in the Arab countries in the Middle East, population growth in the 15–64 age group — which is only marginally affected by a possible reduction in the birth rate — is projected to average 3% a year over the next 20 years. This would imply that by 2010, the number would be approaching twice that in 1990. Although in the Maghreb and Machrek countries the increase is likely to be less, population in this age group is still forecast to expand by 75% during these years.

These rates of increase would mean that by the year 2010, the working-age population of Arab countries would be only slightly less than in the Community, as opposed to half the size in 1990, and that the number of young people aged 15–24, at around 75 million, would be 70% higher than in Member States.

Employment

The numbers of people of working age, while giving an indication of the potential size of the labour force, is not necessarily a good guide to the actual numbers who are productively employed. In the Community, around two-thirds (67%) of people aged 15–64 are active members of the labour force, though at present under 60% are actually in employment, the others being unable to find work. Both these figures are significantly lower than in most other developed countries, where active population tends to be around 75% of working-age population and employment, as noted in Chapter 1, around 70%.

These differences between the Community and other countries at a similar stage of economic development, as elaborated elsewhere in this and other issues of *Employment in Europe*, arise from two main reasons. The first is the relatively low participation of women in the labour force in most parts of the Community, a feature which is gradually changing. The second is the high rate of unemployment in relation to most other comparable parts of the world.

The figures for the Community, however, are not so different from those for Central and Eastern Europe, where countries used to employ a higher proportion of their potential labour force, but where activity rates have declined since the process of transition from a control economy began. The decline in employment relative to working-age population has been even more pronounced as unemployment, previously non-existent — at least in an open state — has risen sharply.

Both active population and the numbers in employment in the Community, on the other hand, are markedly higher than in North Africa and the Middle East. In these countries, only a small proportion of working-age population is recorded as being economically active and an even smaller proportion as being employed. According to United Nations estimates, in most parts of the region, half or less of the potential labour force, is in employment.

Special care, however, is needed when interpreting these estimates. There are significant difficulties over the measurement of employment in developing countries where no formal labour market as usually understood may exist. Particular problems concern those eking out a living for themselves on the land or working in small family units who may receive little or no pay as such and who may or may not be counted as employed depending on the precise definition adopted by the statistician concerned. The figures also make no allowance for under-employment or the number of hours actually worked, nor are they necessarily on a consistent basis as between countries. They are, therefore, at best broadly indicative of the situation.

The low figures for employment in the region reflect two major characteristics of the countries concerned. The first is the acute lack of available work in the formal economy because of the underdeveloped nature of economic activity, and in particular the low importance of industry as a source either of income or jobs. In most of the countries, 15% or less of the workforce is employed in industry as compared with around 30% in most developed countries.

The second characteristic is the very small proportion of women counted as being employed. In many of the countries, women represent under 10% of the labour force as officially estimated. This is particularly true of the countries in the Middle East — in Saudi Arabia, for example, women make up only 7% of the labour force — but it is also true of Libya, where the figure is 9% and Algeria, where it is under 5%. While this does not necessarily mean that the great majority of women do not actually work — a large proportion of them are almost certainly working as unpaid family helpers — it does nevertheless reflect the strength of traditional religious and cultural attitudes against women being in paid employment.

The low proportion of the workforce employed in industry is a feature of developing countries in general. Only in a few newly-industrialising countries is the share of employment in industry comparable with that in developed countries — in Hong Kong and South Korea, in particular, where the figure is just over 25%. In most developing countries, less than 15% of employment is in industry, and in the poorest countries, the figure drops to below 10% and even, in some cases, especially in sub-Saharan Africa, to below 5%.

In most developing countries, moreover, there is little sign of any significant growth in the share of industry. Indeed, in many cases, the present share is the same or less than it was 25 years ago. This is also true of the developing countries closest to the Community, in North Africa and the Middle East, although there are a few exceptions where industrialisation seems to be underway — Morocco, in particular, where the proportion of the workforce employed in industry is over 20%.

Output and income

Although only some 7% of the world's population of working age live in the Community, it nevertheless accounts for a significant share of global output of goods and services and, accordingly, enjoys a disproportionate share of world income. On the latest estimates, the Community produces around 30% of world GDP and generates about the same proportion of global income, measured in US dollar terms. This is a higher share than the US (26%) and double the share of Japan (14%).

Between them these three regions account for some 15% of the world's potential labour force and yet produce 70% of world GDP. Although in terms of the actual labour force in productive employment, the proportion is much higher in these three parts of the world, the juxtaposition of these two figures is, nevertheless, indicative of the scale of the gap in productivity between them and the developing world in which the vast majority of the world's population live and work.

It is also indicative of the highly unequal distribution of global income, with approximately 70% of it going to one in six of the population. At the other extreme, United Nations estimates suggest that the poorest 50% of the people living in the world have to make do with under 5% of global income (Map 6 which has the same total number of dots as Map 4 and which, therefore, when compared with the latter, illustrates the highly uneven distribution of GDP in relation to the people producing it).

In terms of income per head, the disparity between the richest and the poorest countries is enormous. Even when measured in terms of purchasing power parities, to allow for differences in the pattern of consumption as between countries (ie for the fact that someone living in a developing country can usually attain a given standard of consumption with a much lower level of income than in a developed country) average real GDP per head is estimated to be over 50 times higher in the US than in Ethiopia or Zaire.

(These estimates are calculated by the United Nations International Comparison Programme (ICP), though inevitably they are subject to a wide margin of error so far as many less developed countries are concerned because of a lack of data.)

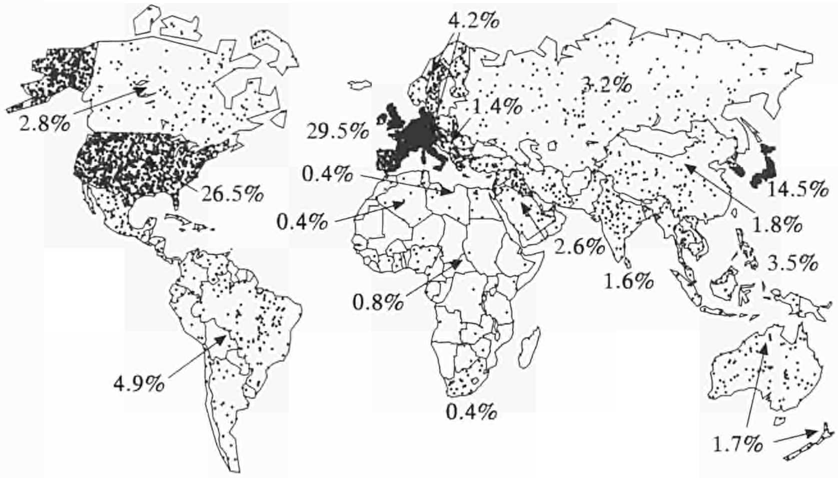
Although average income per head in the Community is only around 70% as high as in the US, it is over 10 times higher than in Africa as a whole and 4–5 times higher than in the slightly more prosperous Maghreb countries (Map 7). While the oil-producing countries of North Africa and the Middle East have much higher levels of average income per head than other countries in the region, and, in some cases, levels which are comparable with those in the Community, these averages conceal a highly unequal internal distribution of income, with the large majority of the people having significantly lower income levels.

Income per head in the Community is also markedly higher than in Central and Eastern Europe and the former Soviet Union. Although estimates of the difference, as in the case of developing countries, are notoriously difficult to make — partly because official exchange rates until recently were highly misleading — the indications are that at present average levels are only around 30–40% of those in the Community.

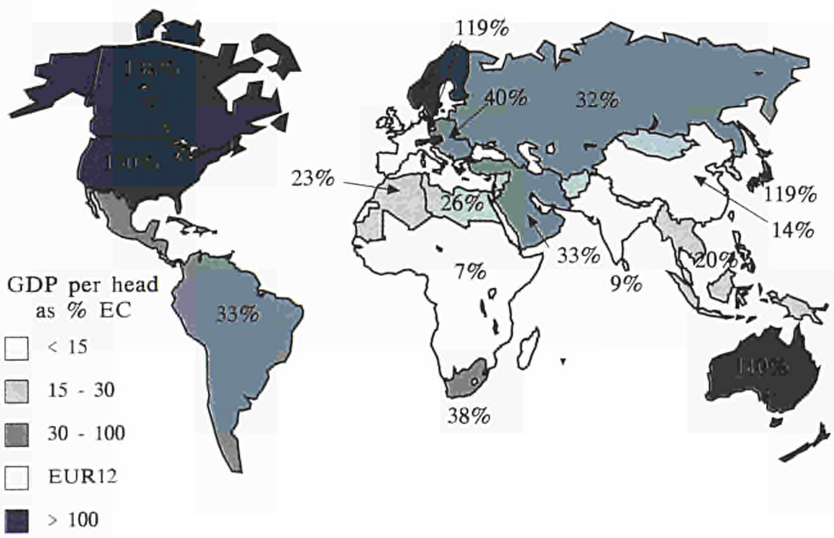
Growth of GDP and income per head

While economic growth in the Community was slower in the 1980s than in any previous post-war decade, it was nevertheless higher than in many developing parts of the world where increased production to generate employment and

M6 Distribution of world income, 1990



M7 Income per head compared to the Community, 1990



higher real income levels was much more urgently needed. Thus, even in a period of relative stagnation in the industrialised world, the gap between rich and poor regions actually widened. In energy and other primary producing countries, the fall in oil and commodity prices, caused partly by the slow growth of output, and therefore demand, in industrial countries — especially during the first half of the 1980s — led, in many cases, to a significant reduction in export earnings and to very little growth in GDP.

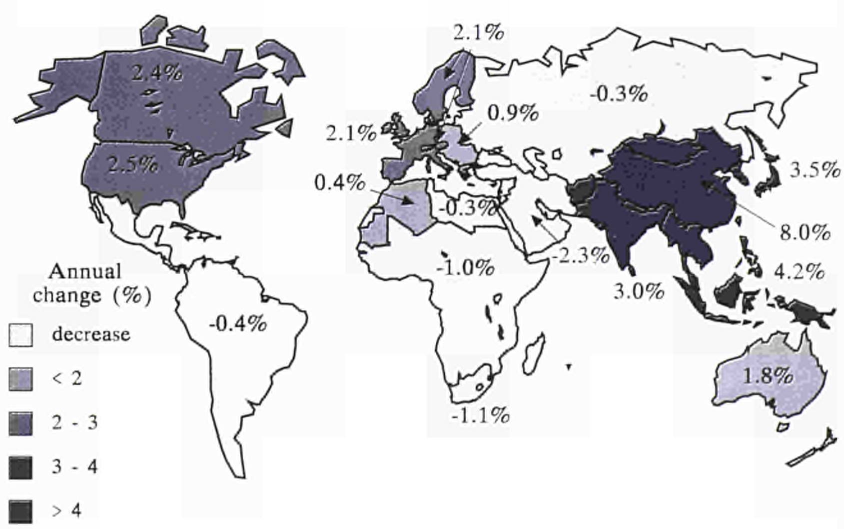
In the Middle East, GDP is estimated to have grown on average by only 1% a year over the 1980s as a whole, while population increased by over 3% a year. As a result, real income per head in the region fell by over 2% a year during this period and was 20% lower in 1990 than 10 years earlier. This contrasts with the substantial growth experienced over the 1970s as oil prices increased (Map 8).

In sub-Saharan Africa in the 1980s growth of population outstripped GDP growth and real income per head in the region fell, on average, by almost 10% over the decade. Many of the poorest countries in the world, therefore, became even poorer during these ten years.

In Latin America also, income per head declined in real terms over this period, by an average of ½% a year, as the foreign debt accumulated during the 1970s in an attempt to maintain growth reached unsustainable proportions and led to the universal adoption of stabilisation programmes designed to hold down expenditure.

Only in Asia did developing countries succeed in maintaining growth during the 1980s at anywhere near the rates attained in the 1970s, with some countries, like India and China (for which GDP growth is particularly difficult to estimate) achieving even higher rates.

M8 Growth of income per head, 1980-1990



Apart from in Asia — which admittedly accounts for over half the world's population — the huge gap in income per head between developed and developing countries widened in the 1980s instead of narrowing as it had done in the 1970s. This was also true of the Community and the poorer countries on its Southern and Eastern borders. Although in the Maghreb and Machrek countries, GDP grew in real terms by an average of around 3% a year over the 1980s — significantly higher than in the Community — this was only marginally higher than the rate of population growth. As a result, income per head barely increased at all, as compared with the Community where it grew by an average of just over 2% a year.

Similarly, in Central and Eastern Europe, as well as in the former Soviet Union, growth of GDP over the 1980s averaged only around 1% a year, again much less than in the 1970s, as the centrally planned economies ran into acute structural problems. Income per head, therefore, rose by very little.

Since 1990, the collapse of the former Soviet Union market, the substantial reduction in intra-regional trade and the implementation of restrictive monetary and fiscal policies to contain inflationary pressure and government borrowing have combined with the disruptive effects of the transition process itself to reduce GDP substantially.

As described in the annex to this chapter, which reviews in more detail the economic and employment developments which have taken place in Central and Eastern Europe since the transition began, especially in 1992, this massive reduction in output in the region has been accompanied by considerable job losses and mounting unemployment.

In sum, the Community is surrounded by regions which, over recent years in particular, have experienced a decline or, at best, very little growth in income per head, and where as a consequence labour market problems have worsened. This should be of special concern to the Community not only because of the long-term importance of these regions as markets for its industrial products and services, but also because of the pressure for migration which will undoubtedly intensify as both income and employment opportunities remain inadequate and even shrink.

Trade

The Community's high share of world income owes much to its leading position in international trade and, in particular, in trade in manufactures, which remains both the largest and the fastest growing component of total trade flows.

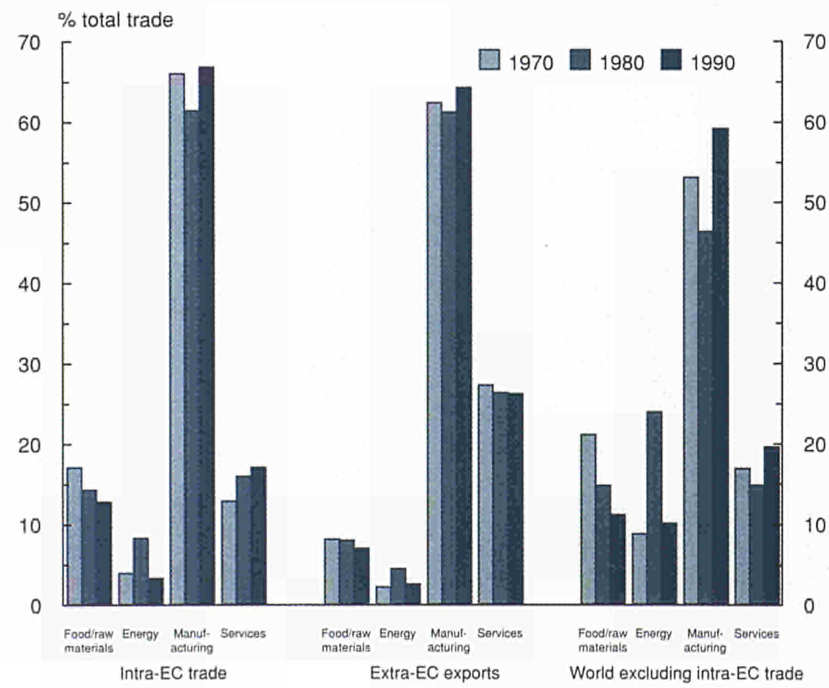
In 1990, manufactures accounted for over 60% of the total value of trade in goods and services, around three times more than the value of service trade. Moreover over the past 20 years — contrary to widespread belief — the share of manufactures in overall trade has risen rather than fallen. While trade in services expanded significantly, the rise up to now — partly inhibited by the restrictions on trade which the Internal Market programme was designed to remove — has been less than the growth in manufacturing trade (Graph 40).

Partly because of the substantial scale of trade between Member States, increased even further by the completion of the Single Market, Community countries between them account for almost 40% of total world trade and almost 45% of world exports of manufactures. Some 40% global trade in manufactured goods takes place within the Community's internal market. Even excluding internal trade, Community producers occupy a leading position in world markets, accounting for around 30% of total exports of manufactures to the rest of the world. This is more than either the US or Japan which both have a share of around 11% of world markets.

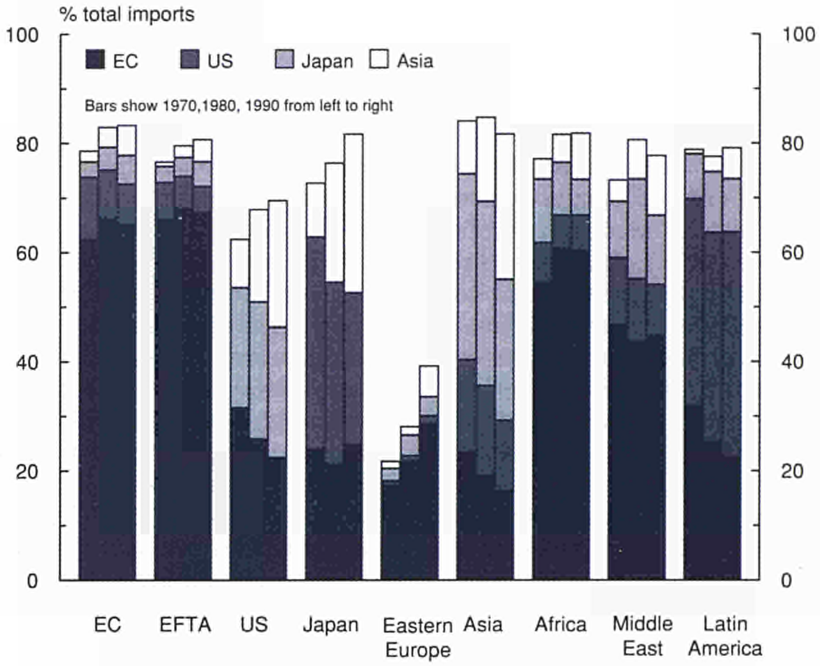
The Community's market share, however, like that of other countries varies markedly from one part of the world to another, depending to a significant extent on its geographical proximity as well as historical links. These non-economic factors seem to be as much an influence on export shares as price competitiveness or product quality, though the latter are clearly likely to be important determinants of changes in market share over time.

Whereas the share of Community producers in the internal market for manufactures is around 65% and their share of the EFTA market even slightly higher (67%), their share of Japanese imports of manufactures is only around 25% and of US imports, only 23% (Graph 41). Similarly, in developing countries, Community manufacturers hold a dominant position in the relatively close African market, accounting for 60% of imports, and also have a

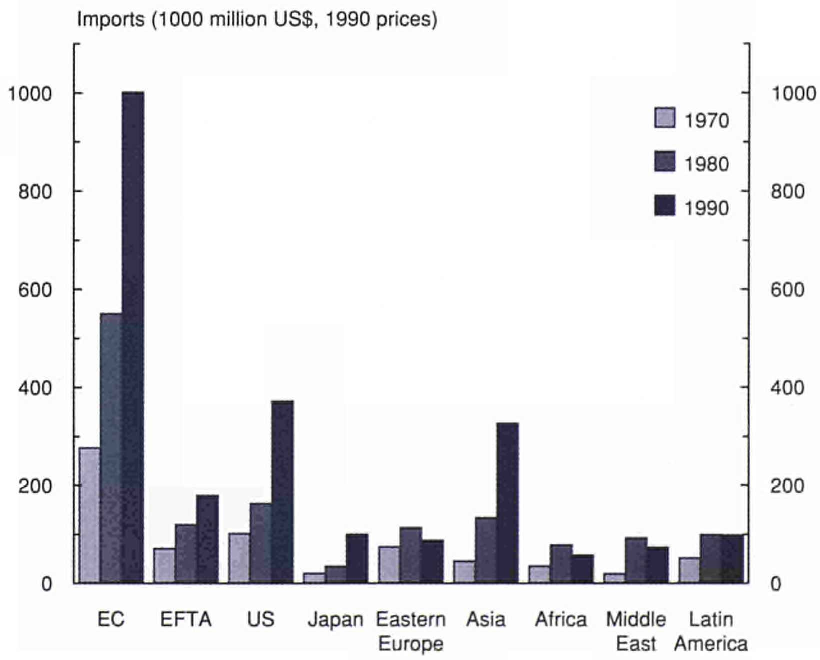
40 Composition of international trade, 1970, 1980 and 1990



41 Shares of world markets for manufactured goods, 1970, 1980 and 1990



42 World markets for manufactured goods, 1970, 1980 and 1990



substantial share of the Middle Eastern market (45%), but are much less important in Latin America (with a share of 23%) and Asia (16%).

The same factors also have a major influence on the market shares of other countries. US exporters hold only a very small share of the European market or of the markets in Africa and the Middle East, whereas they account for over 40% of Latin American imports of manufactures and for a significant share of the Pacific basin market (for 28% of Japanese industrial imports, for example). Japanese manufacturers also are much more important in Asia and the US than in Africa or Europe.

This segmentation of the world market seems, if anything, to have become more rather than less pronounced over time. It is particularly evident in the Pacific basin market where Asian producers have significantly increased their share of exports. While this is also true of other markets — Asian producers being alone in expanding their market share throughout the world — it has been on a much larger scale here than elsewhere.

Although the Community's overall share of total world trade in manufactures has declined over the past 20 years, the fall has been relatively modest and less than that experienced by US exporters. There has, however, been a marked difference in the performance of Community producers in different markets. In Europe and the surrounding regions, Community manufacturers have either held onto their share or at worst experienced a marginal fall — in their own internal market, EFTA countries, Africa and the Middle East. Moreover in Central and Eastern Europe and the former

Soviet Union, where there has been a big reduction in internal trade since 1989, they have increased their share significantly (Graph 41).

Outside the wider European region, apart from in Japan, Community manufacturers lost market share over this 20-year period. Unfortunately, two of these broad regions — the US and Asia — are the largest markets for manufactured exports outside the Community and showed the fastest growth in the 1980s after Japan (which remains a relatively small importer of manufactured goods — under 30% of the size of the US, in terms of value) (Graph 42).

By contrast, three of the Community's most important markets, Africa, the Middle East and Central and Eastern Europe — in many ways, its natural trading partners — all showed a significant reduction in imports of manufactures during the 1980s, reflecting the contraction in GDP and real income noted above.

As a result of these relative rates of market growth — which more than outweighed the fall in trade share — the US and developing Asia (as well as Japan) have come to account for a larger proportion of total Community exports of manufactures to the rest of the world since 1980 (Graph 43). In 1990, over 30% of extra-EC manufactured exports of Community countries went to these two parts of the world as opposed to only just over 20% ten years earlier.

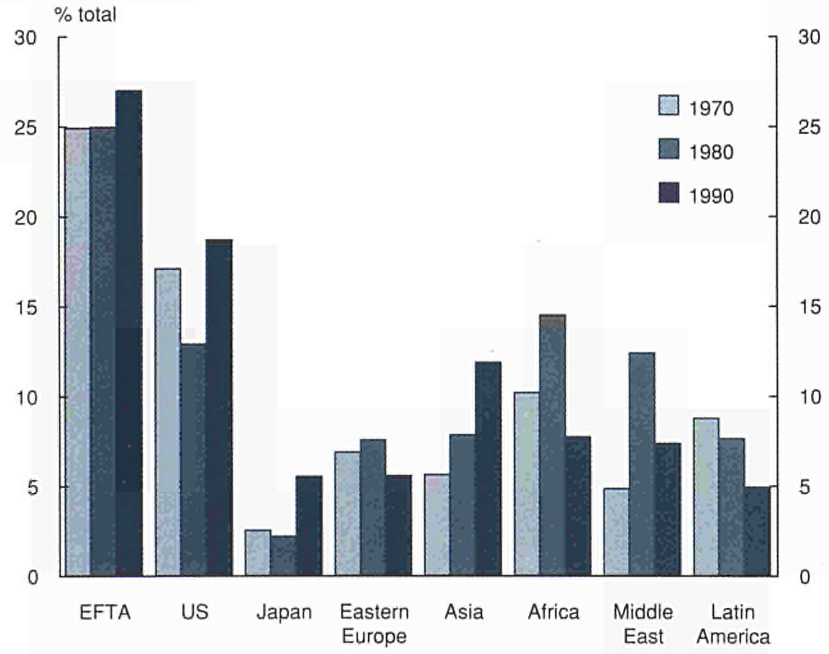
In contrast, the proportion going to Africa and the Middle East, where European producers have a comparative advantage, fell from over 25% to 15%. The relative importance of exports to Central and Eastern Europe also declined as the effect of the opening of these markets to Community producers was more than offset by the fall in income.

Nevertheless, for all Community countries, Western Europe represents by far the most important market for exports. In 1990, some 72% of total exports of Member States went either to the Community itself or to EFTA countries, with the internal market alone accounting for over 60% of all visible exports (and just under 60% in the case of manufacturing trade). Moreover the importance of the internal EC market has increased progressively over time with closer economic integration, with the share of Community exports accounted for by internal trade rising from under 41% in 1960 to 54% in 1970, 56% in 1980 and 62% in 1991 (Graph 44).

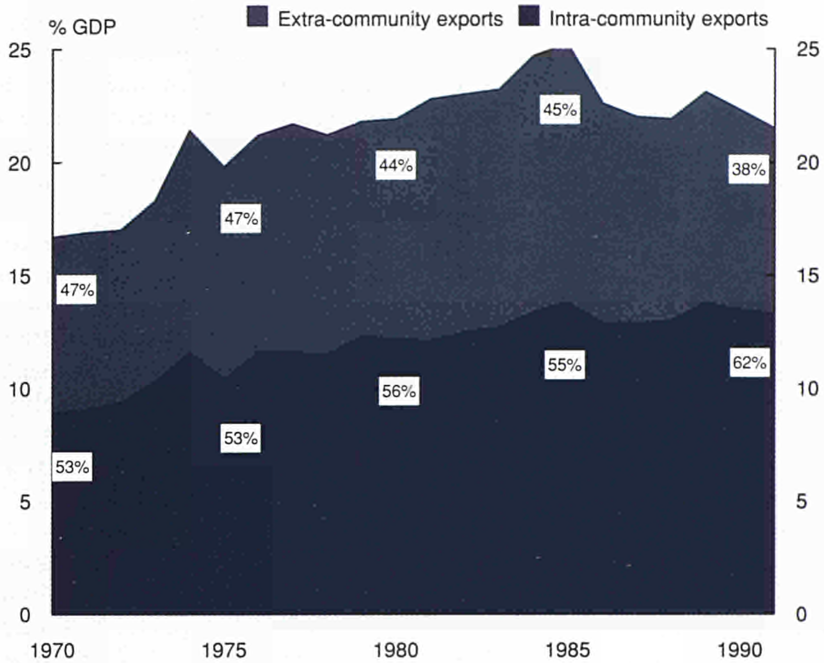
Although Community producers have experienced only a small reduction in their share of manufacturing trade as a whole over the past 20 years, their performance in the more dynamic and technically-advanced sectors has been less impressive than in more basic products. For machinery and transport equipment, for which the market has grown faster than for other goods, Community manufacturers account for a lower share of world exports than for other products — 29% of the extra-EC total in 1990 as compared with 40% for chemicals — and have seen their share decline by more over the past 20 years than in other areas (from around 37% in 1970) (Graph 45).

At the same time, the importance of machinery and transport equipment in total EC exports has hardly changed at all since 1970, despite the relatively rapid growth of the world

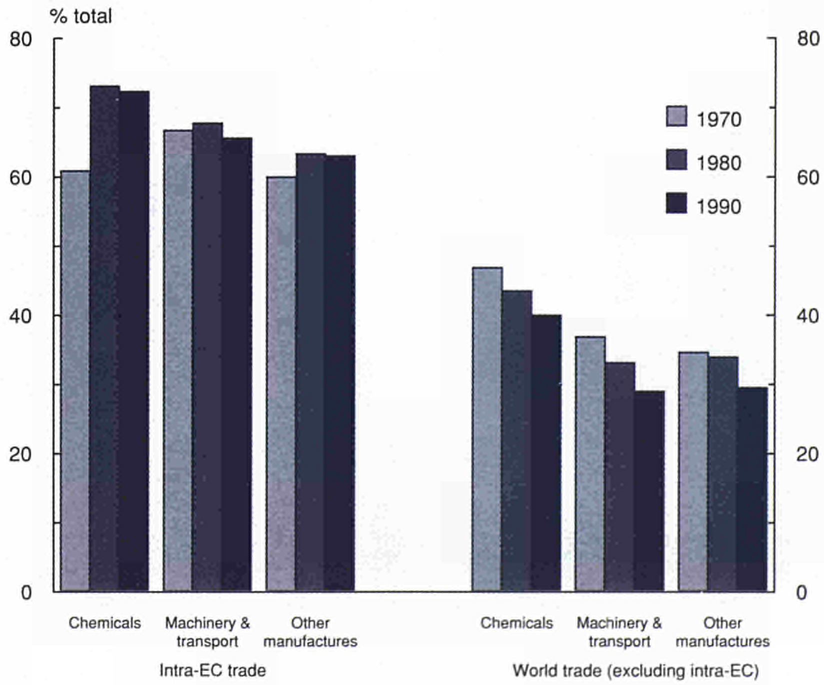
43 Geographic distribution of extra-Community exports of manufactures, 1970, 1980 and 1990



44 The growing importance of internal trade for the Community, 1970-1991



45 Community share of trade in manufactures by product type, 1970, 1980 and 1990



market for these products, the share remaining at just under 50% of the total (Graph 46). This contrasts vividly with the change shown by Japan, for which machinery and transport equipment have come to account for almost 75% of total manufactured exports as opposed to only 43% in 1970. Similarly, for the developing Asian economies, the share of these products in manufactured exports rose from under 15% in 1970 to almost 40% in 1990.

Trade in services

Community producers are as important in trade in services as they are in manufacturing trade. Although their share of global markets has declined over the past 20 years, and especially since 1980, it remains substantial. In 1990, Community producers accounted for around 45% of total world exports of services and over half of trade in "other services" — ie other than travel and transport — which includes various kinds of consultancy and business services and which is the fastest growing area of trade (Graph 47).

In contrast to trade in manufactures, over half of exports were to countries outside the Community, except in the case of travel — a major component of which is tourism — where around 55% was between Member States. Like manufacturing, however, the importance of intra-Community trade in services has increased significantly over time relative to total trade, from under a third in 1970 to almost a half in 1990.

Employment in export industries

Clearly trade is much less important in services than in manufacturing and comparatively few people in the

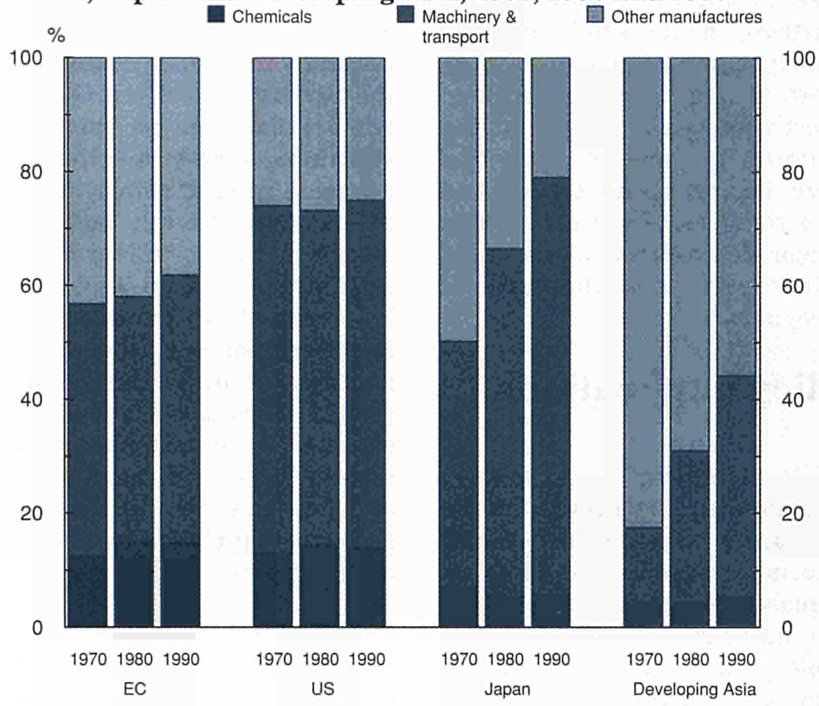
Community work in service activities where a significant part of output is exported. Even in manufacturing, however, the number of jobs which depend *directly* on exports is relatively small.

In the Community as a whole, industries which exported over 40% of their output in 1990 — office machinery, mechanical engineering and transport equipment industries — accounted for some 5% of total employment (Graph 48, in which the share of gross output exported is calculated for NACE 2-digit industries in the 11 Member States taken together). Only in Germany was the proportion significantly above 5%, but still less than 10%. Taking industries where exports represented over 25% of output yields a figure of 15% of employment, with just two countries, Germany and Italy having a larger share of their labour forces employed in such industries.

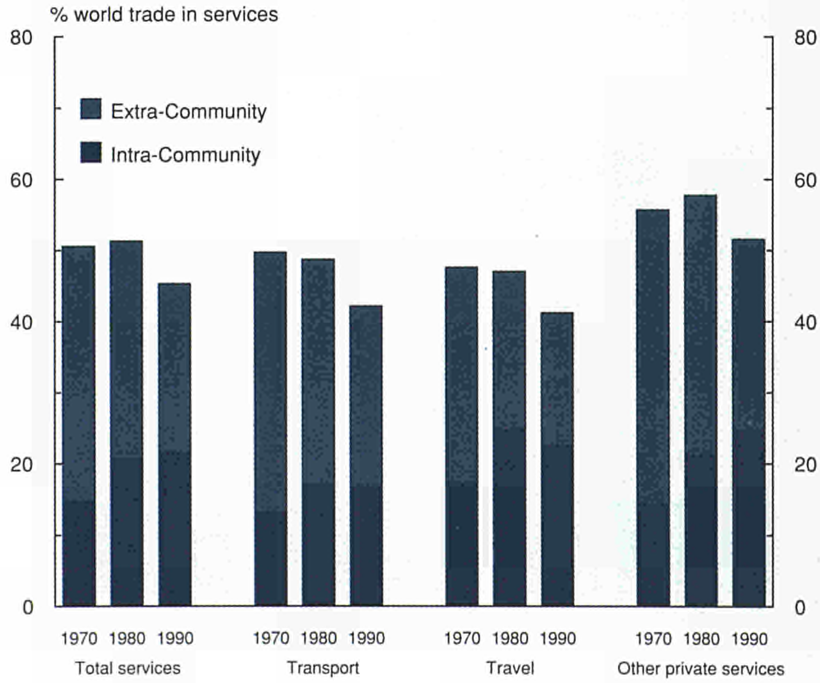
Around half of the industrial workforce in the Community in 1990 was, therefore, employed in industries, such as food, paper and printing and metal products, which produced predominantly for the domestic market. Given that exports represent only a small proportion of service output, the clear implication is that the great majority of people working in the Community are employed in activities where exporting is of minor importance.

This, of course, does not mean that exporting is not vitally important for employment. A large number of jobs — in supplying industries and services, for example — depend indirectly on exporting industries. Moreover the earnings generated by such industries are critical for sustaining economic growth and generating the income required for job creation.

46 Composition of manufactured exports from the Community, US, Japan and developing Asia, 1970, 1980 and 1990



47 Community share of world trade in services, 1970, 1980 and 1990



At the same time, many industries — and some services — in the Community are under pressure from imports. For those employed in such industries, the need to be internationally competitive is just as important as in exporting sectors. Nevertheless most people in the Community work in activities where international trade is of minor significance and not directly a major determinant of the scale of production and the level of employment.

Policy implications

Despite its prosperity and relative trade success, the growth of the Community economy has slowed appreciably over the past 20 years. For reasons which are not obvious, many millions of people have been unable to find work and its efficiency in production, as well as its ability to adapt to a changing global environment, has been called into question.

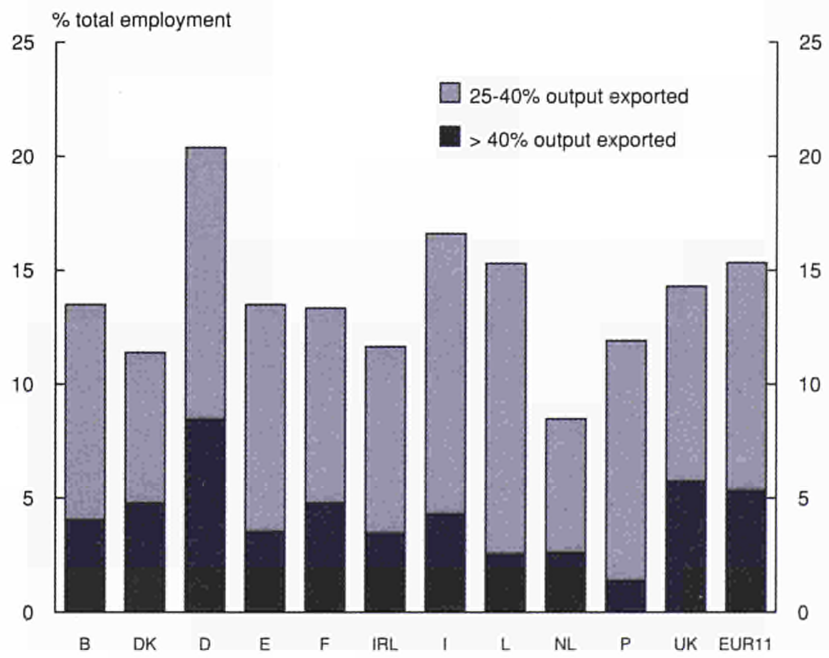
The present recession has quite naturally intensified concern about the performance of the Community's economy and its capacity for sustaining long-term growth and adequate rates of employment creation. Low growth has drawn attention to the vulnerability of substantial numbers of jobs both to lower growth of exports and to the increasing penetration of the internal market by foreign-produced goods. It has also highlighted the extent to which the Community has become integrated into the global economy and, because of this, its exposure to problems in other parts of the system.

This is most obvious in the sphere of trade: because the Community is by far the largest exporter on world markets, any downturn in the growth of those markets inevitably has a significant effect on industry in the Community and, potentially, on the volume of employment it can sustain. Equally, however, the increasing importance of multinational companies in production and as a channel for long-term capital flows means that any reduction in profits suffered in one part of the world is also liable to affect investment elsewhere.

At the same time, the Community's geographic location seems to pose a serious obstacle to future growth in trade. The countries to the South — in North Africa and the Middle East — suffer from retarded economic development, acute poverty and job shortages. Those to the East — in Central and Eastern Europe and the former Soviet Union — face immense problems of restructuring, high unemployment and political uncertainty. They are, however, to a large extent the Community's natural trading partners, not only because of their proximity but also because of historical ties, and it is in these markets where Community exporters have been most successful in the past.

These countries have a potential for much more rapid economic growth than the Community itself if the obstacles can be overcome. They, therefore, offer the possibility of accelerated job creation in the Community. However, if existing problems persist, the prospect is one of slow market growth and of an unstable economic and political environment. This may lead to an intensification of inward migratory pressure and increased labour market and social problems. Which of these two alternatives actually materialises is not solely determined by the actions taken by the countries themselves. The policies

48 Employment in export industries, 1990



adopted by the Community as well as the scale of financial and technical assistance offered, are likely to affect their ability to overcome structural problems and generate economic growth. Moreover, since for almost all of these countries the Community represents the major external market for their exports, the rate of growth it is able to sustain has a major influence on their prospects for development.

This also applies, if less so, to the rest of the world. The Community is such a major part of the global economy, in terms of the market it represents for both primary producers and manufacturers, that its growth performance affects the pace of development elsewhere. Sustained recovery of the European economy would not only be of internal benefit but would contribute significantly to a resumption of growth in the world as a whole.

Recent employment developments in Central and Eastern Europe

Since the process of political and economic reform began, all countries in Central and Eastern Europe have been in the grip of deep recession. This, caused in large measure by the collapse in trade both within the region and with the former Soviet Union — and exacerbated more recently by recession in the Community and other industrialised parts of the world — has made it much more difficult for Governments in the region to implement programmes of reform. It has led them, in particular, to slow down the transition to full market economies for fears of causing even larger job losses and greater social unrest.

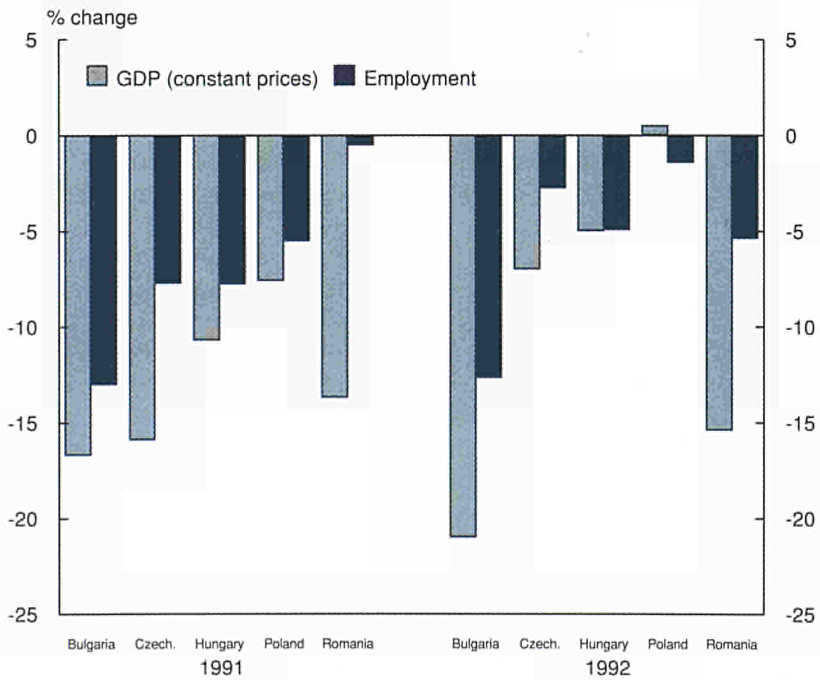
After two years of sharply declining output throughout the region, however, there were signs of improvement in 1992 in the economic situation in Poland, the former Czechoslovakia and Hungary. In Bulgaria and Romania, however, production continued to decline unabated and in most parts of the region unemployment has climbed to levels comparable to those in the Community.

Moreover, the process of economic restructuring is still in its early stages in most parts of the region and large-scale losses of unviable jobs remain in prospect.

Output developments

Output, as measured by GDP, declined throughout Central and Eastern Europe in 1992, except in Poland where, according to the latest estimates, output grew by ½% (Graph 49). This, however, was after a two year period when GDP fell by almost 20%. In Hungary, GDP declined by 5% in 1992, while in Czechoslovakia, the fall was estimated to be slightly greater at around 7%. In both cases, however, this was less than the rate of decline in 1991, when in the former case output fell by 11% and in the latter by 16%. (The reference here and elsewhere to Czechoslovakia relate to the country before the separation of the Czech and Slovak Republics at the beginning of 1993.)

49 Changes in GDP and employment in Central and Eastern Europe, 1991 and 1992



On the other hand, output continued to decline steeply in Bulgaria and Romania — by 21% and 15%, respectively, by even more in other words than the substantial falls recorded in 1991.

Trade developments

Recession in the region and the virtual collapse of the former Soviet Union economy has depressed traditional markets for exports since the reform process began. In the face of this, all the countries in the region have made great efforts, with some success, to shift their trade towards the Community and other market economies. As a result, 75% of Hungarian exports and 63% of Czechoslovakian exports went to market economies in 1992, while for Bulgaria, the proportion of trade with OECD countries went up by 17%.

Despite these achievements, however, trade with the industrialised world, and, in particular, the Community, has been severely affected by the slow growth of these economies, especially in 1992. Moreover, there is evidence of a shift in the composition of exports away from more sophisticated, high value-added manufactures, such as machine tools, towards basic products, fuel and raw materials.

Employment

On the latest estimates, employment declined throughout the region in 1992, the falls ranging from 5% in Czechoslovakia and Romania and 4% in Hungary to only just over 1% in Poland (Graph 49).

In Bulgaria, estimates of employment exist only for the state sector and these show a fall of 13% in 1992. While this fall was clearly offset by an expansion of employment in the private sector, from the figures on business creation, it was unlikely to have been enough to prevent the total number of people in work from falling significantly.

Whereas the decline in employment in Bulgaria was probably on a similar scale as in 1991 — the numbers in the state sector fell by the same amount in the two years — in Hungary, Czechoslovakia and Poland, it was markedly less (in 1991, the fall was 8% in the former two, 6% in the latter). In Romania, on the other hand, the decline in 1992 was on a much larger scale than a year earlier when it was under 1%.

As in Bulgaria, the decline in employment in 1992, as in 1991, was very much concentrated in the state and cooperative sector throughout the region. Although job creation in the private sector continued to increase at a rapid pace in all of the countries, it was not sufficient to compensate for large-scale job losses in the traditional part of the economy. The private firms established were predominantly small businesses with few if any employees — other than the proprietors themselves.

In Czechoslovakia, for example, the 1.7 million small businesses and sole proprietorships which had been created by the end of 1992 employed just 700 thousand workers (as well as 700 thousand self-employed for whom the business was their main occupation rather than an additional activity on top of another job), only some 400 thousand more than at the beginning of the year.

Employment in agriculture rose in Romania in both 1991 and 1992, as a result of the privatisation of land. In the other countries apart from Poland, the numbers employed in agriculture have declined markedly — more so than in other sectors — since the reform process began. In both Hungary and Bulgaria, agricultural employment is recorded as having fallen by around 20% in 1992, following significant falls in 1991 (of over 15% in Hungary). In Czechoslovakia, a decline of 13% is estimated for 1992, which would mean a fall of 30% since 1990. Although these figures exaggerate the extent of reduction in the case of Czechoslovakia and Hungary because of a reclassification of some activities from agriculture to industry or services — and the exclusion of some private farms in Czechoslovakia — they are nevertheless indicative of a substantial decline in employment in this sector (Graph 50).

Although employment in industry declined in all countries in 1992, apart from in Romania, the fall was smaller than in 1991. This was particularly the case in Bulgaria, where despite the apparent substantial fall in industrial output, employment in manufacturing fell by only 3% in 1992 following a fall of almost 20% in 1991. This was similar to the decline in Poland, where industrial output increased in 1992 and where, in contrast to Bulgaria, there seems to have been a significant reduction in the scale of overmanning, which all the evidence suggests is substantial.

In Czechoslovakia, on the other hand, employment in manufacturing is estimated to have declined by around 6% in 1992 following a fall of 9% in 1991, much less than the fall in industrial production, while employment in other parts of industry seems to have changed by relatively little. In the light of this apparent increase in overmanning — or social employment — it is relevant to note that while the first wave of the so-called large privatisation (ie relating to large enterprises) occurred in 1992, this really only meant that the ownership of the enterprises included was transferred from the state to private individuals (through the distribution of coupons). The management of the enterprises affected remained largely the same and there was little change in the way they operated.

In Hungary, estimates suggest that manufacturing employment fell by 8%, only slightly less than the year before and on a similar scale to the decline in output.

The largest fall in industrial employment in 1992 occurred in Romania, where it is estimated to have been as much as 15% in manufacturing, following a fall of 10% in 1991. The scale of the decline, however, was still much less than the reduction in industrial output.

Most of any new jobs created in 1992, as in 1991, were in services where the growth of private business has been largely concentrated. Precisely because of this, however, and because of the fact that, as noted above, these new businesses are predominantly small firms, the data on changes in employment in services are particularly unreliable. This is especially the case where survey methods of collecting information on this sector — in Bulgaria and Romania more than the other three countries — are still very much in the process of being developed.

The estimates which have been made suggest that employment in services in 1992 declined in Bulgaria and Romania — in the latter by only 1% — remained broadly unchanged in Poland and increased in Czechoslovakia and Hungary. Within services, a major growth areas seems to have been distribution, hotels and restaurants, for which all countries apart from Bulgaria show an expansion in employment even though the many very small businesses which increasingly are coming to characterise these activities are almost certainly underrecorded.

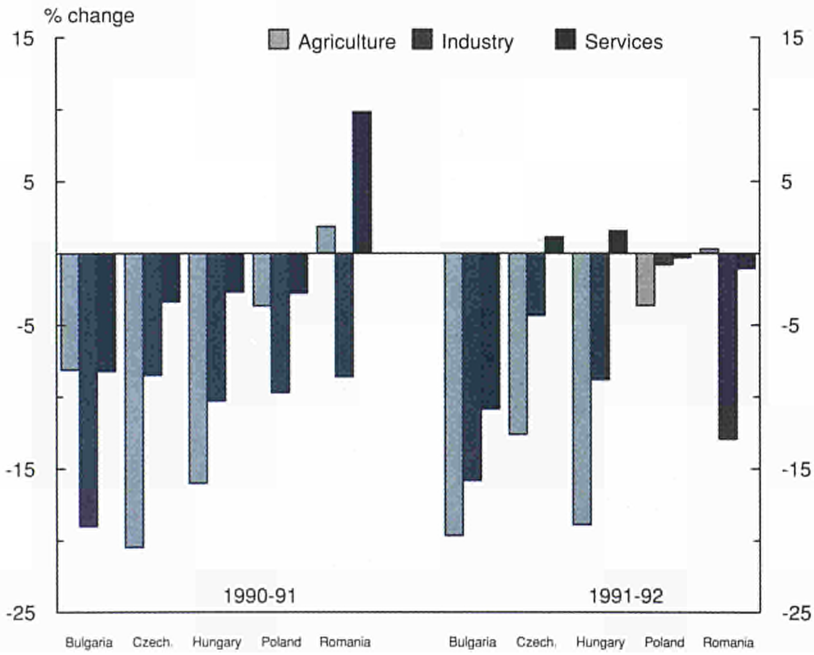
The other area which was significantly underdeveloped under the former regime is banking, finance and related services. Although jobs in this sector are estimated to have risen in most countries in 1992 — Poland being an exception — they are still very small in number, accounting for only around 1% or less of total employment. By contrast, employment in health and education, a much larger sector, either remained unchanged — in Hungary and Romania — or declined in 1992.

Unemployment

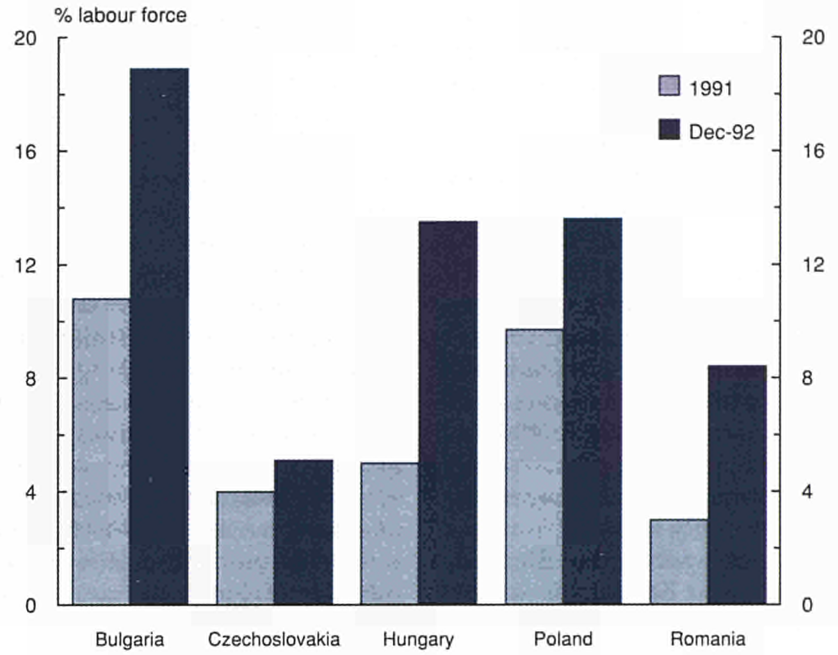
The only figures for unemployment which existed in 1992 for three of the five countries are for those registering at labour offices (the exceptions are Hungary and Poland where Labour Force Surveys have been established). As is well known, these are liable to give a misleading indication both of the rate at any one time (because significant numbers do not register and because some of those on the register will either be in work or not actively looking for a job) and of changes over time (because the regulations applying to registration are liable to change). Nevertheless the registration figures at least give an impression of the scale of the problem and the pace and direction of change.

With the exception of Czechoslovakia, where the registered rate fell

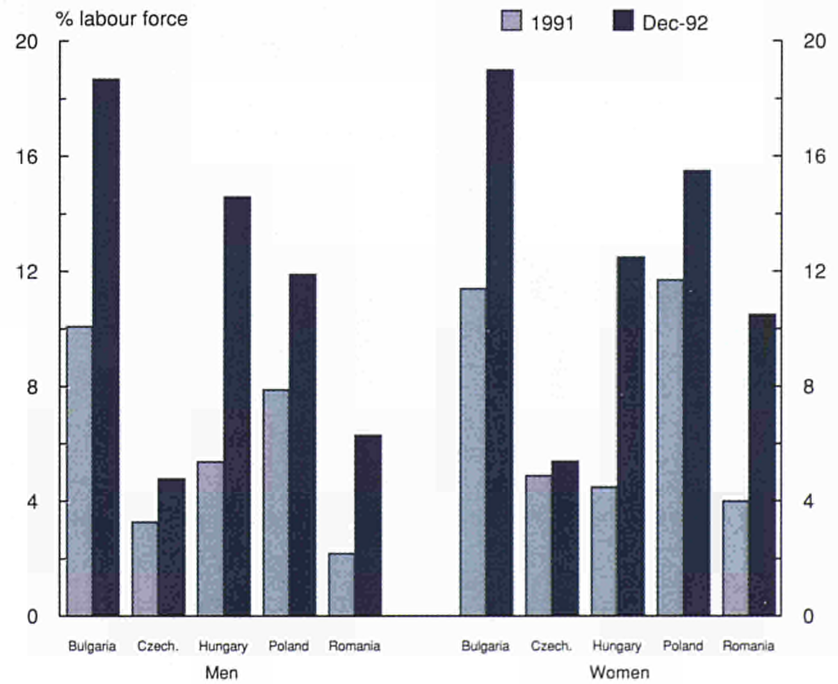
50 Changes in employment by sector in Central and Eastern Europe, 1990-1992



51 Unemployment rates in Central and Eastern Europe, 1991 and 1992



52 Unemployment rates of men and women in Central and Eastern Europe, 1991 and 1992



during the year from 6.5% to 5%, unemployment continued to increase significantly in 1992 throughout the region. While there was sign of a slowdown in the rate of increase in Poland, where the rate rose to 13.6% at the end of 1992 from 11.6% at the end of the previous year, this was much less the case in the other three countries (Graph 51).

The rise was particularly steep in Hungary, where the registered rate increased from 7.7% at the end of 1991 to 13.5% 12 months later (although the figure from the LFS at the end of 1992 was significantly less at 10.4%). The increase was only slightly less pronounced in Romania, where unemployment was not officially recognised until the end of 1990 — later than elsewhere — the rate had reached 8.4% by December 1992, up from only 3% one year earlier.

Unemployment also continued to rise significantly in Bulgaria in 1992 to over 15% at the end of the year as compared with an average rate of under 11% in 1991. In Bulgaria, moreover, the results of the Census of Population suggested that the actual numbers of unemployed, defined according to international conventions, was around 100 thousand — over 15% — more than the registered numbers.

In all of the countries, except for Hungary, more women were registered as unemployed than men in 1992 as in 1991. This was especially the case in Romania, where the rate was 10.5% for women at the end of 1992 as against 6.3% for men, and Poland, where it was 15.5% for women and 11.9% for men (Graph 52).

The most marked features of unemployment throughout the region are, first, that disproportionate numbers of those out of work are young people; second, that an increasing proportion have been unemployed for a long time; and, third, that less skilled people are much more affected than more skilled, though in some countries, eg Poland, unemployment is also a significant problem among skilled workers. The first two features, as to some extent the third, are a reflection of the inadequate rate of new job creation, which is far too low to provide employment both for those entering the job market for the first time and for those who have been thrown out of work.

In Poland, the rate of unemployment among those aged under 25 was around 30% at the end of 1992, while in Hungary, it was approaching 20% (both figures from LFS). In Romania, well over half of those registered as unemployed in December 1992 were under 30, while in Bulgaria, the figure was around 45%.

Although in Czechoslovakia, the rate of unemployment among the young is lower than for the other countries, it was still almost twice as high as the average rate for the workforce as a whole at the end of 1992. Moreover, the fall in the rate was less than for other age groups during the year.

The numbers of unemployed who had been out of work for more than a year increased markedly in 1992 in all countries for which data are available. In Poland, some 44% of the unemployed fell into this category at the end of 1992, while 13% had been out of work for more than two years. In Hungary, where the steep rise in unemployment was more recent, in December 1992, 30% of benefit recipients had been receiving benefits for more than a year. In Romania, where unemployment only manifested itself at the beginning of 1991, 26% of the total number registered had been out of work for more than nine months.

In Czechoslovakia, despite the fall in unemployment during 1992, the long-term unemployed represented 30% of the total by the end of the year.

Future prospects

While there were clear signs of an improvement in the economic situation in parts of the region in 1992, it remains unclear, whether this will be sustained and whether it will spread to other parts.

In Poland, the government forecast is for growth of 2% in 1993, while in Hungary, there is hope that despite the restrictive measures implemented in September 1992, there will be some recovery in the economy in 1993 or 1994. In Romania, it is hoped that unemployment can be kept within the range 9–12%, though this may be difficult if at the same time policy is aimed at reducing inflation from 200% to 70–80% while subsidies on consumer goods are withdrawn (as from the 1st May 1993) and remaining price controls are gradually relaxed.

In all the countries, the prospects for employment in the short and medium-term are greatly affected by the future pace of the reform programme — in particular, not so much the speed with which the larger state enterprises are privatised but more especially the time horizon over which the criteria by which they are managed are changed to emphasise market as opposed to social objectives, such as job preservation. Throughout the region, large-scale job losses are an inevitable result of this process.

It remains to be seen whether economic growth can be achieved at a rate high enough to create sufficient employment in other sectors to compensate for these losses. This will depend not only on the policies pursued within each of the countries, but also on their collective success in securing economic expansion as well as on growth in the Community and other parts of the world, both of which are essential to provide the growth in trade which is critical for restructuring and development.

Chapter 4 Towards an integrated European labour market?

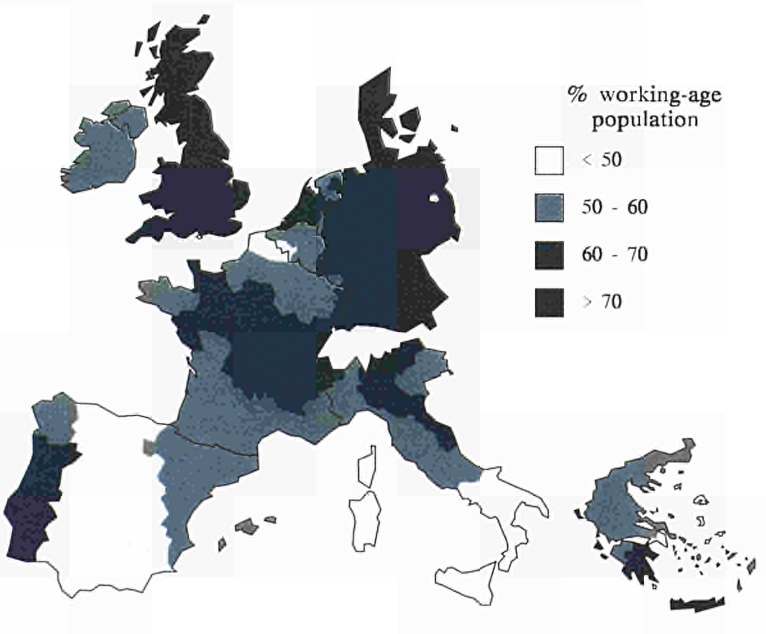
There are extreme variations in wages and labour costs across the Community which reflect major differences in productivity. Variations in the educational attainment levels of the workforce are equally wide. There is, however, very little movement of labour between Member States.

Progress in establishing economic union in the Community, with the dismantling of barriers to competition in the supply of goods and services in Member States, has focused attention on the operation of European labour markets. This interest is of varying kinds. There is a concern that labour markets should function in a way which is conducive to increasing economic efficiency and the competitiveness of European producers — major aims of economic union. Labour should be available in sufficient quantities with the skills and qualifications demanded and at a price which ensures that production is profitable.

Equally, there is a concern that pay levels, and the terms and conditions of employment prevailing in these markets, should be compatible with the achievement of the social welfare objectives which economic union is intended to facilitate. In particular, the pursuit of greater economic and social cohesion, in the form of a narrowing of disparities in income per head and an improved balance of employment opportunities across the Community — which at present vary widely (Map 9) — is a key commitment in the Maastricht Treaty.

There can be some difficulties in striking the balance between economic and social objectives. While wage levels may need to be low in relation to labour productivity in areas with excess labour supply — and high unemployment — in order to attract businesses to invest and create jobs, they should not be so low as to jeopardise social cohesion. Similarly, while it is desirable, and legitimate, to raise standards of health and safety at work and improve working conditions generally in many parts of the Community, this must be weighed against the

M9 Working-age population in employment, 1991



cost involved to businesses concerned and the possible adverse effects on employment creation.

The theory of labour market integration

The movement towards a more integrated European labour market has, in practice, taken two forms. In the first place, the implementation of the single market programme has made it possible in many sectors of economic activity for businesses to locate production in whichever part of the Community is best for them and, therefore, potentially to create employment in areas where jobs were scarce. This has been accompanied by the removal of controls on financial flows to enable capital to exploit investment opportunities in places in which capital formation was previously inadequate.

In the second place, it has become increasingly possible for people to move from one Member State to another in order to take up employment by eliminating legal restrictions on labour mobility and by promoting a common recognition of qualifications.

This can help people living in areas where jobs are scarce — especially in relation to the skills they possess — to move to areas where there are labour shortages, and to allow firms to recruit labour from across the Community. The effect should, therefore, be to even out variations in supply and demand conditions in local labour markets and to reduce the incidence of skill shortages — and, accordingly, the potential constraints on production and efficiency to which they give rise.

To the extent that such movements take place — and to the extent that supply and demand conditions do affect pay levels — a further effect should be to reduce variations in wages between one part of the Community and another. These effects should also tend to result from the increased mobility of business and finance. In other words, insofar as there is a tendency for capital to move to areas where labour is relatively abundant, where wages are relatively low and where investment opportunities remain to be exploited, this should also support convergence in labour market conditions.

Indeed, in principle — under certain simplifying assumptions — both wages and labour market conditions across the Community would fully converge over time even if there were no movement of labour at all so long as capital was perfectly mobile. Under the same assumptions, convergence would also follow if labour were perfectly mobile and capital did not move.

In practice, Community policy is based on capital flows being the primary means towards convergence rather than labour movements. Mobility is viewed more as a means of widening the career opportunities for individuals, wherever they happen to live, rather than as a mechanism of labour market adjustment. Indeed, there are compelling reasons why substantial movement of labour from depressed to prosperous regions is likely to prove undesirable, not least because of the cumulative loss of incomes in the former region and the additional pressure on social and physical infrastructure in the latter which tends to result.

Nevertheless, interregional migration of labour in a number of countries has, historically, been an important means for people living in areas of high unemployment to find work. At the margin, therefore, it could still have a role to play in the future in helping to equalise employment opportunities across the Community. Increased flows of capital on the scale required to narrow the gap in economic performance and prosperity between rich and poor regions across the Community depend, in large measure, on there being profitable opportunities to exploit in the poorer areas. While this depends partly on labour being available in these areas at relatively low cost, wage levels — and costs of production more generally — are only one element in the profitability equation.

In particular, a suitably qualified and educated workforce, with the requisite skills and experience, may be equally important since this can be a key determinant of productivity and, therefore, of unit labour costs. In addition, low wages do not necessarily ensure high levels of product design, quality, innovation and after-sales support, which studies and interviews with companies indicate are critical factors behind long-term competitive success.

External factors which are outside the control of individual firms, such as the efficiency of communications and the support services available, also have a major influence on business efficiency and profitability. Indeed, the existence of a minimum standard of economic and social infrastructure is likely to be a prerequisite for any substantial inflow of private capital — hence, the importance of public investment in less developed regions, and the reason for Community support through the Structural Funds.

Issues addressed

The concern of this chapter is to examine four major features of the European labour market and the way they vary across the Community.

It begins, first, by considering the disparities which exist in income per head across the Community. This is an important indicator of cohesion. However, in itself it is not sufficient for judging the extent of convergence in economic performance and social conditions. Equally significant is the employment generated by a given level of GDP and the way that this is distributed between individuals and social groups. The chapter, therefore, considers the differing combinations of labour productivity, numbers in employment and hours worked which exist in labour markets across the Community.

It goes on to examine differences in average wages and labour costs which underlie disparities in income per head and which are both a reflection and a determinant of variations in economic performance. It identifies the extent of the difference which exists between Member States and regions as regards labour costs in manufacturing and particular industries and the division between wage and non-wage costs. It also reviews the changes in relative labour costs which occurred over the 1980s — at both the national and regional level — and relates these to changes in both productivity and unemployment in order to assess the effect on costs of changing labour market conditions.

The third group of issues examined concerns access to education and training of young people in different parts of the Community and variations in the average level of educational attainment of the labour force from one area to another. This is a key factor underlying variations in productivity and economic performance insofar as it determines both the skills which employers are able to draw upon and the ability of workers to adapt to changing technology — and changing skill requirements.

Finally, it examines the issue of labour mobility and, specifically, the scale of labour movement within the Community between Member States. Important questions in this regard concern, not only the extent of labour migration and how this compares with overall migration flows and the size of the indigenous workforce, but also the typical age of those workers who move.

The employment intensity of economic activity

In order to assess variations across the Community in the performance of Member States — or their labour markets — in providing employment for the people who live there, it is instructive to examine the relationship between the potential workforce they have available and the level of income which is generated. This can be done by decomposing GDP per head of population of each Member State, which is a measure of its relative prosperity, into three constituent parts:

- the productivity of its workforce, measured by the GDP produced per hour worked;
- the average number of hours worked by each member of the workforce;
- the proportion of the population which is in work and therefore contributes to GDP.

These three together determine the level of GDP per head by identity ($Y/N = Y/H \times H/E \times E/N$, where Y=GDP, N=population, H=total hours worked and E=numbers in employment). This shows the way in which productivity, working hours and the participation of people in the labour force are combined in each country to produce a given level of GDP.

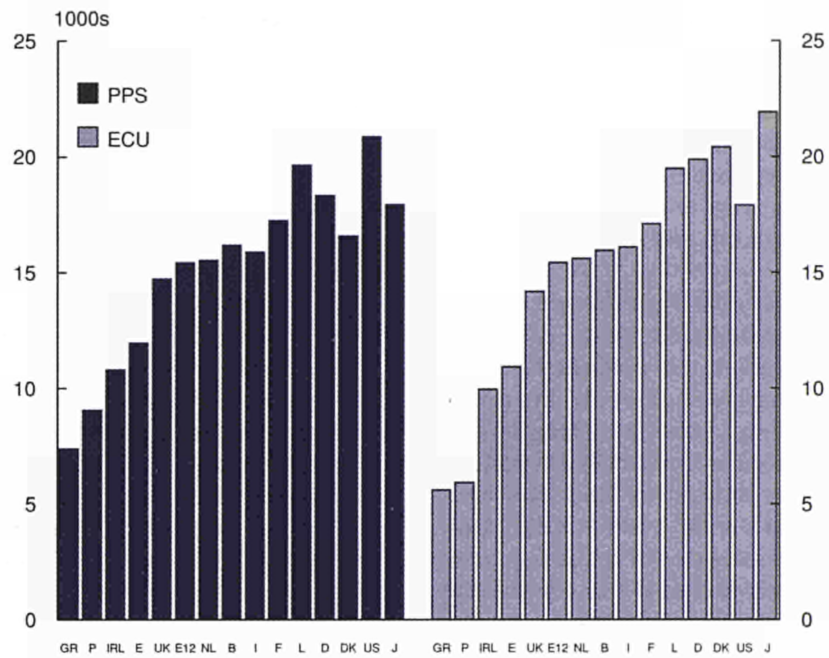
The interest is not only to see how this varies between Member States at different stages of economic development and prosperity, but also how this varies between Member States at similar levels of development.

Income per head

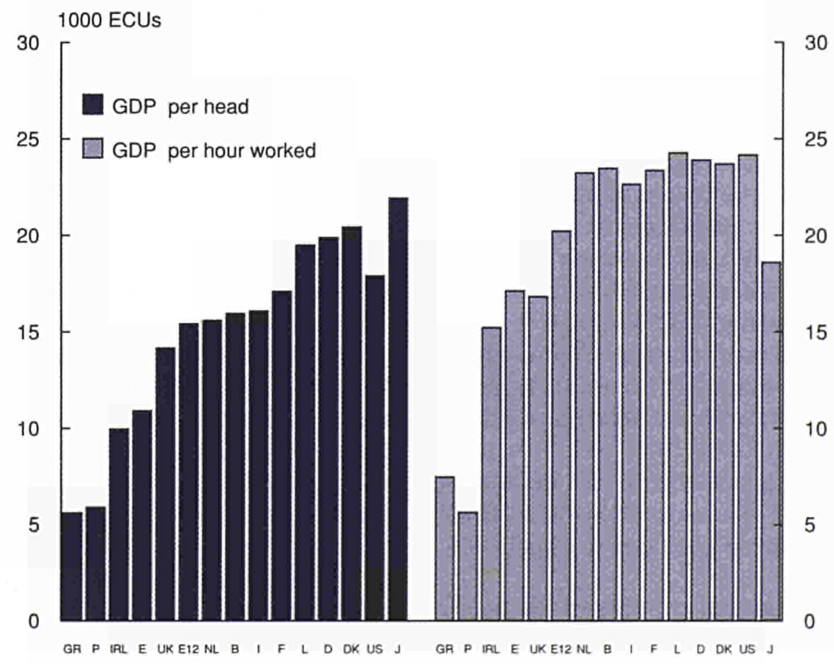
There are wide variations in prosperity across the Community. In 1991, Greece, the poorest Member State, had a level of income per head, measured in terms of purchasing power standards (ie in terms of the goods and services which it is capable of buying), of just 38% of the level in Luxembourg, the richest country (Graph 53).

While there are marked differences between the relative prosperity of the poorer countries — income per head in Spain was over 60% higher than in Greece — the major divide is between the four less developed Member States — Portugal, Ireland and Spain as well as Greece — and the others. In 1991, Spain, the ninth most prosperous country of the 12, had a level of income per head almost 25% below the UK, the eighth richest — about the same gap as between the UK and Germany (excluding the new East German Länder).

53 GDP per head in the Member States, US and Japan, 1991



54 GDP per head and productivity in the Member States, US and Japan, 1991



In comparison with Community countries, the US in 1991 had an average level of income per head (measured on the same basis) some 6% higher than that of Luxembourg. The level in Japan was slightly lower than in Germany but higher than in France, the second and third most prosperous countries in the Community.

Variations in income per head between Member States measured in terms of purchasing power standards (PPS) generally reflect differences in GDP per head in terms of ECU and, for most countries, the adjustment has only a small effect on relative income levels.

The main effect is at the two extremes. The level of GDP in Denmark is reduced by almost 25% in 1991 once its effective purchasing power is taken into account, and the levels in Greece and Portugal are increased by over 30% and 50%, respectively (Graph 53). For other countries, PPS adjustments change GDP by less than 10%.

The adjustment to PPS terms also makes a substantial difference to the comparison with the US and Japan. In ECU terms, Japan has a level of GDP per head in 1991 over 20% higher than that of the US — over 7% higher than that of Denmark or Germany — whereas it has a level almost 15% lower when compared in terms of PPS.

In contrast to Japan, GDP per head in ECU terms in the US was some 10% lower than in the latter two Community countries, but in terms of PPS it was over 10% higher. (It should be emphasised that this comparison is heavily influenced by the exchange rate between the US dollar — or indeed the yen — and the ECU prevailing at the time, which is a reason for using PPS figures for comparative purposes.)

Productivity

Although productivity, as measured by GDP per hour worked, varies between Member States in a similar way to GDP per head of population — in the sense that richer countries have higher levels of productivity than poorer — the relationship is by no means uniform.

Among the more prosperous countries — those with GDP per head above the Community average — the extent of variation in productivity in 1991 was much smaller than the variation in *per capita* income (8% between the highest and lowest as opposed to over 30%).

This indicates that countries differ significantly in the income they generate from a given level of labour efficiency (Graph 54).

In Denmark, for example, productivity was little higher than in the Netherlands. However, because of differences in average hours worked and in the relative numbers of people in employment, Denmark's income per head was over 30% higher than in the Netherlands.

Similarly, Germany — with much the same level of GDP per hour worked as Belgium — succeeded in generating almost 25% more income per head, because it has a higher proportion of its population in employment.

Among the less prosperous Member States, the UK has a much lower level of productivity than other Northern countries, with the exception of Ireland. In 1991, productivity was over 25% lower than in the Netherlands, for example, and slightly lower than in Spain. However, the UK compensated for its low productivity by having more people in work. This pushed up its *per capita* income above that of Spain and closer to levels in other Northern countries (its GDP per head in ECU terms was 30% higher than in Spain and less than 10% lower than in the Netherlands).

Much the same is true of Portugal. In 1991, productivity was almost 15% lower than in Greece. However, by having a much higher proportion of its population in work, GDP per head in Portugal (in ECU terms) was 5% higher than in Greece.

Average GDP per hour worked in the US in 1991 was similar to the level in Germany. In Japan, however, productivity measured in these terms was considerably less than in Germany — over 20% lower. Indeed it was lower than in many other Community countries, being less than 10% above the level in the UK or Spain.

This may seem surprising in view of Japan's reputation for high efficiency. While this is certainly the case for manufacturing — and, even more so, for high tech sectors within manufacturing — it is not true so far as the service sector is concerned. In effect, high levels of employment relative to output in services more than offset high productivity in industry. This has had the effect of making Japan a country with comparatively low overall productivity and a high level of employment.

Much the same, though to a lesser degree, can be said of a number of Community countries. Denmark has a high level of income per head, especially when measured in ECU terms, but its relative prosperity is based on providing jobs for more of its people than other Member States with a similar level of productivity.

The UK and Portugal have a higher proportion of their people in employment than would be expected given their relatively low levels of real income per head.

Average hours worked

Countries with relatively low levels of productivity have tended to compensate for this by working longer hours — the exceptions being the UK and Portugal which compensate by having more people in work. Although average hours worked by each person employed vary much less than productivity, there are, nevertheless, significant differences between Member States.

In 1991, those in employment worked an average of almost 44 hours a week in Greece as compared with less than 33 hours a week in the Netherlands — in other words, around a third more hours (Graph 55). Except for the UK, all the countries with productivity — and income per head — below the Community average worked more than 41 hours a week on average. All those with above average levels of productivity worked less than 40 hours a week.

To some extent, differences in working time reflect differences in the importance of agriculture (where hours of work are uniformly higher than in other sectors). Mainly, however, it arises from the fact that people employed in four of the five low productivity countries — Greece, Portugal, Spain and Ireland — work longer hours in industry and services than in other countries. This reflects both the longer hours worked by those who are employed on a full-time basis and the limited use of part-time work (Graph 56).

Variations in hours worked across the Community are broadly consistent with the view that people choose to work fewer hours as income per head rises. This is confirmed by the changes which occurred over the 1980s. For example, between 1983 and 1991, the normal working week of those employed full-time in industry and services declined in all countries where GDP per head was above the Community average, except for France where it remained unchanged. In all countries where it was below the Community average, except for Greece, it increased (Graph 56).

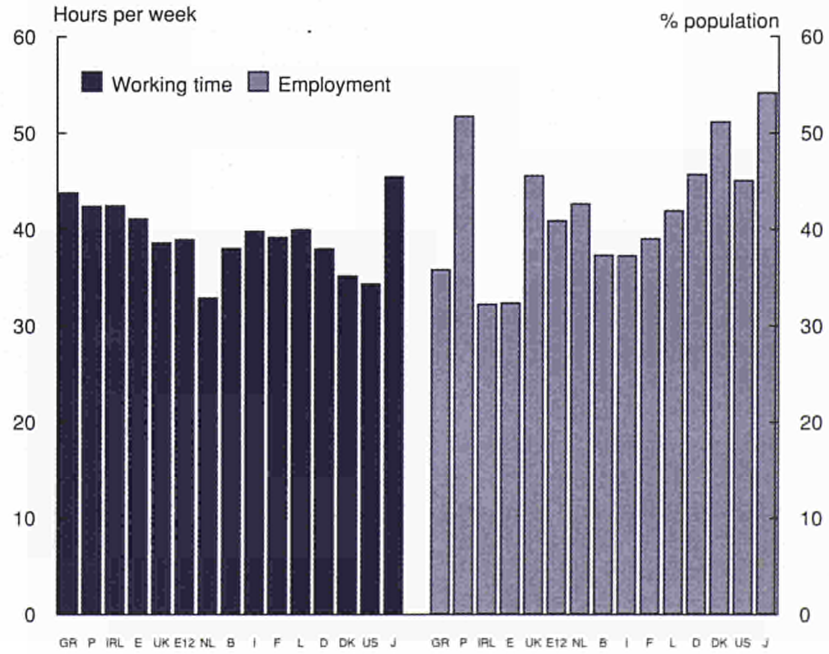
The relationship between hours worked by full-time employees and the importance of part-time working is also interesting. The Netherlands and Denmark, where full-time workers have shorter hours than anywhere else in the Community, also have higher proportions of people working part-time. Similarly, in Greece, Portugal, Spain and Ireland, where average hours worked were relatively high, comparatively few people worked part-time — under 5% in the three Southern countries in 1991, under 10% in Ireland. In these countries, therefore, the two elements were working in the same direction. In the Netherlands and Denmark it was to reduce average hours worked and raise the numbers in employment. In the other four countries it was to increase average hours.

By contrast, the two elements were working in opposite directions in the UK and Italy. In Italy, the proportion of people working part-time is well below the Community average and similar to that in other Southern Member States, even though full-timers work relatively short hours. The comparative absence of part-time working may, therefore, in this case reflect cultural and social differences between the North and South of the Community, especially as regards the employment of women who represent the vast majority of part-time workers. They also reflect, as noted in Chapter 6, differences in regulations surrounding employment and the constraints imposed by both legislation and collective agreements.

In the UK, the reverse is the case, with full-timers working long hours but part-time employment being, nevertheless, much more prevalent than in most other parts of the Community. The explanation perhaps lies partly in the relatively low rates of pay and productivity in the UK which may deter people from reducing their hours of work and may also encourage women to work in order to boost household income.

In comparison with the Community, average hours worked are relatively low in the US and high in Japan. Indeed in Japan, even though average hours have fallen significantly over the recent past, the average person employed in 1991 worked longer hours — almost 4% more hours — than in Greece, which is one factor producing the high level of Japanese income per head.

55 Working time and employment rates in the Member States, US and Japan, 1991



Employment relative to population

While average hours worked tend to fall as income per head rises, the proportion of the population that is employed tends to increase. In 1991, Denmark and Germany, with the highest levels of *per capita* GDP in the Community, had many more of their people in work (51% and 46½%) than Spain, Ireland and Greece, three of the four lowest income countries (33–37%) (Graph 55). As noted above, however, the UK and Portugal are exceptions, with below average income per head and a much higher proportion of their population in employment than the Community average (46–47%, about the same as in Germany).

Nevertheless, the general tendency seems to be for countries to increase the numbers in employment as income per head rises. Growth of income — and productivity — can be seen, in other words, as providing the opportunity for the available work to be shared among a larger proportion of the population. In both Denmark and the Netherlands, in particular, this has been reinforced by reductions in average hours worked.

From this perspective, both the UK and Portugal have succeeded in achieving a high level of participation in employment despite low levels of productivity, and, therefore, wages. In Portugal, this seems to have been achieved through expanding labour-intensive, low wage activities. In the UK, it has been achieved to a large extent by a high level of part-time working, which unlike in the Netherlands and Denmark, has not been accompanied by a reduction in average hours worked by full-timers. Indeed, in the UK, a high proportion of men work relatively long hours — for relatively low rates of pay — and a high proportion of women work part-time (44% as against a Community average of 28%) — again for relatively low rates of pay.

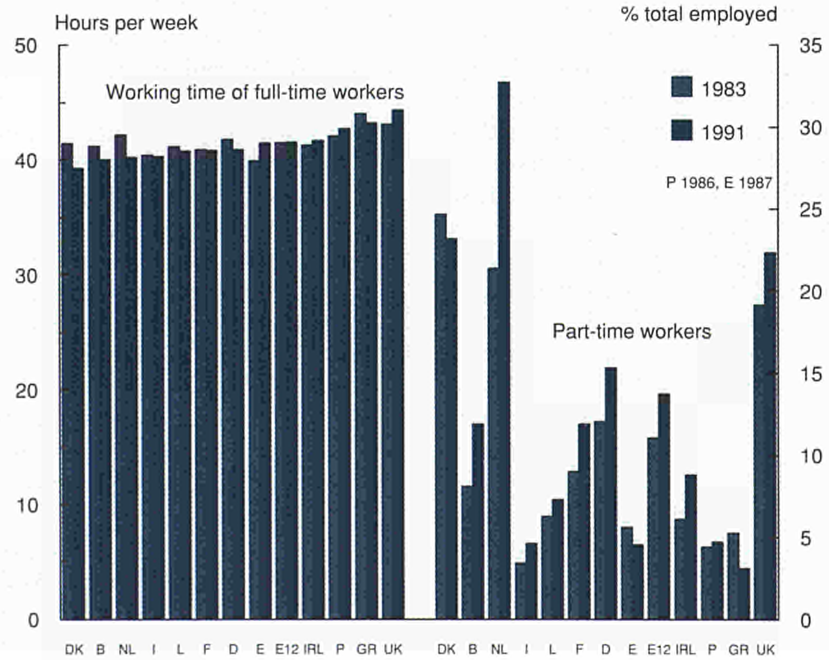
Both the US and Japan had higher levels of employment relative to total population in 1991 than the Community as a whole. In the US the level was only just above the Community average — reflecting the smaller share of people of working age in total population. In Japan it was over 30% higher than the Community average. In this case, it reflects high participation not among women but among older people who are a much larger element of the workforce than in the Community.

Productivity, work intensity and participation

The above analysis shows that the variations in income per head which exist across the Community conceal marked differences in the way in which productivity, hours of work and participation in employment are combined. In other words, it demonstrates that the way in which labour markets in different Member States serve to distribute available work, and by implication income, can differ considerably between countries with similar levels of prosperity.

In some countries, like Denmark or the Netherlands, a relatively high proportion of the population is engaged in work, with each person working a relatively small number of hours. (This is also the case in other Scandinavian countries, like Sweden or Norway, which have given higher priority to the maintenance of high levels of employment.) In other countries in the Community, like Belgium or Italy, levels of productivity and income per head are similar to those in the Netherlands, but a much smaller proportion of the population is involved in production and their average hours worked are significantly higher.

56 Full-time hours and numbers working part-time in industry and services in the Member States, 1983 and 1991



Such differences have important implications not only for access to employment and income but also for unemployment. Some simple calculations are illustrative. If, for example, average hours worked in Belgium were the same as in the Netherlands, and productivity remained unaffected, some 15% more people could be in work — twice as many as were recorded as unemployed in 1991. If hours worked were the same in Italy or France as in the Netherlands, some 20% more people could be in work — again more than the numbers unemployed.

The possibilities of actually bringing about such an increase in employment are constrained in part by the degree of internal cohesion which exists in the country in question — for example the structural imbalance in Italy between the North and the South — and the extent of consensus in favour of policies of redistribution.

In countries where productivity — and wages — are relatively low, the scope for a wider distribution of the available work is clearly more limited. Although both the UK and Portugal have achieved relatively high levels of employment, further moves in this direction are likely to encounter resistance from existing workers already earning relatively low levels of income. In such countries, the key issue is more likely to be how to raise productivity.

Japan provides an interesting lesson for the Community. Whereas the US is similar to the Netherlands or Denmark in combining high productivity and low average hours worked, in Japan, low productivity is combined with high average hours worked to produce both a relatively high level of income per head and a high proportion of people in employment. The means of achieving this is through high productivity, and a high degree of competitiveness, in manufacturing — or essentially the traded goods sector. This effectively serves to alleviate any constraint on the overall level of GDP and provides the income to support employment in services and, therefore, high employment in the economy as a whole. At the same time, average earnings in high productivity industries are not significantly higher than in low productivity sectors, so that income as well as work is shared in a relatively equitable way.

The co-existence of a high productivity traded goods sector and a low productivity non-traded goods sector, combined with the appropriate distribution of income, offers one way of potentially addressing Europe's unemployment problem.

Wages and labour costs

For most people in the Community, the level of income they enjoy is primarily determined by the wages they earn for the work they do. Growth of income per head, therefore, depends in large measure on real wages increasing. Equally a narrowing of disparities in *per capita* income between countries probably requires that real wages in the poorer Member States rise relative to those elsewhere — though it would also result if there were a relative increase in the numbers employed in relation to population in the poorer countries.

At the same time, increased prosperity depends on growth of GDP, which can only be sustained if producers in the country concerned remain competitive in both Community markets and those outside. Since wages are a major component of the cost of production, their relative level at any point in time has to be compatible with the maintenance of competitiveness and profitability.

This will only be the case if wage increases reflect increases in productivity, in the broad sense of being in line with the growth of value-added per unit of labour input. In other words, improvements in either the efficiency with which labour is used or in the marketability of the product produced — stemming from, for example, better quality or design — mean that wages can rise without damaging competitiveness and are, therefore, a means of securing increases in real income per head in a long-term perspective.

Difficulties arise, however, when relative levels of productivity in the broad sense used above change significantly — which can occur in particular sectors with, for example, the entry of new producers from other countries into the market, the introduction of new products or processes, or changes in government policy (eg towards the exchange rate or the growth of demand). This may mean that relative wages need to change equally significantly to maintain competitiveness — at least in the short-term before new processes or products are introduced — which may be incompatible with other, non-economic, objectives, such as the maintenance of acceptable standards of living, an equitable distribution of income or stable wage relativities.

Nevertheless irrespective of these potential complications, the important point to emphasise is that relative levels of wages across the

Community, or between the Community and other countries, can only be meaningfully interpreted in relation to differences in productivity. Ultimately, whatever measures are introduced to overcome the need for unacceptably large reductions in real wages, the level of labour costs in any sector must be consistent with the ability of producers to earn a reasonable rate of return.

This does not mean, of course, that wages must eventually fall to the point where production is profitable, given the competition from other countries — indeed rates of pay might be so low in other countries that such a policy would be futile. It does mean that costs per unit of value-added cannot be too far out of line with those in other countries, but this can be achieved in many different ways — such as improving productive efficiency or product quality, and therefore the price which the market will pay — other than by reducing wages.

Wage and non-wage labour costs

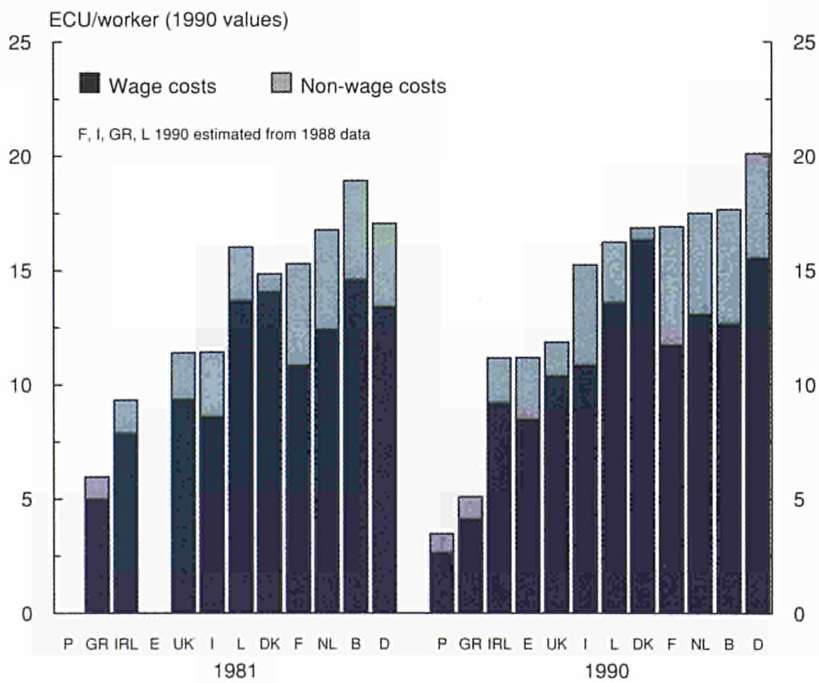
Labour costs do not only consist of the wages paid to workers. They also include so-called indirect, or non-wage, costs which businesses have to pay for every person employed. These consist mainly of social security contributions paid to government or payments made to pension or health schemes, both public and private. Since they are a substantial element of labour costs in a number of countries, they have to be included along with wages in order not to distort inter-country comparisons. Moreover, as explained below, they also need to be included in any comparison of real wage levels if this is not to be distorted too.

Non-wage labour costs vary markedly across the Community, bearing little relationship to the level of economic development or the generosity of the social security and social welfare systems. In 1990, they represented over 30% of total labour costs, on average, in France and just under 30% in both Italy and Belgium (Graph 57). In the UK, on the other hand, indirect costs amounted to only 13%, while in Denmark the figure was only just over 3%. For the other Member States, their weight ranged from 17% in Luxembourg and 18% in Ireland to 25% in Portugal and 26% in Spain and the Netherlands.

In all the Member States, apart from the UK and Denmark non-wage labour costs increased by more than wages *per se* over the 1980s. This was particularly the case in Belgium, where non-wage labour costs as a proportion of the total rose from 23% to 29% between 1981 and 1990, and in Italy, where they went from 25% to 29%. In Denmark, on the other hand, they declined from 5½% to 3½% of the total, while in the UK they fell from 18% to 13% (Graph 57, in which labour costs in 1981 have been adjusted to 1990 ECU values on the basis of the increase in price of manufactures over the Community as a whole between the two years; it therefore shows the change in labour costs in each country in relation to this general index).

From these figures it is clear that in some countries employers have to pay a substantial, and increasing, cost in addition to wages when taking on labour. In France, Italy and Belgium, this extra cost

57 Average hourly labour costs in manufacturing in the Member States, 1981 and 1990



amounts, on average, to almost 45% of gross wages, and often significantly more for higher paid employees (in France, for example, indirect costs in banking, where pay levels are relatively high, represent a 60% addition to gross wages). This may mean that when both taxes on wages and employees' social contributions are taken into account, the actual net wages received by employees are less than half the cost which employers pay for their labour.

On account of this, the cost of labour would, therefore, seem to be considerably higher in these three countries than in the UK or Denmark, so putting businesses at a serious cost disadvantage when competing with producers from the latter two countries. This, however, is much too simplistic a view.

In reality, the main reason why non-wage labour costs vary so substantially between Member States is to do with the choice which each has made over both the scale of expenditure on social security systems, the health service, retirement pensions and so on and the way it is funded.

If, for example, social systems are funded from general taxation, whether through taxes on income or expenditure, the net wages of employees in terms of purchasing power will correspondingly be reduced and they will accordingly need to earn a higher gross wage in order to achieve a given level of real income. Businesses in such countries, therefore, will tend to end up paying more in wages — ie more in direct labour costs — than in countries where employers' contributions are a larger funding source.

Similarly, if governments decide to reduce social security coverage or the level of service, benefit or pension provided and indirect labour costs are reduced as a result, businesses will not necessarily gain any advantage. Insofar as employees seek to compensate for this reduction in what they receive from the state by increasing their take-home pay to spend more on private schemes, there will be upward pressure on wages and in the end total labour costs may change by very little.

These examples illustrate the general point that the initial incidence of taxation does not necessarily correspond with the ultimate incidence, after taxes have been passed on to consumers or back to suppliers (of labour as well as of goods and services). They also indicate that governments may not be able to change the overall level of labour costs significantly merely by altering the structure of taxation and the way in which social welfare schemes are funded — except if there is an element of illusion or perhaps in the short-term during the process of adjustment to the new situation and except perhaps to the extent that different ways of funding social welfare affect the efficiency of the system. This should not be too surprising. If the reverse were the case it would imply that governments, through manipulating the tax structure, could permanently affect the division of value-added between profits and labour.

It is, therefore, difficult to demonstrate that the level of taxation and its broad structure have a major effect on the overall level of employment, at least insofar as taxes are matched by comparable levels of public spending. This tends to be borne out by the evidence.

Fiscal systems and employment

The overall burden of taxation, including social contributions, in 1990 varied from around 35% of GDP in Portugal and the UK to 43–44% in France, the Netherlands and Belgium and 48% in Denmark (Graph 58). These differences largely reflect the scale of public expenditure in the respective countries — which in turn reflects the extent to which countries choose to provide certain services collectively rather than rely on supply through the market. Apart from the Southern countries, which have generally shown a larger rise than elsewhere, the differences have also remained relatively stable over time.

The high tax burden in Denmark, on the one hand, and the low burden in the UK, on the other, coincide with relatively high levels of employment in both countries — although slightly higher in Denmark than in the UK. Equally, Belgium and the Netherlands have similar levels of taxation relative to GDP but significant differences in the proportions of their population in employment.

The division of revenue between taxes and social contributions, as well as between direct and indirect taxes, also varies significantly across the Community, giving rise to the differing importance of non-wage costs noted above. Employers' contributions in 1990 ranged from 12% of GDP in France and 9% in Italy and Belgium to 4% in the UK and the Netherlands and virtually zero in Denmark. In the former three countries, therefore, much more of the finance required for social benefits is raised from levies on employers, in Denmark and the UK, much more from general taxation. This means that though employers pay less in contributions in the latter two countries, they are likely to pay more in other ways, either directly or indirectly.

Although there is a broad, inverse relationship between the level of employers' contributions and the level of employment, it is not particularly close. Employment relative to population is higher in France than the Netherlands, for example, while Portugal has a similar level of contributions to Greece, but a much higher proportion of its people in work.

With only a few exceptions — the Netherlands, in particular — both the scale of social contributions and the broad structure of taxation in individual countries changed very little during the 1980s.

While the level of employers' contributions has an uncertain effect on employment, it is also the case that high levies on employers may tend to increase the incentive for avoidance — giving rise, for example, to more people working as self-employed if contributions can thereby be reduced — or to evasion, with producers employing people under informal arrangements and operating in the black, or grey, economy. While evasion is a general problem with any form of taxation, it is likely to be especially prevalent when the tax or levy in question is regarded as an unjust burden or when it is difficult to police. High employers' contributions in some countries may have both of these characteristics.

Moreover, by increasing the difficulty of comparing rates of pay between countries, large differences in the size of non-wage labour costs add to the problem of setting pay scales in the growing number of transnational companies in the Community and may distort decisions on where to locate labour and, therefore, production.

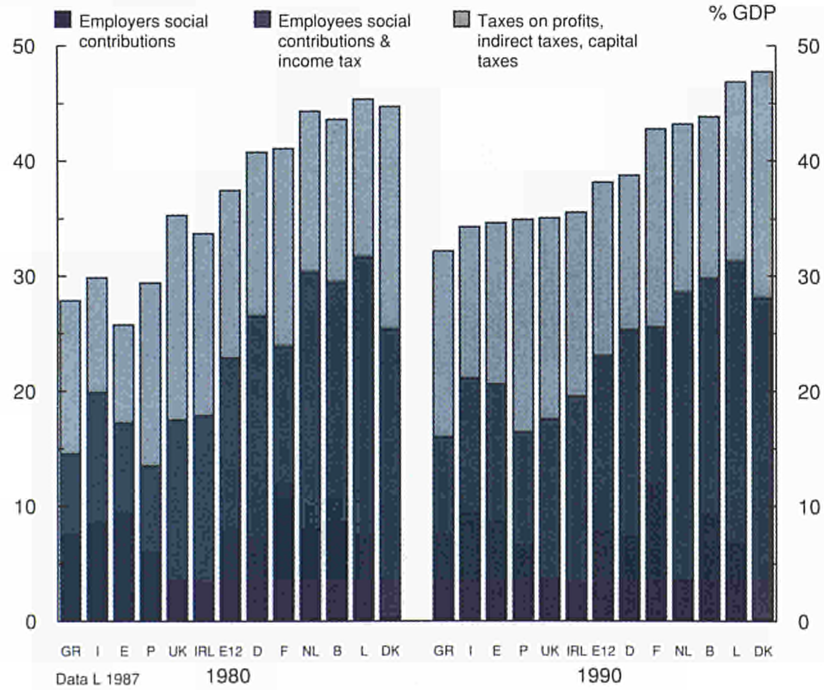
Finally it should be emphasised that although the broad structure of taxation may not affect employment, variations in the effective incidence of tax between sectors of activity might clearly do so. If there are differences in the rate of tax levied on particular products or services relative to others, then this will tend to affect relative costs of production and therefore the pattern of economic activity and employment. Since the employment intensity of production differs between sectors, such variations might also affect the total number of people in employment at a given level of output.

Labour costs in manufacturing

Average labour costs differ markedly across the Community. In 1990, the last year for which reasonably comparable data are available for most countries, average hourly labour costs in manufacturing ranged from over 20 ECU in Germany to $3^1/_2$ ECU in Portugal — a difference of almost six times (Graph 57). Moreover the average level of costs in Germany was 15% higher than in Belgium, the country with the next highest level of costs (Graph 59, which shows labour costs in each Member State in relation to the Community average).

Nevertheless for five Member States — the Netherlands, Belgium, France, Denmark and Luxembourg — average hourly

58 Taxes and social contributions in the Member States, 1980 and 1990



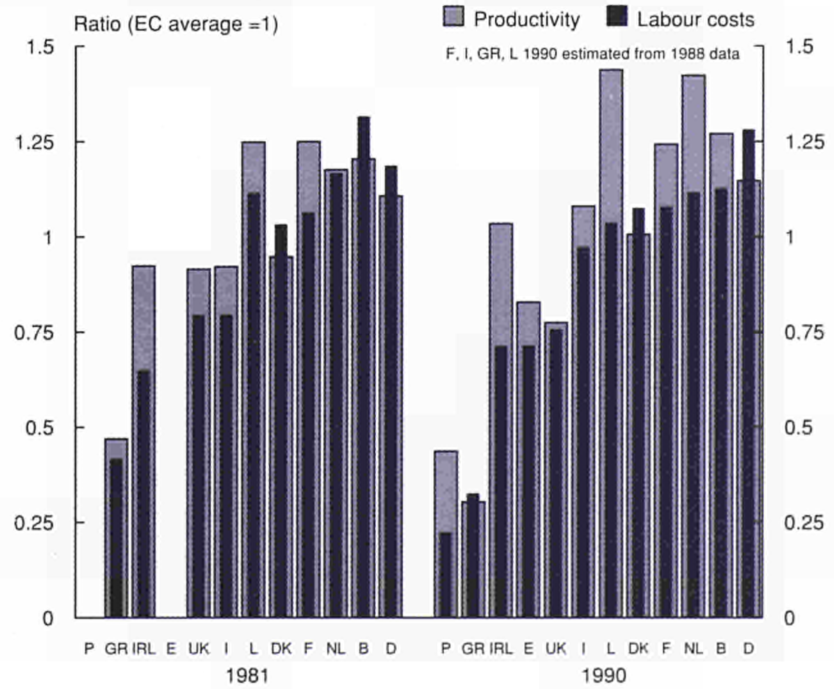
labour costs in manufacturing were within 10% of each other in 1990, with Italy only another 5% or so below and around the Community average. The UK which has a similar level of income per head to Italy, but lower productivity and many more people in work to produce this income, had a level of labour costs over 25% less than that in Italy — and indeed the Community average — and only just over 5% above the average level in Ireland and Spain (which was virtually the same). This, in turn, was over twice the level in Greece, where labour costs were still almost 50% above the Portuguese level.

The important factor for employers, however, is not the level of labour costs as such (still less any individual element such as social contributions), but their relationship to the value-added generated by the labour they employ. Whatever the level of labour costs, if the contribution of a worker to value-added is sufficiently high, then it will be profitable to employ him or her. The large differences in labour costs which exist are, in practice, closely related to equally large variations in value-added per hour worked in manufacturing, or productivity (see Box, p 93 for a description of how the estimates for this are derived). Although the relationship between the two is not precise, there was, nevertheless, a clear tendency in 1990 for those Member States with relatively high labour costs also to have above average levels of productivity (Graph 59). In terms of labour costs per unit of output, therefore, which is the key determinant of employment, there was considerably less variation across the Community.

In only two countries — Germany and Denmark — was the relative level of productivity in 1990 significantly (more than 10%) below the relative level of labour costs, implying that in these two cases labour was more expensive than elsewhere in relation to its contribution to production — or profits (ie unit labour costs were relatively high). On the other hand, in both cases, productivity as measured here could well be understated because it only partially takes account of differences in the number of hours worked per year (see Box, p. 93).

For four countries — the Netherlands, Luxembourg, Ireland and Portugal — average labour costs were significantly below the relative level of productivity in 1990, implying that unit labour costs were comparatively low in these cases. Although there may be some overstatement of productivity for the latter two countries especially, these four countries, by virtue of their low labour costs, seem to have represented a particularly profitable location for manufacturing.

59 Average hourly labour costs and productivity in manufacturing in the Member States, 1981 and 1990



Labour costs and business location

Although labour costs, as emphasised above, cannot be considered separately from the productivity of labour and while the latter is clearly an important determinant of the former, it does not follow that the potential returns of locating in a particular country can be assessed simply by comparing the level of labour costs with the level of apparent productivity — ie by comparing unit labour costs. This is because the latter does not necessarily reflect the productivity which would be achieved in the business locating in the country in question.

Insofar as companies can transport processes of production into the new location, the productivity achieved might be significantly higher than in existing businesses in the country, and the unit labour costs correspondingly lower. The ability to do this will clearly depend in large measure on the capacity of the workforce to operate these processes, which in turn will depend not only on their existing skills but also on their adaptability and receptiveness to new ways of working. As argued below, their level of general education is likely to be a major determinant of this.

Changes in labour costs in manufacturing, 1981 to 1990

The relative pattern of labour costs between Member States was broadly the same in 1990 as nine years earlier in 1981. The ranking of countries in terms of labour costs and the extent of differences in average levels seem to have changed little between the two years (Graph 59). This is true both for the gap between the highest and lowest labour costs — the lowest in this case being Greece, data for Portugal not being available for 1981 — which was the same in 1990 as in 1981 and for the differences between the more prosperous countries.

On the other hand, labour costs in Italy and Ireland, two countries where the level was relatively low in 1981, increased closer to the Community average over this period. Both these countries also experienced a marked rise in the relative level of productivity in manufacturing, so in these terms the increase was justifiable and had

Average labour costs and value-added per hour worked

The data on labour costs used in this chapter come from the *Survey of labour costs* organised by the Statistical Office every four years and updated in the years in between from estimates supplied by national statistical offices. The last year when a complete survey was conducted was 1988 and 1990 is the latest year for which estimates exist for most Member States. For the four countries for which no estimates are available for 1990 — France, Italy, Greece and Luxembourg — the 1988 figures have been used instead. These have been updated to 1990 value terms by assuming that the relationship between labour costs in each of these countries and the Community average was the same as in 1988.

The Community average which is the basis for the comparisons shown in the graphs is calculated by weighting the figures for labour costs by NACE industry in each Member State by the number of employees in that industry in the country concerned (the employment data used being those collected during the course of the labour cost survey).

The estimates of value-added per hour worked are derived from National Accounts data. These show value-added and persons employed for NACE-CLIO industries, and in each case the nearest NACE-CLIO industry to the NACE 2-digit industry for which the labour cost data are available is used. The labour cost figures for textiles and clothing and footwear are aggregated by using the data for employment as weights, as are the figures for banking and insurance, though for the latter, value-added — and productivity — comparisons are not very meaningful.

To derive estimates for the number of hours worked, LFS figures for average hours usually worked per week in the nearest NACE 1-digit sector are used and applied to the National Accounts Employment Data (see Chapter 1, Box, p. 33 for an explanation of why usual rather than actual hours are used). Since there is no complete and consistent set of data for the number of weeks (or hours) worked per year, the figures for each country are simply multiplied by 48 to give an estimate of annual hours worked. Because this does not take account of variations between Member States in the average number of weeks worked per year, it is, therefore, likely to overstate the hours worked in the more prosperous countries relative to the less prosperous and understate the extent of differences in hourly productivity.

little impact on the costs of production per unit of output and, therefore, their apparent level of competitiveness.

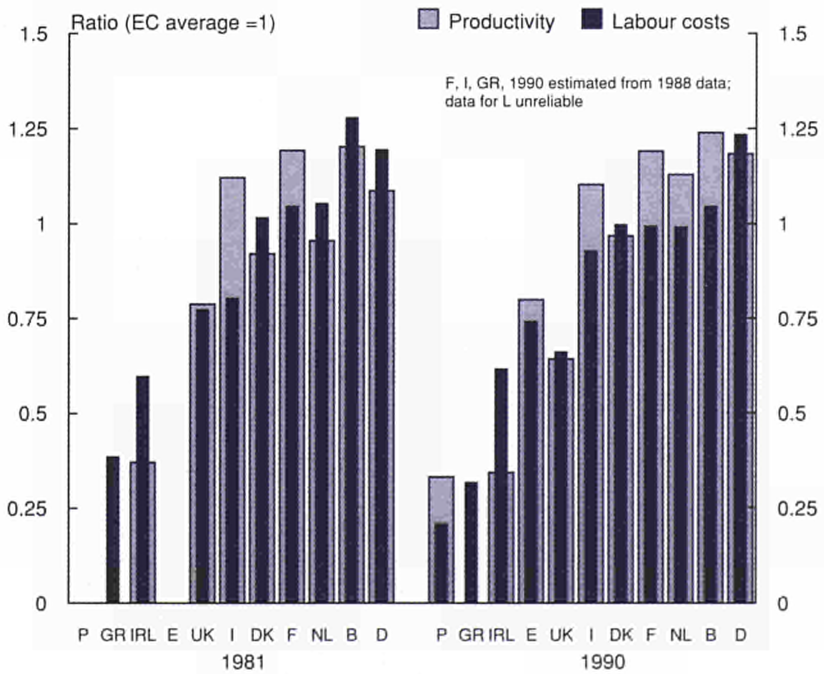
For most other countries as well, labour costs seem to have changed broadly in line with productivity between these two years. The main exceptions are Belgium, the Netherlands, Greece and the UK. In Belgium, labour costs fell in relation to the Community average while productivity rose, implying that the increase in wages did not match the growth in value-added, giving rise to a fall in unit labour costs and a marked increase in profitability. The same was true in the Netherlands, where although labour costs did not change much relative to elsewhere in the Community, productivity went up sharply.

In Greece and the UK, on the other hand, there was also little change in labour costs relative to the Community average, but in these two cases productivity fell, implying some rise in unit labour costs and a reduction in profitability in manufacturing as compared with other Member States.

Since the structure of manufacturing differs markedly across the Community, any analysis of variations in labour costs needs to take account of the possibility that such structural differences affect the aggregate figures and give rise to a misleading impression of the relative costs of producing in different locations. Ideally, the comparison should be conducted in terms of narrowly defined products, but no suitable data exist at this level. The most disaggregated figures available are for NACE 2-digit industries — 19 of which make up total manufacturing — each of which includes widely differing types of product. Nevertheless, these figures should at least give some indication of how representative the aggregate data for manufacturing are.

Two industries have been chosen for analysis here, mechanical engineering and textiles, clothing and footwear (which are, in fact, two NACE 2-digit industries as explained below). A service sector — banking and insurance — is also examined to see how far labour costs in services, which are only partially covered by the survey, differ from those in manufacturing.

60 Average hourly labour costs and productivity in mechanical engineering in the Member States, 1981 and 1990



Labour costs in engineering

The pattern of variation in labour costs in mechanical engineering is very similar to that for total manufacturing. In 1990, average hourly costs were some 18% higher in Germany than in other Member State and almost six times more than in Portugal (Graph 60). The average level in Belgium, the Netherlands, Denmark and France were within 6% of each other, while in Italy they were another 6% or so further below. As for total manufacturing, average costs in the UK are much lower still — in this case, almost 30% below the level in Italy and over 10% less than the level in Spain.

These variations are again very much in line with differences in value-added per hour worked (which, as for manufacturing are derived from national accounts statistics, see Box, p 93). Moreover the relationship between the two in 1990 was much the same as for manufacturing, relative labour costs in engineering being low in comparison with productivity in Belgium, the Netherlands, France, Italy and Portugal — giving rise to low unit labour costs — and high in Germany, Denmark and the UK.

The only significant difference from the picture for manufacturing is for Ireland, where labour costs in engineering were very high in relation to productivity — which raises a questionmark over the figure for the latter (which in the national accounts is estimated).

The changes in relative labour costs which occurred in engineering between 1981 and 1990 are also very similar to those for manufacturing as a whole and broadly consistent with the change in productivity, implying little change in unit labour costs.

Labour costs in textiles and clothing

Although the average level of labour costs in all Member States is less in textiles, clothing and footwear — especially in the latter two industries — than in total manufacturing or engineering, both the pattern and extent of variation across the Community is similar (Graph 61). (Textiles, clothing and footwear are, in fact, two NACE 2-digit industries which have been aggregated here in order to be able to compare with value-added per hour worked. The relationship between labour costs in the two industries is fairly uniform across the Community, the average level in textiles being some 15–20% higher than in clothing and footwear, except in the case of Ireland, where the difference was around 45% in 1990, the Netherlands, where it was 35% — though much less in earlier years — and Greece, where it was just over 25%.)

Nevertheless, there are some differences in the ordering of countries in terms of their cost levels. In particular, the highest hourly labour costs were found in the Netherlands and Denmark in 1990 rather than in Germany — where, however, the average level was under 4% lower — and these were some 13–14% higher than in Belgium or France. Moreover, costs in Italy in this sector were less than 4% below those in these latter two countries and over 60% higher than in the UK, whereas in engineering the average level was over 10% lower than in Spain and much the same as in Ireland.

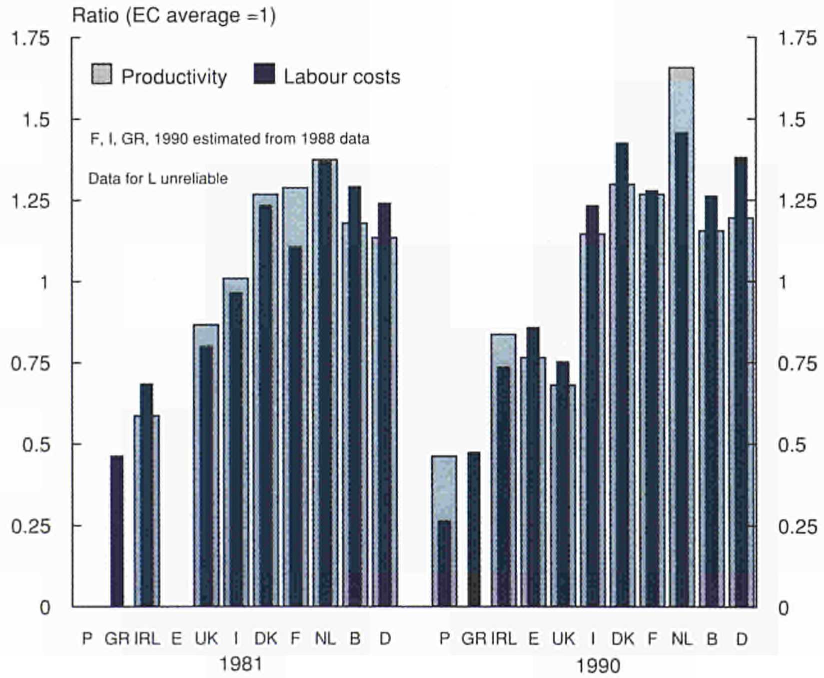
As before, the differences in labour costs are consistent with the variations in value-added per hour of labour input. Moreover, the pattern of relative costs in 1990 was not very different from that which prevailed nine years earlier.

Labour costs in banking and insurance

The inter-country pattern of average labour costs in banking and insurance — two of the few service sectors covered by the survey — differs markedly from that which seems common to manufacturing industries. Most significantly, there is much less difference in cost levels between the more developed and prosperous countries in the North of the Community — the UK apart — and the less developed, poorer countries mainly in the South.

In 1990, labour costs in these two sectors taken together — in this case monthly costs rather than hourly — were much the same in

61 Average hourly labour costs and productivity in textiles and clothing in the Member States, 1981 and 1990



Spain and Ireland as in France and the Netherlands and only some 20–25% below the level in Belgium and Italy, the countries with the highest costs (Graph 62). Indeed the level in both the former two countries was above the Community average, as was that in all other countries apart from the UK, Greece and Portugal.

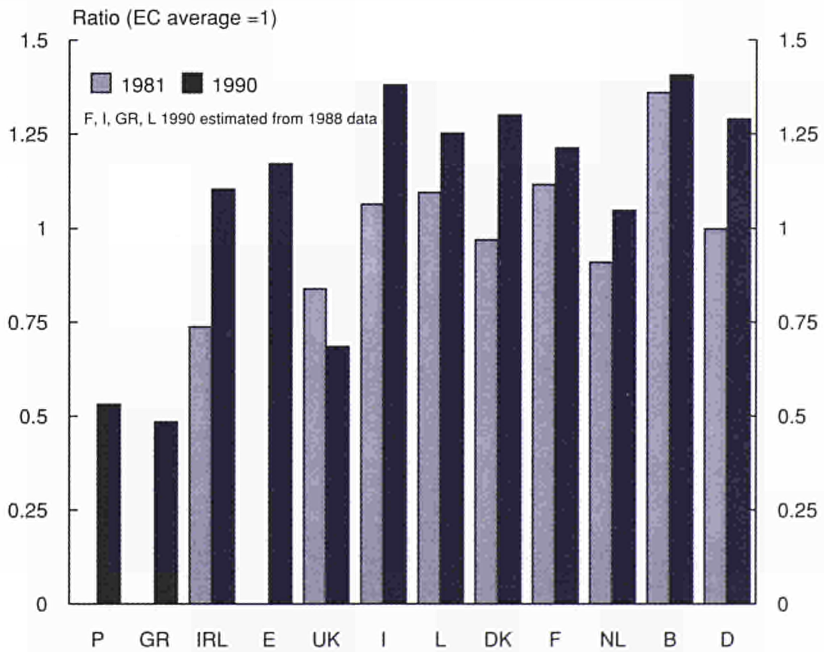
This essentially reflects the low level of labour costs in the UK, which was over 35% below that in France and over 45% below that in Italy, which given the large numbers of people employed in this sector in the UK — almost 30% of the total in the Community — effectively pulls down the Community average. For the UK, therefore, the difference between its average labour costs and those in Member States with similar levels of income per head was greater for banking and insurance in 1990 than for manufacturing — which, as noted, above was substantial.

This contrasts with the much smaller difference in labour costs in this sector between other low wage countries and the rest of the Community. The reason for the disparity is by no means clear, but it could partly reflect a different structure of employment in banking and insurance in the UK — a higher proportion of young people and women whose rates of pay tend to be relatively low — as compared with other countries.

The gap between labour costs in this sector in the UK and those in other Member States, moreover, widened rather than narrowed over the 1980s. Indeed the level of costs relative to the Community average fell by around 15% between 1981 and 1990, while, partly as a reflection of this, the level increased in most other Member States (Graph 62).

In contrast to manufacturing, therefore, there were some marked changes in the pattern of relativities in banking and insurance over this period, Ireland, for example, where labour costs were below the UK in 1981 moving well above the Community average in 1990.

62 Average monthly labour costs in banking and insurance in the Member States, 1981 and 1990



Regional variations in labour costs

Just as labour costs differ between Member States, so too do they vary between different regions in the same country. In a number of cases, such variations are substantial and add significantly to the extent of cost differences across the Community as a whole. Unfortunately, the absence of value-added data for regions makes it impossible to examine labour costs in relation to productivity at this level and, therefore, to distinguish variations in unit labour costs.

Unfortunately also, the latest labour cost data available at the regional level are for 1988 (for regions, the data are not updated between one four-year survey and the next) and relate to broad regional aggregations (NUTS level 1 — 11 per country for Germany, Italy and the UK) rather than narrow ones. These, however, give an indication of the scale and nature of variation in cost levels. They show, in particular, that Community countries differ markedly in the extent of regional differences, possibly reflecting the varying importance of national level sectoral agreements on pay scales in relation to local agreements.

It should be recognised, however, that the variation might also reflect the way regional boundaries are drawn. In particular, if a region consists predominantly of a large city then this is likely to increase its relative wage level, whereas if it is defined to include a number of smaller towns and rural areas, this will tend to push down the average level.

Regional differences were smallest in Germany, though still significant. In 1988, the difference between average labour costs in manufacturing in regions where these were highest — Hamburg in the North — and the region where they were lowest — Saarland in the South — was 27% (Graph 63). In mechanical engineering, the difference was only 18% and in textiles just 15%, whereas in clothing and footwear, it was over 46%. Moreover, apart from the latter industry, there was very little relationship between relative labour costs in one area of production and those in another. The Rheinland-Pfalz region in the South-East of the country, for example, had the lowest level of average labour costs in mechanical engineering but the highest in textiles in 1988, while Berlin was almost the exact reverse.

In France, on the other hand, regional differences in labour costs are at their widest, though largely because of the high level of costs in one region, Ile de France around Paris. In 1988, the average level in manufacturing in this region was 56% above that in Brittany (the Ouest region) and 27% above the level in the next most costly region, the Mediterranean. The level was also higher than in any region of Germany, apart from Hamburg, and in textiles, clothing and footwear, it was higher even than there. With the exception of the latter industry, where labour costs in many cases were on a par with those in Germany, costs in French regions, other than the Ile de France, were significantly below those in German regions — by around 25% or so on average.

In contrast to Germany, the relative level of labour costs in different industries, with the exception of textiles, showed much the same pattern of variation between regions, though the range of difference was narrower in mechanical engineering — 30% between the highest and lowest costs — than in other areas (68% in textiles).

Variations in labour costs between Italian regions were on a similar scale in 1988 to those in France in individual industries, though smaller for manufacturing as a whole. Between the highest cost region — North-West — and the lowest — Abruzzi-Molise in the South — average labour costs in manufacturing differed by 40%, but by 55% in mechanical engineering (for the same regions) and by over 70% in clothing and footwear (the lowest cost regions in this case being in the far South).

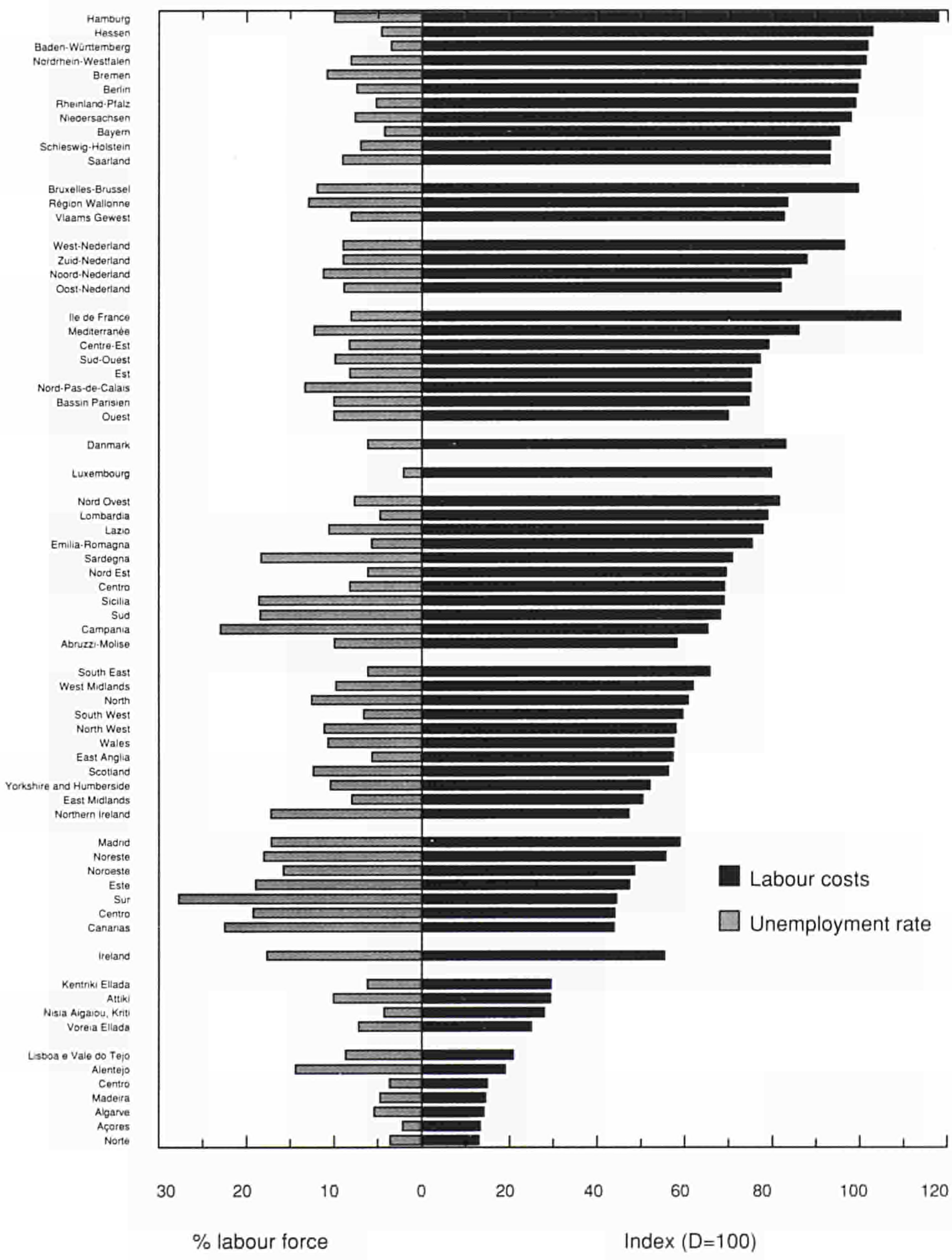
In general, regions in the South of Italy had lower labour costs than those in the North in 1988, the average difference in manufacturing being around 15%. In individual industries, however, the difference was larger. In mechanical engineering, it was around 20% and in clothing and footwear over 40%. At the same time, differences are by no means uniform as between different parts of the North and South, but vary markedly from region to region. In Sicily and Sardinia, in particular, average labour costs in manufacturing were similar to those in the North-East and Central regions in 1988 and some 20% above those in Abruzzi-Molise. In clothing and footwear, however, in contrast to other industries, labour costs were some 30% lower in Sicily than in either of these two Northern regions.

Although average labour costs in Italy as a whole were some 10% lower than in France in 1988, the level in the North of the country was very similar to that in French regions outside Ile de France, though some 20–25% below those in the lowest cost German region. In the North-West, for example, average costs in manufacturing were higher than in all French regions except for Ile de France and the Mediterranean region, and in clothing and footwear were virtually the same as in the latter. Indeed in this industry, costs in the North of Italy were at a similar level to those in many German regions, and in the North-West, higher than in all but four.

In the UK, regional variations in costs were smaller than in either France or Italy, though larger than in Germany. For manufacturing as a whole, average labour costs were over 30% higher in the South-East around London in 1988 than in Northern Ireland, while for clothing and footwear, the difference between the highest and lowest cost region was over 50% (in this case, between East Anglia and Wales).

As for Germany, the pattern of regional variation in costs is far from uniform between individual industries. Although levels tended to be higher than average in the South-East and South-West in most industries and lower in Northern Ireland, for other regions there were marked differences. East Anglia and Scotland, for example, both had a level of labour costs below the national average in 1988 for manufacturing as a whole, but the former

63 Labour costs in manufacturing and unemployment rates across the Community, 1988



had the highest level in clothing and footwear and the latter in mechanical engineering.

Despite these internal variations, average labour costs in manufacturing in the highest cost UK region, the South-East, were still some 35% below the average level in Germany in 1988 and around 15% below the level in Northern Italy or France, outside Paris. This means that the level was similar to that in the South of Italy. Labour costs in most other parts of the UK were therefore significantly lower than in the Southern Italian regions — in Northern Ireland, some 30% lower.

In Spain, where average labour costs in manufacturing were around 15% lower in 1988 than in the UK — a gap which had been closed for the most part by 1990 — the variation in the levels between regions was of a similar size. In Madrid, the highest cost region for both manufacturing as a whole and most individual industries, costs in manufacturing were almost 35% above those in the Centro region and in clothing and footwear over 75% above. Labour costs in manufacturing in the other industrial regions — the North-East and the East, around Barcelona — were some 5% lower than the average for Madrid in the former case and almost 25% lower in the latter, with similar disparities in most individual industries.

With the exception of Madrid — where cost levels were similar to the average for the UK in manufacturing and higher than in any British region in mechanical engineering and clothing and footwear — labour costs in Spanish regions in 1988 were slightly lower than in the lowest cost UK regions. In clothing and footwear, however, levels were much the same.

For the smaller Community countries, regional variations in labour costs tend to be much smaller as would be expected. Portugal, however, is an exception. Here, average levels in manufacturing in Lisbon and the surrounding region were almost 60% higher in 1988 than in the Northern region, though the differences were somewhat smaller for individual industries (45% for mechanical engineering and textiles, 30% for clothing and footwear), reflecting variations in the structure of manufacturing.

Nevertheless, average labour costs in Lisbon were significantly below any other part of the Community in 1988 — over 15% lower than in the lowest cost Greek region. In the Northern region, where costs are the lowest in Portugal, the average level in manufacturing was just 11% of the average in Hamburg, the highest cost German region.

Although regional variations in labour costs are less in Belgium and the Netherlands than in the larger Member States, they are not insignificant. In 1988, the average level in manufacturing in the Brussels region of Belgium was almost the same as the average for Germany and higher than in six German regions, while in the West Netherlands region around Amsterdam, it was higher than in three German regions. Moreover in textiles in both West and South Netherlands and in clothing and footwear in Brussels, average costs were higher than in all but one German region.

Labour costs and unemployment

The details on regional labour costs provide an opportunity for examining how far relative levels are related to differences in labour market conditions as reflected in rates of unemployment. By and large, insofar as the demand for labour in relation to supply affects wages, regions with relatively high levels of labour costs should also have relatively low rates of unemployment.

The expected relationship is not quite so simple, however. In particular, the position at a given moment in time does not reveal how the two variables are changing relative to each other and, therefore, may give a misleading impression of whether markets forces are operating effectively to reduce regional imbalances. In other words, the static position cannot indicate, for example, whether an excess supply of labour at low cost is tending to attract inward investment and is therefore tending to reduce unemployment or whether high wage levels somewhere else are tending to choke off demand for labour and serving to push up unemployment.

Moreover the relationship is likely to be affected by the characteristics of different regions — whether they consist predominantly of a large city, for example — and by the extent of interregional commuting. In addition, it should be noted that the labour cost data analysed here relate only to part of the economy rather than to all of it.

Nevertheless the relationship between regional labour costs and unemployment rates is of some interest. In Germany, labour costs in manufacturing are slightly higher on average in the North than the South, though there are a number of exceptions. Unemployment rates, with fewer exceptions — Saarland being the main one — are also higher in the North than the South, which is the reverse of what might be expected from a simple model

(Graph 63). This is particularly true of Hamburg which had the second highest unemployment rate in Germany in 1988, but by far the highest level of labour costs, partly reflecting its city status. In Bremen, which had the highest unemployment, labour costs were also above the German average. By contrast, Bayern with one of the lowest rates of unemployment had a level of labour costs 5% below the national average. Indeed, the average rate of unemployment in 1988 in regions with below average labour costs in manufacturing was slightly less than the average rate in the higher cost regions (by around ½%).

Part of the explanation for this seemingly perverse relationship might lie in time lags in the adjustment of relative wages to changes in labour market conditions. High labour costs in the North of Germany, in other words, tend to reflect labour market conditions in the past when this was the most prosperous and dynamic part of the country. The unemployment rate in 1981, for example, was only 3% in Hamburg, below the national average. Insofar as this is part of the explanation, however, it would imply that such time lags are of long duration and that the wage adjustment process works only very slowly — at least in Germany.

For France, there is only slightly more evidence of an inverse relationship between labour costs and unemployment. Whereas Ile de France with by far the highest labour costs in manufacturing also had the lowest rate of unemployment in 1988, as indeed throughout the 1980s, the Mediterranean region, with the next highest level of costs, had one of the highest unemployment rates both in 1988 and earlier years. Similarly, while labour costs were relatively low in Nord Pas de Calais where unemployment was at its highest, they were similarly low in the East region where unemployment was not much higher than in Ile de France. Moreover Brittany, where labour costs were lowest in 1988, had unemployment around the national average.

For Italy, on the other hand, the relationship is much clearer, but only so far as the comparison between the low unemployment North and the high unemployment South is concerned. Between regions within both areas, there is little sign of any inverse association between labour costs and unemployment. For example, Abruzzi-Molise in the South with the lowest labour costs in the country had an unemployment rate in the 1980s which was below that in Lazio and only slightly above that in the North West, two of the three highest cost regions.

For the UK, an inverse relationship is also evident in broad terms, with the South-East, the highest cost region, having the second lowest unemployment rate in 1988 and Northern Ireland, the lowest cost region, the highest rate. On the other hand, in the North labour costs were above the national average but the unemployment rate was the second highest and in East Anglia, where the rate was the lowest of all, labour costs were below average. Similarly, the East Midlands had labour costs which were almost 15% lower than the UK average in 1988 and an unemployment rate also significantly below average throughout the 1980s.

For Spain, the relationship between labour costs and unemployment resembles that in Italy, in that Madrid and the Northern regions where labour costs are relatively high had below average rates of unemployment in 1988, while the low cost regions in the South, together with the Canaries, had comparatively high rates.

Changes in regional labour costs, 1981 to 1988

Over the 1980s, the extent of regional variation in labour costs narrowed slightly in the case of Germany but widened in the case of France, the UK and Italy (no comparable data exist for Spain and Portugal before 1988). Apart from in the UK, the ordering of regions in terms of cost levels remained much the same over the period.

In Germany, between 1981 and 1988 the difference between average labour costs in manufacturing in the highest cost region — Hamburg in both years — and the lowest cost region — Schleswig-Holstein in 1981, which was marginally above Saarland in 1988 — declined from 30% to 27%.

In general, labour costs rose by more in the South than in the North over this period. This is broadly in line with relative movements in unemployment, which rose by less in the Southern regions than in the North of the country. Indeed the two regions which experienced the highest increase in unemployment rates between 1981 and 1988 — Hamburg and Bremen — also showed the largest fall in relative labour costs, Saarland apart. The latter region is the major exception to the general tendency, having one of the lowest rises in unemployment but the biggest fall in labour costs relative to the German average.

In France, on the other hand, the cost difference widened over this period from 46% to 56% as the level in Ile de France rose in relation to the national average (from 27% above to 32% above) and the level in Brittany fell (from 87% to 84% of the French average). Apart from the East region, where relative costs fell significantly, and the South-West, where they rose, regional relativities remained largely unchanged. In a number of individual industries, however, labour cost differences between regions narrowed as levels rose in the lowest cost areas relative to other parts of the country. In mechanical engineering, for example, average costs in the South-West increased by almost 10% relative to the French average, while in textiles, they rose by over 15%.

The relationship between these relative labour cost changes and the movement in unemployment between 1981 and 1988 is much less clear for France than for Germany. Although Ile de France, which experienced among the lowest increases in the rate of unemployment over this period, had by far the largest rise in labour costs, the East region, where unemployment also rose by comparatively little, had the largest fall in costs. Similarly, Nord Pas de Calais suffered the biggest rise in unemployment, but its average labour costs went up by only slightly less than the national average — and less than in Brittany, where the rise in unemployment was much the same as in France as a whole.

In Italy, the difference between the highest and lowest cost regions widened only marginally for manufacturing as a whole, but much more significantly for individual industries. In clothing and footwear, in particular, average labour costs in the North West, the highest cost region, rose by almost 10% relative to the national average between 1981 and 1988, while relative costs in the South region, the lowest cost area, fell by 15%. As a result, the level of labour costs in this industry in the North West increased from over 17% below the average for Germany to 2% above over this period, while in the South the gap remained more or less the same.

These differences between the movement in costs in individual industries and in manufacturing as a whole make it difficult to interpret the relationship between changes in labour costs and unemployment over the 1980s in Italy. Since unemployment rates increased by considerably more in the Southern regions, Abruzzi-Molise apart, than in the North (by around 7% on average as opposed to 1%), labour costs should have risen by much less in the former than the latter insofar as they are affected by the supply and demand for labour. While this is true for clothing and footwear, it is much less the case for other industries and not at all true for manufacturing as a whole, where if anything labour costs went up by more in the South than the North.

In the UK, regional differences in labour costs widened significantly both for manufacturing as a whole and for individual industries. For manufacturing, the gap between the highest and lowest cost region was only 22% in 1981, much less than in the other three major countries. By 1988, it had widened to 31%.

Relative cost levels in individual regions also changed significantly, by far more than in the other countries. In Wales, for example, labour costs in manufacturing which were almost 6% above the UK average in 1981 had declined to over 2% below by 1988, with falls in relative levels of over 10% in mechanical engineering, textiles, clothing and footwear. In the West Midlands, on the other hand, a region severely affected by job losses in manufacturing in the early 1980s, labour costs rose from 4% below the national average to 5% above over the same period.

These relative changes in labour costs are broadly in line with changes in labour market conditions. The West Midlands experienced the largest fall in unemployment rates (by 4%) and the biggest rise in labour costs, Yorkshire and Humberside, the biggest increase in unemployment ($1\frac{1}{2}$%) and the largest decline in labour costs relative to the national average (by over 8%).

On the other hand, there were a number of exceptions to the general tendency. The North was the only other region to experience a rise in the rate of unemployment over this period (by 1%) but showed only a small fall in relative labour costs (also by 1%). Similarly, in Northern Ireland, unemployment fell by more than the national average, but relative labour costs also fell (by 7%) and in Wales, the reduction in unemployment was only slightly less than in the rest of the country, but relative labour costs declined sharply (by 8%).

Education levels of the workforce

A high level of education and training is clearly important in many areas of economic activity. Most obviously, the development of new products and of new techniques of production depends to a large extent on harnessing the skills of highly trained scientists and engineers. Equally the introduction

Educational attainment levels

All respondents of 15 and over are asked in the Community Labour Force Survey about the highest level of general education completed. The classification of levels is based on the International Standard Classification of Education (ISCED). The analysis in the text relates to those people who have completed the second stage of second level education, referred to in the text and graphs as post-compulsory education, and/or third level education, referred to in the text as university or equivalent education.

The former covers courses undertaken generally after basic schooling, such as basic vocational training or preparatory courses for university. The latter covers specialist professional courses and university degree and postgraduate courses. (It should be noted that the data relate to initial training and do not include continuing "in-firm" or "on-the-job" training, which clearly might be an important determinant of skill levels. At the same time, the ability of the workforce to pick up new skills and enhance existing ones is likely to be related to the level of education and basic training received.)

While the figures for different countries are broadly comparable, there seem to be a few differences in the way certain levels of education are defined. In most countries, the completion of second stage, secondary level education is defined in terms of passing an examination or completing a training course. Clearly, however, the severity of the examination or standard of training might vary between countries.

Equally the content or structure of courses of education and training, which cannot be taken into account here, might differ significantly between Member States and be more relevant in some than others as a preparation for employment.

The results of the LFS have been checked against OECD data on educational attainment and in most cases they are comparable. For the UK and France, however, significant differences exist. For France, where the LFS data seems to show much lower proportions of the workforce with post-compulsory education qualifications, the reasons for the difference have not so far been clarified. As a result France is excluded from the analysis.

For the UK, there is a large difference so far as the numbers classified to the second stage of secondary level education are concerned. This arises from a difference in the treatment of those who have obtained Ordinary Level qualifications ("O" level). These are awarded on the basis of examinations usually taken at the age of 16 at the end of compulsory schooling. In the OECD statistics, anyone with one "O" level is classified to second stage level two — ie is classified the same as someone who has passed Advanced level exams ("A" level) usually taken after two years further study at the age of 18. In the Community LFS, "O" levels are classified as first stage secondary level education, which is much more in line with the treatment of similar exams in other countries.

It would, therefore, seem that the OECD figures for the UK substantially overstate those completing what is termed post-compulsory education here.

of more efficient methods of working hinges on the ideas of people with organisational expertise as well as, increasingly, on the application of computerised information systems.

To remain competitive, given the increasingly rapid international diffusion of information, businesses do not necessarily have to develop all innovations in-house. They do need, however, to have personnel capable of implementing them at all levels of operation. Just as importantly, they also need to have a labour force with the capacity to change the way they work in line with the innovations introduced.

There is increasing evidence that how well they are educated is a key determinant of the ability of workers to acquire new skills and to adapt to changes in technology and methods of working. For businesses deciding on the location of production, therefore, a labour force with a high average level of education may be as important as the possession of specific skills or expertise which in a rapidly changing world might soon become redundant.

The Community Labour Force Survey for 1991 for the first time collected reasonably reliable information on educational attainment. Despite the differences which exist in education systems between Member States, these data seem sufficiently comparable to provide an indication of variations in levels of education and basic vocational training of the workforce across the Community — though, it should be noted, no comparable data exist for France (see Box, for a description of the data and a definition of the terms used below to denote different levels of educational attainment).

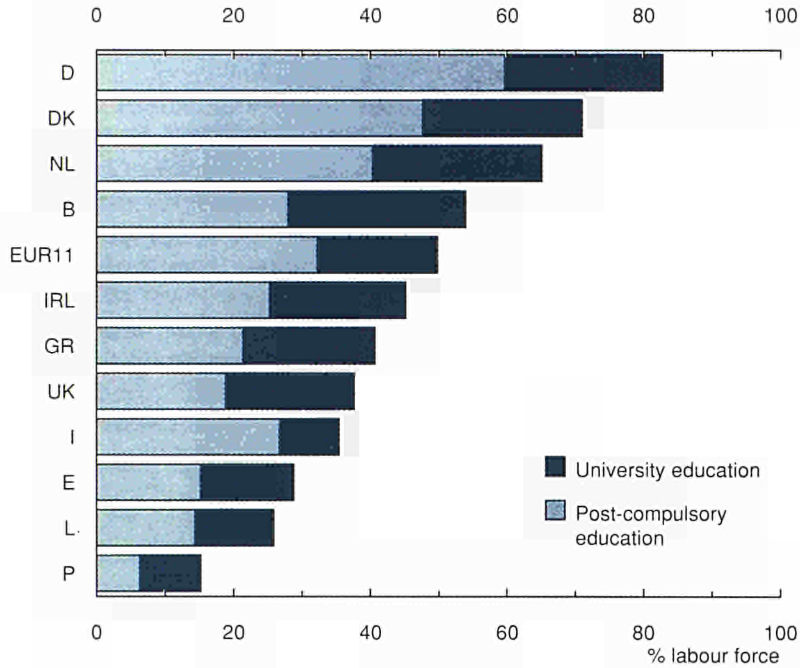
As would be expected, the average level of educational attainment is in general much higher in the North of the Community than in the less developed, and less prosperous, Southern Member States. In Germany, Denmark and the Benelux countries, over 20% of those aged 25 and over in the labour force in 1991 had completed a university degree or equivalent education course (Graph 64). By contrast, the proportion in Portugal and Italy was less than 10% of the workforce, while in Spain, it was under 15%. Although the figure was higher in Greece and Ireland, it was still below 20% and less than the figure in the more prosperous Northern countries, except for the UK and Luxembourg, where the proportion was also less than 20%.

The difference between Member States is even more marked if all post-compulsory education beyond basic schooling is taken into account. In Germany over 80% and in Denmark over 70% of the labour force of 25 and over in 1991 had completed a post-compulsory education or a vocational training course, while in the Netherlands, around 65% had done so. In Spain and Luxembourg, on the other hand, the figure was less than 30% and in Portugal only around 15%.

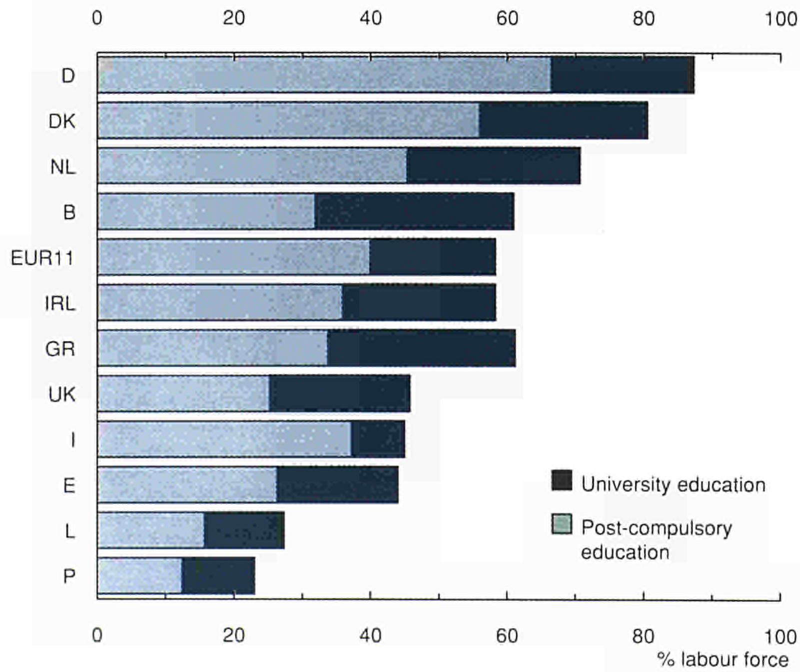
Levels of educational attainment are particularly significant for younger members of the workforce. Not only are these the people who represent the future so far as any country or region is concerned, but their levels of education relative to those of older age groups are indicative of the changes which are occurring over time in the extent of participation in various stages of education.

In most Member States in 1991, the proportion of the labour force aged

64 Educational attainment of the labour force (25+) in the Member States, 1991



65 Educational attainment of the labour force (25-34) in the Member States, 1991



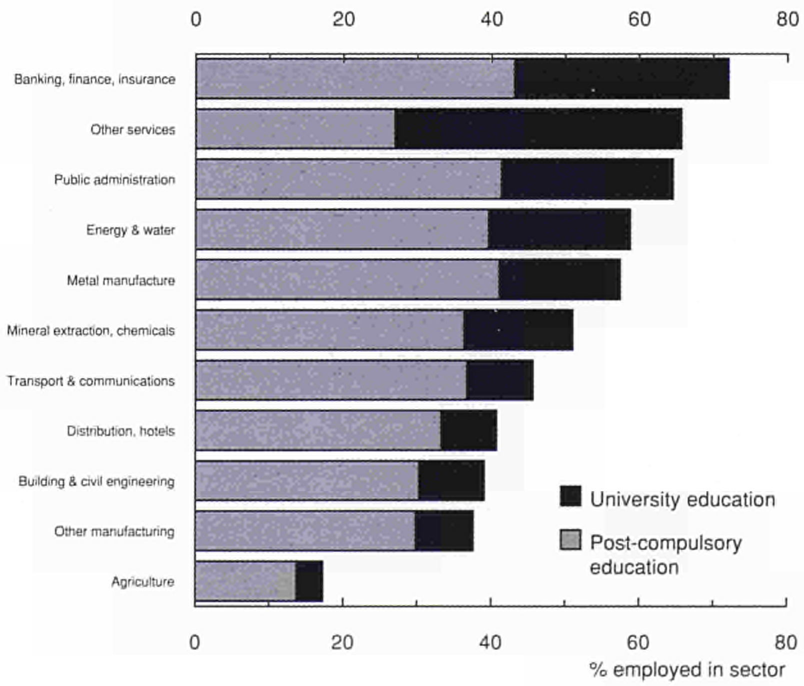
25 to 34 who had completed university degree courses or their equivalent was greater than for the labour force as a whole, reflecting a long-term tendency for increasing numbers of young people to stay longer in education. This was especially true for Greece and Spain, where the figure for the 25–34 age group was markedly higher than for those aged 25 and over (8% and 6% higher, respectively) (Graph 65). Indeed the proportion of 25 to 34 year olds completing university or equivalent education in Greece was the highest in the Community apart from Belgium.

In both Germany and Italy, however, the proportion for those aged between 25 and 34 was smaller than for older age groups. Nevertheless, for both countries, the relative numbers in the younger age group who had undertaken post-compulsory education without completing a degree course or equivalent were substantially greater in 1991 than for the labour force as a whole (67% as against 60% in Germany, 37% as against 27% in Italy).

This is also true for the other Member States, particularly Greece and Spain, where the difference was just as marked as for Germany and Italy. In Portugal, on the other hand, though the proportion of the labour force completing a post-compulsory course of education was greater for the younger age group than for others, the difference was less than in most other countries.

Overall, the disparities in levels of educational attainment across the Community are only slightly reduced if the labour force aged between 25 and 34 is used as the basis of comparison rather the labour force as a whole. This suggests a slow, but not universal, convergence in average levels over the past 10–15 years.

66 Educational attainment of the work-force (25+) by sector in the Community, 1991



Educational attainment by sector

The importance of a high level of education is increasing all the time. The evidence for this is not just anecdotal. The sectors in which the rate of job creation has been most rapid over the past ten years — banking, insurance and business services, health and education — are also the sectors where the average level of educational attainment of the people employed is highest. Equally, the sectors in which employment has declined by most are also those where educational requirements are at their lowest — agriculture and construction.

In 1991, therefore, over 70% of those employed in banking, insurance and business services in the Community as a whole had completed a post-compulsory education or vocational training course and in the other services sector, which includes health and education, the figure was over 65% (Graph 66). In the former sector, around 30% of the workforce had university degrees or equivalent qualifications and in the latter, almost 40%. Indeed these two sectors plus public administration employed two-thirds of all people with such qualifications in the Community in 1991, although they accounted for only just over one third of total employment.

By contrast, only just over 17% of the agricultural workforce had been through post-compulsory education of any kind, while in construction and other manufacturing — which includes low-growth, labour-intensive industries such as clothing and footwear — the proportion was less than 40%. The majority of the people working in these two sectors in 1991, as well as those employed in distribution, hotels and catering and transport and communications, therefore, had no formal education or vocational training after compulsory schooling.

The same kind of differences in levels of educational attainment between sectors are evident in all Member States. A high proportion of the workforce in banking, insurance and business services in 1991 had post-compulsory education or vocational training qualifications throughout the Community, as did those employed in health, education and public administration.

Although the proportion varies between Member States, in each case the extent of the variation is relatively small except for one or two countries. Moreover, while the variation which exists broadly reflects differences in the proportion of people with these qualifications in the labour force as a whole, the evidence indicates that certain activities require that most of the workforce has a high level of education and training.

In banking, insurance and business services, in particular, the proportion of those employed with post-compulsory education qualifications was 70% or more in all countries apart from the UK, Luxembourg and Portugal (Graph 67). Since in Portugal and Luxembourg, the proportion, though small, was still much greater than for the economy as a whole — in the former, three times greater, in the latter, twice as great — it is the UK which is the major exception to the tendency elsewhere. Here half the workforce in the sector had only general education.

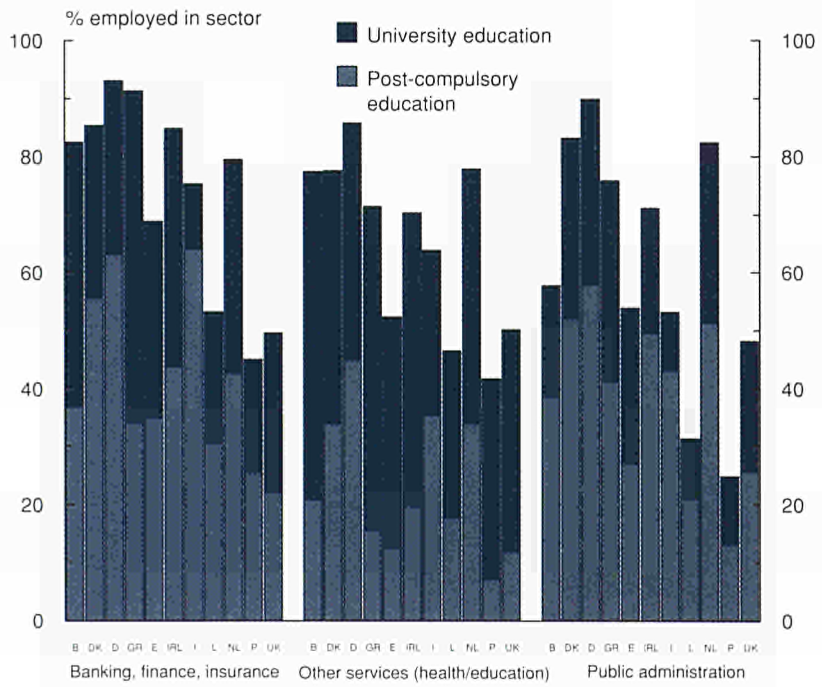
Similarly in health, education and other services, the figure was around 65% or more in all countries, apart from the three noted above together with Spain — where it was over 50%.

It is noteworthy that these are the two sectors with the highest rates of employment growth in the Community — indeed in some countries, they are the only sectors to have generated significant numbers of additional jobs over the past decade. Their growth would, therefore, seem to imply, in most Member States, an increased need for a more highly educated workforce to fill the jobs being created.

In public administration, on the other hand, there was a wider variation in 1991 between countries in the average level of educational attainment of the workforce. Whereas the proportion of those employed who had completed a post-compulsory education course of some kind was almost 90% in Germany and over 80% in Denmark and the Netherlands, it was under 60% in Belgium, under 55% in Spain and Italy and under 50% in the UK, while in Portugal, it was as low as 25%.

The variation between countries in levels of educational attainment of the workforce is even wider in manufacturing and basic services, and it is here that national disparities in education levels are most clearly reflected. In engineering, the numbers of workers with post-compulsory education or vocational training qualifications in 1991 ranged from over 80% of the total in Germany and over 70% in Denmark to under 30% in Spain, under 25% in Italy and only around 10% in Portugal (Graph 68).

67 Educational attainment of the work-force (25+) in selected sectors in the Member States, 1991



A similar kind of variation is also evident in textiles, clothing and other manufacturing and in distribution and hotels — where the figure for Germany in 1991 was still close to 80% in each case, while in Portugal, it was 10%.

Educational levels by region

The fact that education systems in the Community are national in scope means that differences in levels of attainment between Member States tend to be much more pronounced than variations between regions within countries.

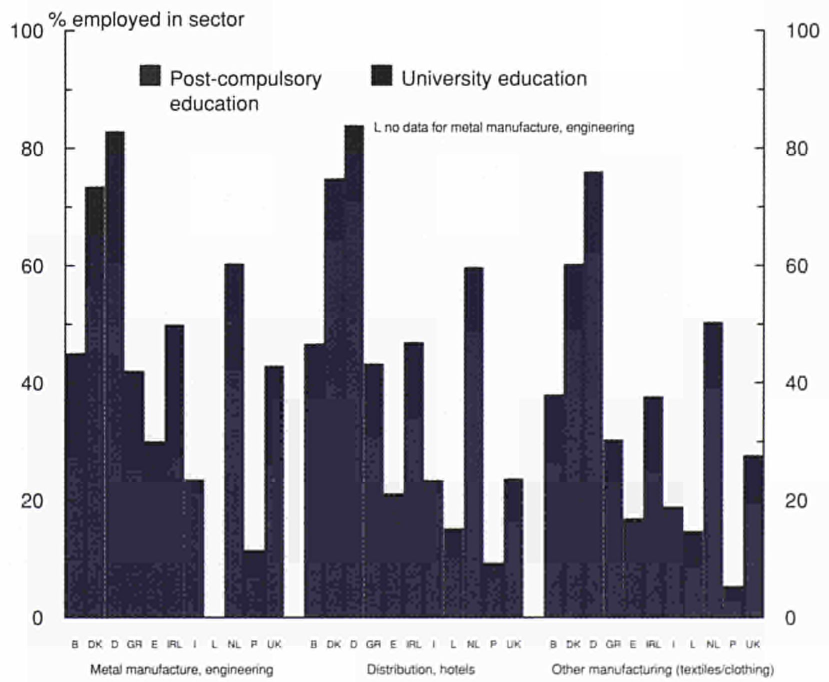
In Germany, in particular, the proportion of the labour force which had completed a course of post-compulsory education or training differed only slightly — by a maximum of 5% — from one region to another in 1991 (at least at the NUTS 1 level of regional disaggregation). The same was true in the Netherlands. Although in the other countries, regional differences were wider, except in a few instances they were still relatively small.

The most significant variations are evident in the less developed Southern Member States. In Greece, the proportion with post-compulsory educational qualifications ranged from almost 60% in Attiki, where Athens is located, to under 30% in Kentriki Ellada in the South of the mainland. In Spain, the proportion varied from over 40% in Madrid to under 25% in the South, while in Portugal, the variation was between over 15% on the mainland and under 10% in Madeira.

In Italy, on the other hand, with the exception of Lazio, around Rome — where the proportion was over 45% — and Sardinia — where it was under 30% — the extent of variation in 1991 was small, ranging from just over 30% in the North-East to 37% in Sicily. Moreover a feature of the Italian figures is that, Sardinia apart, they tend to be slightly higher in the South than in the North. In Lombardy, for example, which is one of the most highly developed and prosperous regions in the Community, 35% of the workforce had completed a course of post-compulsory education, whereas in Campania in the South, the proportion was 36%.

This suggests that though the average level of educational attainment of the labour force may be important to the competitiveness of a particular locality, the effect in a number of cases tends to be masked by other factors. Moreover the level of attainment in itself reveals nothing about the areas of study or training and their relevance to the employment available in the region.

68 Educational attainment of the work-force (25+) in selected sectors in the Member States, 1991



Educational levels of the employed and unemployed

Just as there are marked differences in levels of educational attainment between people working in different sectors of the economy, so too in most Member States there are perceptible differences between those in employment and those unemployed. This suggests that a lack of adequate education and training is one factor underlying the difficulty of the unemployed to find work and, therefore, possibly a factor contributing to relatively high rates of unemployment in certain parts of the Community.

At the same time, the evidence also suggests that this is by no means the only, or even the most important, reason for unemployment. In most countries, there are significant numbers of people among the unemployed who have post-compulsory education qualifications or who have completed vocational training courses. Indeed in two Community countries, there were proportionately more of these among the unemployed than among those in work in 1991.

In most Member States, in 1991 a much higher proportion of those in employment had received post-compulsory education or vocational training than of those unable to find work. In Greece and Italy, the reverse was the case — though in the latter, only marginally so — while in Spain, the difference was relatively small (Graph 69).

Apart from in Greece and, to a lesser extent the Netherlands, however, the main difference between the employed and unemployed is at the university or equivalent level. In five of the countries, the proportion of the unemployed with post-compulsory education or vocational training qualifications of some kind was much the same or greater than for those in employment. All four of the Southern European countries — Greece, Italy, Spain and Portugal — were among this group of five, Denmark being the only country in the North of the Community.

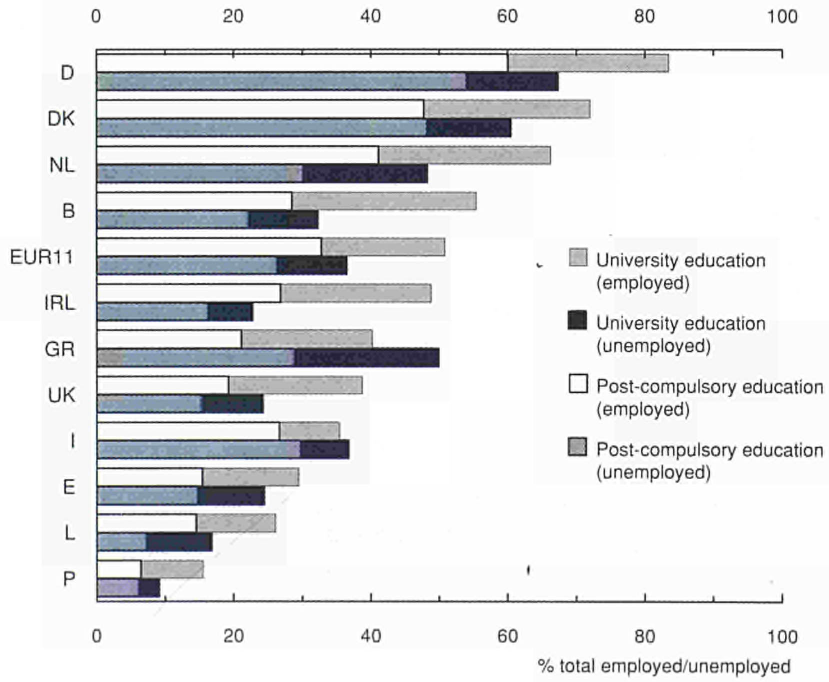
Much the same pattern of difference in levels of education emerges if the comparison is restricted to the younger members of the workforce aged 25 to 34.

This suggests that throughout the Community, apart from in Greece, employment prospects improve the longer a person stays in education or training. In the four Southern Community countries, however, people staying in education after finishing compulsory schooling have no better chance of finding employment than those who leave school, unless they go on to complete a university education course or its equivalent. Moreover in Greece, the chances of finding employment deteriorate with the level of educational attainment. The rate of unemployment for those of 25 and over was, therefore, 6% for those with post-compulsory education qualifications in 1991 as opposed to only 4% for those with only basic schooling or less.

The evidence implies at the same time that employers in these countries are unable to make use of the educational qualifications which people are obtaining. This may because those qualifications are inappropriate, in that they are not geared towards the jobs on offer and there is accordingly a mismatch between the skills of the workforce and those being demanded. Alternatively, it may simply be because there are insufficient jobs being created for an educated and trained labour force.

Equally, however, the evidence also shows that there is a similar, if less acute, problem in Northern Member States, insofar as there are substantial numbers of the workforce with post-compulsory educational qualifications who are unable to find employment. In both Germany and Denmark, such people represented around 80% and 60% respectivly of the unemployed in 1991, while in the Netherlands, the figure was just under 50%.

69 Educational attainment of the employed and unemployed (25+) in the Member States, 1991



Intra-Community migration

Although movement of labour from one part of the Community to another is the most direct means of helping to correct labour market imbalance, this has never been regarded as a major way of equalising the very uneven distribution of jobs and unemployment. The present policy of the Community is directed much more towards strengthening regional and local economies where there are acute job shortages, rather than encouraging people to move to areas where there is greater demand for labour.

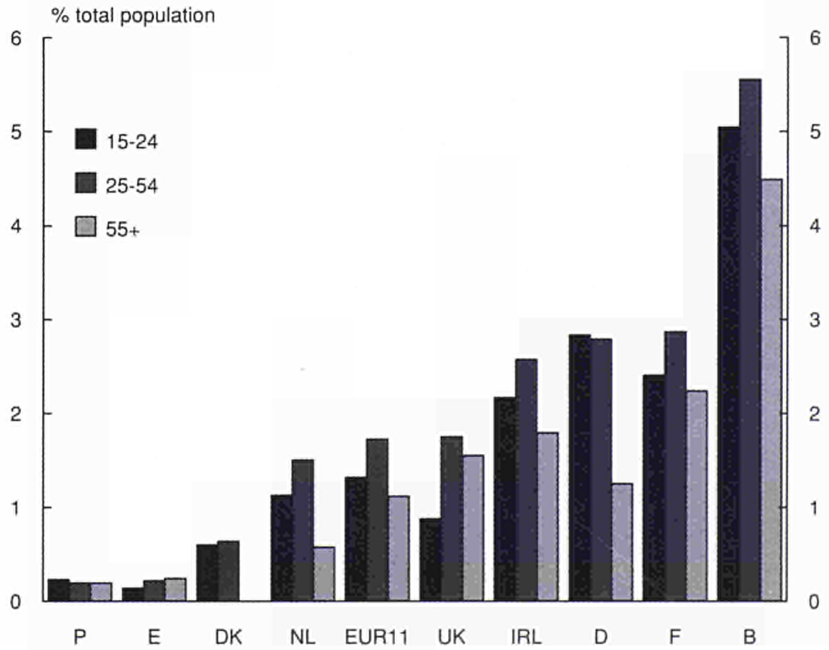
While great efforts have been made in recent years to remove remaining restrictions on people being able to move from one Member State to another in order to find work, the motivation was not really to have a major effect on the often large gap between overall supply and demand in local labour markets. Rather it was to widen the employment opportunities open to people across the Community and to help tackle problems of skill shortages in particular places.

In practice, the scale of cross-border migration in the Community over the past decade or more has been very small — especially in relation to the large-scale movements which occurred from many parts of Southern Europe — from Portugal, Greece and the South of Italy, for example — to the North in the 1950s and 1960s.

These limited migration flows are reflected in the relatively small numbers of people living in one Member State who are nationals of another. In the Community as a whole, under 2% of people fell into this category in 1991 (Graph 70). Excluding Luxembourg, a special case, then apart from Belgium — where the figure was around 5% — in no Member State did the proportion of nationals from another Community country exceed 3% of the working-age population, and only in Germany, France and Ireland was the proportion over 2%. In Spain and Portugal, the figure was considerably less than 1%.

This, of course, does not necessarily reveal the true extent of intra-Community migration which has occurred in the past. It is possible that many of the people who migrated in the past have since taken up citizenship of the country in which they are now living and so are no longer counted as non-nationals. Unfortunately, however, there is no complete set of comparable data on such people.

70 Share of total population who are nationals of other Member States, 1991



I no data, GR figures close to zero, L 29%, 30%, 13%

Movement of people between Member States

Nevertheless, information collected from the Community Labour Force Survey potentially gives some indication of both the scale and direction of labour movements. Specifically, responses to questions about where people were one year previously and about their employment situation provide a means of monitoring movements of people of working age from one Member State to another. (They can also indicate movements between regions, though analysis of these data is not attempted here.)

Although the responses given are not always reliable, insofar as people sometimes have difficulty remembering where they were one year before, and although the power of recall seems to vary from one

Member State to another — for Italy, no data at all are available — in a situation where checks on cross-border movements are rapidly disappearing, such surveys are one of the main sources of information on migration. (The other major source, population registers, provide possibly more reliable details of the demographic characteristics of the population and of the movement between countries — insofar as they cover everyone and are not based just on a small sample — but not all countries have such systems.)

It should also be made clear that the LFS results are based on a relatively small sample, which may not be representative in all cases, and only indicate inter-country movement between two points in time one year apart and reveal nothing about shorter-term movements within the period. Nevertheless the results of the survey broadly confirm that the scale of migration has been very small in recent years. Over the five years 1987 to 1991, some 1.5 million people moved from one Member State to another, an average of some 300 thousand a year — equivalent to not much more than 0.1% of the total Community population (Graph 71 — note that the figures understate the actual movement as they exclude people moving into Italy for which no details are available and which is the main reason for the total number of emigrants exceeding total immigrants).

Of the people moving, a relatively high proportion were aged between 14 and 54 — and, therefore, potentially looking for work — and a significant proportion of these were between 14 and 24, and, therefore, possibly looking for their first job or perhaps looking to gain work experience in another country. Whatever the motivation, the figures show clearly, as might be expected, that younger people are more likely to move between Member States than older people. Nevertheless, the total number of young people who moved from one country to another in this five-year period represented under 1% of the total Community population in this age group.

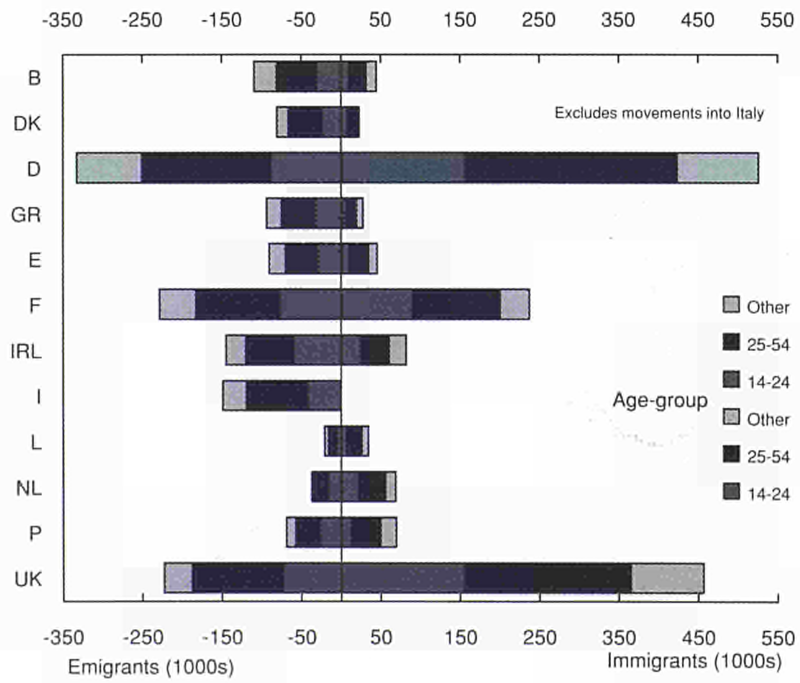
In terms of numbers, more people moved into Germany over this period — over 500 thousand over the five years — than into any other Member State. Of these, some 420 thousand were aged between 14 and 54 and therefore potential additions to the labour force. Nevertheless, the total increase in working age population from immigration was only $1^1/_2$% over this five-year period.

At the same time, moreover, just under 350 thousand people — 250 thousand aged between 14 and 54 — moved out of Germany to somewhere else in the Community. The net increase in the working-age population of Germany from migration was, therefore, less than 200 thousand over this period.

The movement of people into the UK over these years was only slightly less than into Germany, at just over 450 thousand in total, of which around 370 thousand were aged 14 to 54. As in the case of Germany, this was just under 200 thousand more than the number of people who moved out of the UK. Some of the people moving into the UK — as indeed into Germany — were, however, British — or German — citizens returning after a period abroad.

Together Germany and the UK were the countries of destination for around 70% of people moving between Member States — Italy apart

71 Population movements within the Community, 1987-1991



— over this period. France accounted for another 15% or so, inflows of people of working age over this period amounting to significantly less than 1% of resident population in this age group. Much the same is true of other countries.

The main exception is Ireland, where the influx of people of working age during these five years represented around 3% of resident population. Many of these were Irish nationals returning after working abroad. These went some way to offsetting the 125 thousand people of working age — over 6% of the 14 to 54 age group — who left Ireland over this period to go to another Member State. There was also a net outflow of people, though on a much smaller scale, from Spain and Greece, two other of the less prosperous countries in the Community. At the same time, however, movements out of Belgium and Denmark were also significantly greater than movements in over this period.

Overall, some association can be discerned between the state of the labour market and labour movements over this period. Both Germany and the UK showed relatively high rates of employment growth, at least up to 1990, Belgium and Denmark relatively low rates, while Ireland and Spain have high levels of unemployment. However, it is clearly not simply a question of people moving from areas of high unemployment to areas where jobs are more plentiful.

Movement of labour between Member States

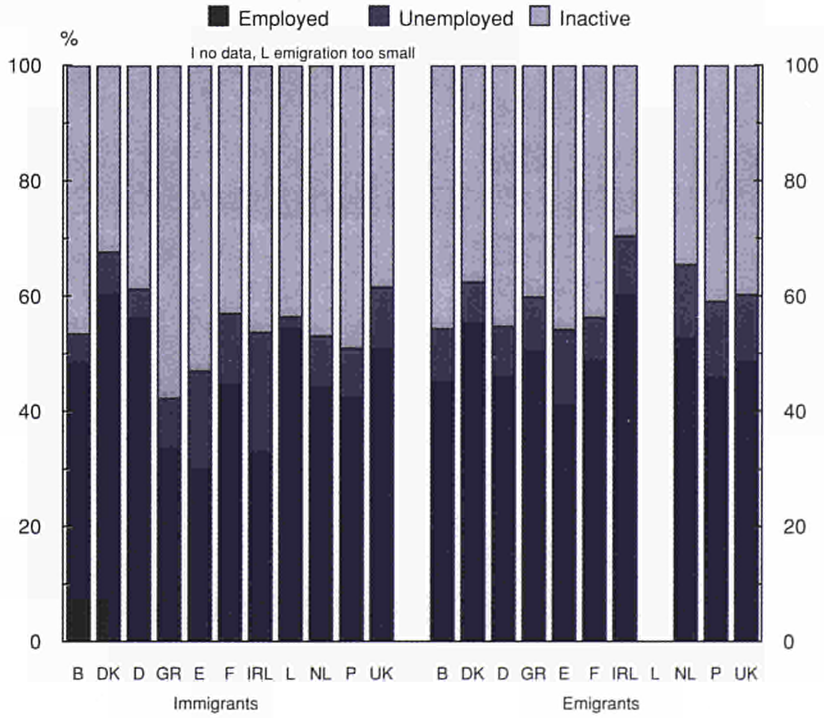
Of the people moving from one Community country to another, around 60% or so on average were members of the labour force in the country they moved to (Graph 72). The figures, however, vary greatly from country to country, partly reflecting the rate of labour force participation in the country concerned, partly the age structure of those moving.

In particular, only around 45% of those moving into Greece and Spain were either employed or actively looking for work when they were surveyed, whereas 55–60% of those who had left these two countries were members of the workforce in the country they had moved to. Similarly, 70% of those who had moved from Ireland to another Member State were working or classified as unemployed, while only 55% of those moving into Ireland were economically active. In all three cases, the people who had emigrated tended to be younger than those immigrating (Graph 71).

Much the same kind of difference is evident for the Netherlands and Portugal. For these five countries, therefore, it would appear that a significantly higher proportion of the people leaving were doing so in search of work than those moving in or returning. In two of the other countries — Denmark and Germany — the reverse was true, in that the people leaving were less likely to be looking for work, perhaps because they were returning somewhere else after working in these countries.

The evidence also shows that, over this period, the people moving who were economically active were much more likely to be unemployed in the country they moved to than in employment. This was especially true for Ireland, where immigrants added $1^1/_2$% to the unemployment figures every year between 1987 and 1991 (Graph 73), whereas they

72 Status of migrants within the Community, 1987-1991



added less than ½% to the numbers employed (Graph 74). A similar disparity is evident for Portugal, where immigrants increased unemployment by 0.4% but employment by only just over 0.1%, and for Greece, where the addition to unemployment was also over 3 times the addition to employment.

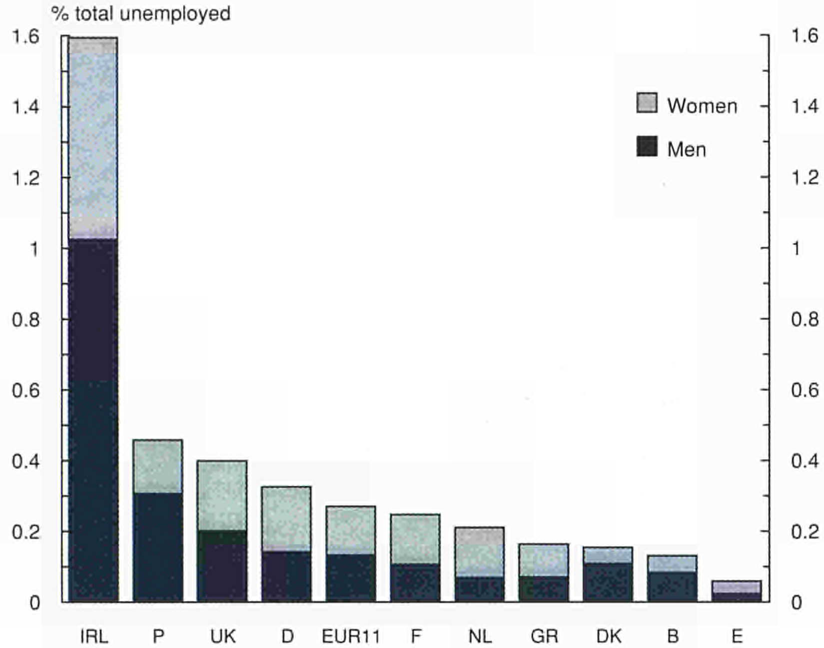
The same kind of difference exists for the more developed countries, though the extent of the difference was smaller in each case, immigrants adding around twice as much to unemployment as to the numbers in work, except in Germany and Belgium where the difference was 50% or less.

Movements of men and women

As might be expected, more men than women move from one Member State to take up employment in another. Over the period 1987 to 1991, on average around 60% of all those who had moved between countries and who were working when surveyed were men, only 40% women (Graph 74). These figures are much the same as the overall proportions of men and women in employment. They vary, however, between Member States, with women accounting for around 45% of immigrants in employment in France and the UK and 30% or less in Belgium, the Netherlands and Spain.

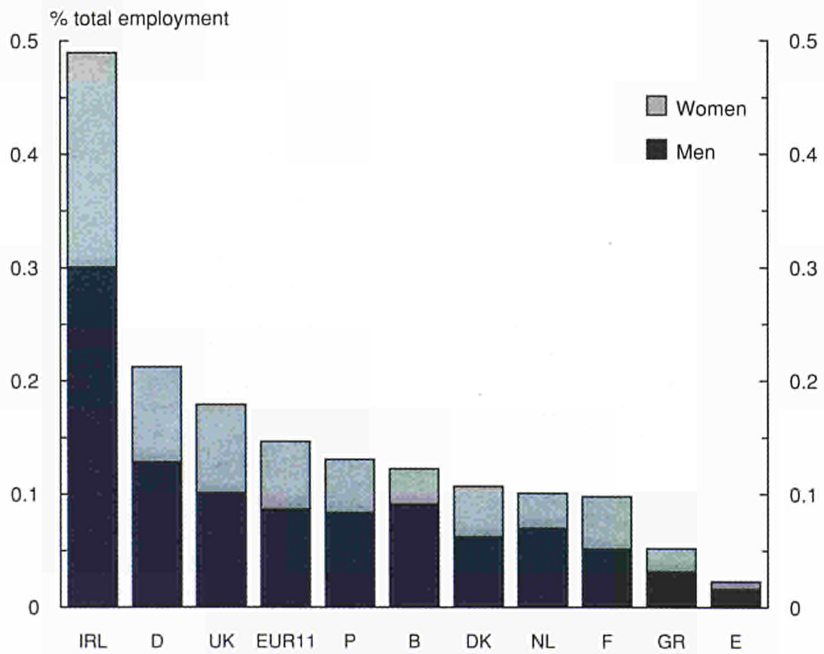
On the evidence of this period, however, significantly more women than men who move between Member States are likely to be unemployed rather than in work. Around half of the immigrant unemployed were women over these five years. Indeed in Germany, France, Greece and the Netherlands, 60% or more were women. In Ireland, Portugal, Denmark and

73 Contribution of Community migrants to unemployment in the Member States, average 1987-1991



I no data; L men 2.6%, women 2.5%

74 Contribution of Community migrants to employment in the Member States, average 1987-1991



I no data; L men 1.6%, women 0.9%

Belgium, only around a third or less.

The direction of labour movement

The responses to the Labour Force Survey also indicate the scale of the movement of labour between specific countries. The results for the three major countries for which data are available show that, between 1987 and 1991, around half of the labour moving out of Germany went to the UK, some 15% to France and under 10% to the Benelux countries (Graph 75). While the high figure for people moving to the UK seems surprising, many of them were people returning after working in Germany for a time and many others were, possibly, employees of German transnational companies going to work in group offices in the UK.

Over recent years more workers have moved to Germany than to any other country in the Community. For most countries, including Italy, France and the UK, Germany was the most important destination for migrant labour in the period 1987 to 1991. In terms of their population sizes, the migration flows from Greece, Denmark and Ireland were particularly significant. About 70% of Greek and Danish workers moving to another Community country during these five years went to Germany, while over a third of Irish emigrants did so.

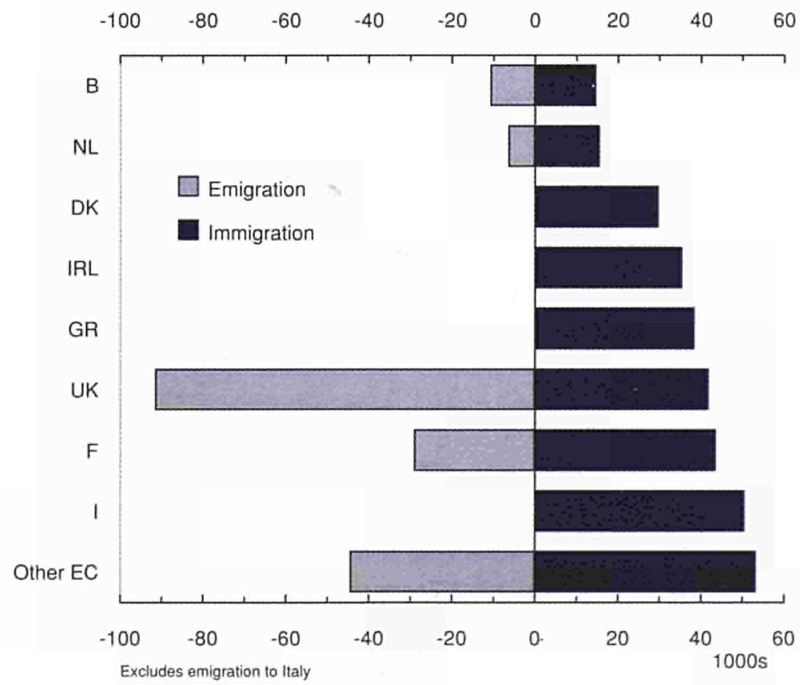
In the case of the UK, where inflows of labour also exceeded outflows, the largest number of people moving in, either to take up or to look for work, came from Germany — over 90 thousand between 1987 and 1991 — while almost 55 thousand came from Ireland — over 40% of total Irish workers migrating within the Community (Graph 76).

The flow of migrant workers from the UK to Germany was also larger than to any other Member State, accounting for just under 25% of all those leaving the UK to work elsewhere in the Community. Workers moving or returning to Ireland represented the second largest outflow, though they amounted to only 5 thousand a year.

In the case of France, for which migration flows seem to be much smaller, almost 60% of people going to work elsewhere in the Community went either to Germany or the UK between 1987 and 1991, while just over 10% went — or probably returned — to Portugal (Graph 77). Those moving to France to work came from many different parts of the Community, with no one country predominating — though slightly more came from Germany, the UK and, especially, Portugal than would be expected given the relative populations of these countries.

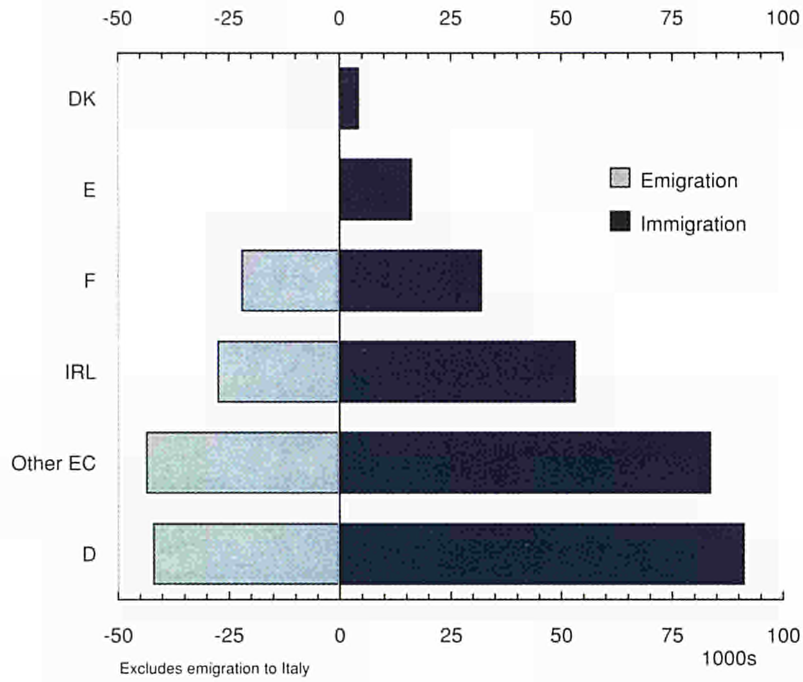
Overall, however, both for these three major countries and other Member States, the most striking feature of the data on migration is the relatively small numbers of workers who have moved from one Community country to another in recent years. Apart from Ireland — where workers moving abroad effectively reduced the labour force by around 1% a year over the past five years and those moving in increased it by slightly less — the scale of labour movement experienced by all Member States is low. Even in the case of Germany, which was the most attractive destination, immigrant workers from other parts of the Community added only marginally to employment.

75 Labour force movements in and out of Germany, 1987-1991



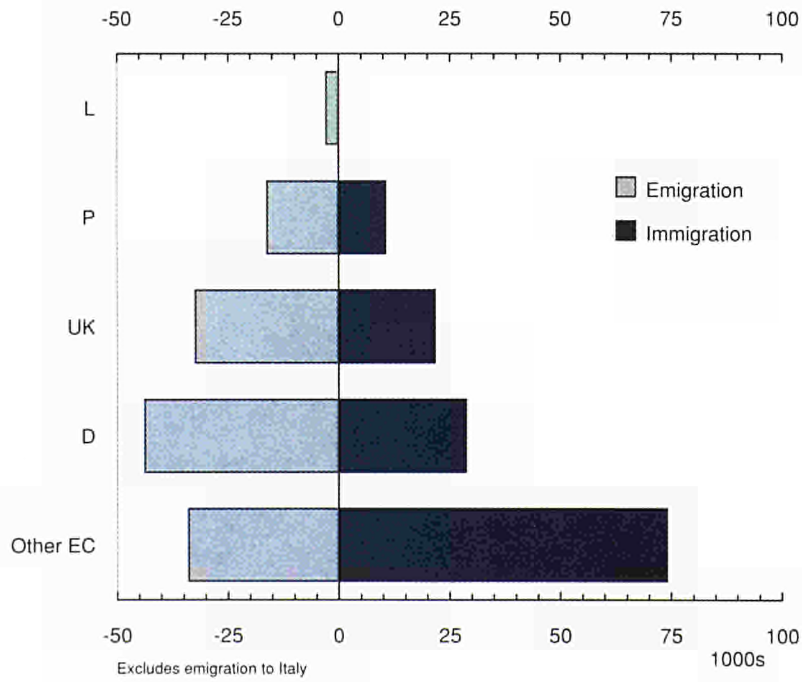
Nevertheless, the potential effect on differential rates of unemployment of this scale of labour movement is not insignificant. Even leaving aside Ireland, where emigration directly reduced the number of people looking for jobs by some 5% between 1987 and 1991 — though this was largely offset by people returning — movements of workers of the size experienced in the Community in recent years, if in the right direction, could potentially narrow differences in unemployment by 1–2% over a five-year period.

76 Labour force movements in and out of the UK, 1987-1991



Excludes emigration to Italy

77 Labour force movements in and out of France, 1987-1991



Excludes emigration to Italy

Chapter 5 Labour market developments in assisted regions

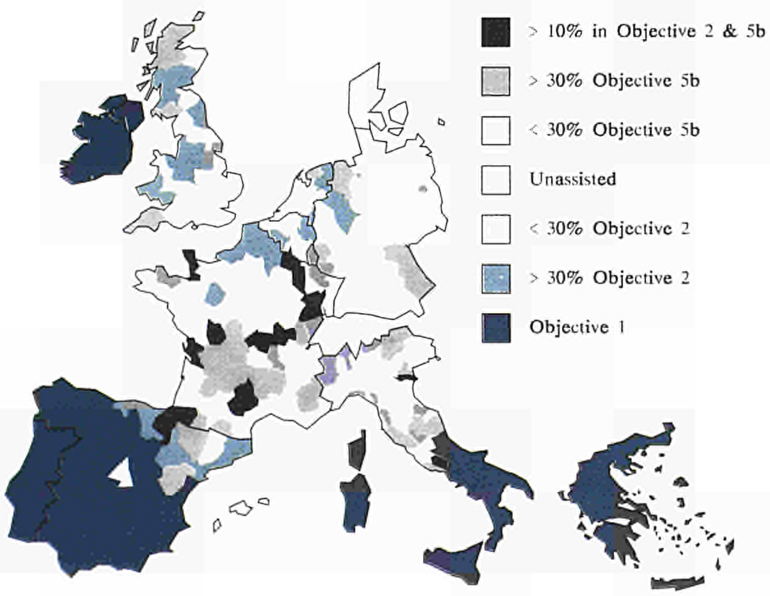
There are signs of some convergence in income levels between the less developed parts of the Community and other areas since 1986. In terms of employment and unemployment, however, major disparities exist and have shown less tendency to narrow.

Balanced economic development is one of the central objectives of the Community. Assistance to depressed and backward regions has been progressively expanded over the years, starting with the European Social Fund in 1960, soon after the Community was formed, and strengthened by the creation of the European Regional Development Fund in 1975. The accession of Spain and Portugal in 1986 added new impetus by bringing a widening of regional inequalities and doubling the population of the Community living in regions with average income per head of less than half the Community average. The Single European Act, adopted the following year, committed Member States not only to establishing a single market but to strengthening the Community's economic and social cohesion by reducing regional disparities.

In 1988, the operation of the Structural Funds — the Community's various instruments of regional aid — were reformed and their scale greatly expanded. Between 1988 and 1993, the finance available for regional support was virtually doubled in real terms to 14 billion ECU at 1988 prices, 25% of the Community Budget. At the same time, they were targeted explicitly at achieving particular objectives in specifically defined problem regions.

In Objective 1 areas, defined as the less favoured regions in terms of income per head (measured by GDP), the aim was to promote economic development and structural adjustment. In Objective 2 areas, those with severe labour market

M10 Eligibility of the population for Structural Funds assistance, 1989–1993



imbalances linked to the decline in their industrial base, the aim was to strengthen and assist the re-adjustment of the local economy. In Objective 5b areas, those either agricultural or rural in character, the aim was similar to that in Objective 1 areas of assisting adjustment and promoting development.

Three additional objectives without an explicit regional dimension were specified — combating long-term unemployment and helping young people to find work, Objectives 3 and 4, and promoting structural improvement in the agricultural sector, Objective 5a. In practice, significant shares of the funds aimed at the former two objectives have also been allocated to Objective 1 regions in line with overall objectives.

In December 1992, at the Edinburgh Summit, Member States agreed to further increases of regional aid between 1993 and 1999, in the form of an expansion of the existing Structural Funds (from 21.3 billion ECU in 1993 to 30 billion ECU in 1999) and the creation of a new financial instrument, the Cohesion Fund (amounting to 1.5 billion ECU in 1993, rising to 2.6 billion ECU by 1999). This extension of support reflected the reiteration of the importance of economic and social cohesion in the Maastricht Treaty as well as concern about possible adverse effects on problem regions of the move towards monetary unification — a concern heightened by the likely consequences of the budgetary consolidation called for as a condition of membership of the monetary union. Indeed, eligibility for Cohesion Fund assistance, which is aimed at Member States (rather than regions) having GNP per head less than 90% of the Community average and, therefore, restricted to Greece, Portugal, Ireland and Spain, is itself conditional on the country concerned taking measures to bring public debt and government deficits to the benchmark levels specified in the Maastricht Treaty.

The issues examined

This chapter examines labour market developments since 1986, when Spain and Portugal joined the Community, in the regions receiving Structural Funds assistance. It is intended to provide some indication of the relative performance of these regions as compared with that of other areas of the Community. It examines the extent to which the aim of reducing regional disparities in key aspects such as access to employment is being achieved.

It should be emphasised that the purpose of this exercise is not to evaluate the effectiveness of the Structural Funds, which in their present form have existed only since 1989. Moreover, the experience of assisted regions is determined by a much wider range of factors than the scale of external financial support and no attempt is made here to distinguish between the effect of this and such other factors. It is also the case that the programmes co-financed by the Community, which emphasise investment in infrastructure, people and productive activity can only be expected to have their full effects over the medium to longer-term.

Nevertheless, an overall comparison provides a useful background to the detailed evaluation of specific programmes which are carried out in order to monitor the effectiveness of the Funds. Indeed, examination of changes in key labour market indicators is essential for monitoring progress in increasing economic and social cohesion across the Community. It also indicates the scale and nature of the task which the extended policy measures agreed at the end of 1992 need to tackle.

The issues examined are:

- the extent of differences in levels of income per head between regions eligible for Structural Fund support and other areas;
- variations in GDP growth over the latter part of the 1980s;
- the difficulty of finding work in regions receiving assistance as compared with other parts of the Community;
- the rate of job creation in assisted areas in relation to elsewhere;
- the kind of jobs created in these areas in comparison with other regions of the Community;
- how far levels of open, and disguised, unemployment differ between assisted areas and the rest of the Community and the extent to which the gap has closed since 1986.

Since both the nature of the problem and the scale of support received varies between assisted areas, the areas are divided into three groups — those classified for Structural Funds purposes as Objective 1 areas (ie the least developed regions of the Community), those classified as Objective 2 areas (ie regions suffering industrial decline) and those as Objective 5b (rural areas). In addition, since their labour market characteristics and development are affected by where they happen to be located, the analysis also divides the regions by country. (It should be noted that this classification of regions refers to the period 1989 to 1993. Eligibility of regions for Structural Funds support in the period after 1993 is, at the time of writing, still to be determined.)

All of the aspects noted above are important for an assessment of labour market developments, which is the aim here. It should be emphasised, however, that since regional assistance is specifically directed at the particular objectives, only some of the aspects covered are relevant for an evaluation of the performance of the Structural Funds as such (which, as noted above, were only introduced in their present form in 1989). For example, since GDP per head is not one of the criteria for deciding the eligibility of a region for assistance under Objective 2, which is concerned explicitly with helping to correct labour market imbalance, its behaviour, though interesting, is not directly relevant to judging the success or failure of this policy.

A particular problem in the analysis is that, outside Objective 1 regions, areas defined as eligible for Structural Funds assistance do not in all cases coincide with standard Community (NUTS level 2 or 3) regions, for which data are published. In such cases, data are not available specifically for the areas receiving assistance. This means that assumptions have to be made about the characteristics of assisted areas in relation to those of the standard regions in which they are located.

The approach adopted here is to take all regions which contain assisted areas and to estimate the key labour market variables in the assisted parts (see Box, for a fuller description of the methodology).

Objective 2 and Objective 5b areas: data problems

The main problem of trying to distinguish between developments in Objective 2 and 5b areas and those in the rest of the Community is that, though based on the official Community NUTS regional classification, unlike Objective 1 areas, they are smaller in most cases than NUTS level 2 or level 3 regions for which comparable data are published. In both cases, this limits the analysis which it is possible to carry out on the basis of the Eurostat data.

Since there at present these are the only data available, the question is how they can be used to throw light on comparative developments.

The most defensible approach is to divide NUTS regions according to the importance of assisted areas within their borders — to focus on those regions where assisted areas account for a high proportion of the population or labour force and where accordingly it is more likely that the characteristics of the region as a whole reasonably reflect those of the assisted area.

This, in practice, is much easier to do in respect of NUTS level 3 regions which are subsets of NUTS level 2 regions.

The only relevant data generally available at this level of spatial disaggregation are unemployment rates. Although these are important indicators of comparative labour market developments in assisted areas, it is equally important to examine other aspects — the scale and nature of employment creation in particular. Unfortunately, full and reliable data on these are only available for NUTS level 2 regions, of which assisted areas in many cases — and in virtually all cases in respect of Objective 5b areas — only represent a small part.

It is possible to group NUTS level 2 regions according to the proportion of population living in assisted areas and to base the analysis only on those regions where this is suitably high — significantly more than 50%. Unfortunately only a small number of regions falls into this category. This is a particular difficulty if the aim — as here — is to compare developments in assisted and non-assisted areas at the country level as well as Community level.

Because of this, the analysis in this chapter takes all NUTS 2 regions in which assisted areas are located as the basis of comparison. This essentially assumes that the characteristics of such areas are similar to the surrounding NUTS 2 region, which in practice is unlikely to be correct. The very fact that assisted area status has been granted to only a part of a region rather than to the region as a whole would generally imply that the characteristics in terms of key variables — such as the level of unemployment, the rate of industrial decline or the degree of economic development which are have been taken as the criteria for the eligibility of the area for support — are not uniform across the region as a whole.

To reduce the importance of this factor, NUTS 2 regions are aggregated together by using the proportion of population in assisted areas as weights. In this way, the larger the relative size of the assisted area in terms of the people living there, the more it counts towards the total (ie if 75% of the population of one NUTS 2 region live in assisted areas and 25% of another, labour market variables such as employment growth or unemployment rates are averaged by applying a weight of 0.75 to the figures for the first region and one of 0.25 to those for the latter).

To ensure complete coverage of each of the Member States, regions containing assisted areas are also included in the totals for non-assisted areas, so long as assisted areas do not account for the whole of the population. As with the aggregation of assisted areas, non-assisted regions are summed together by using the proportion of people living in unassisted areas as weights. This means, for example, that figures for non-assisted areas are generated for Spain even though there are no NUTS 2 regions in Spain which do not contain an assisted area. Similarly for Denmark, because of the location of Objective 2 areas, the figures calculated are the same for assisted and non-assisted regions at the NUTS 2 level.

For a test of the validity of the analysis, see Box, p. 123 below, in which unemployment rates in Objective 2 areas are compared with those in non-assisted areas at a NUTS 3 level of regional disaggregation.

Given these difficulties, the results for what are termed Objective 2 and Objective 5b regions should be regarded as only indicative of the developments in the more narrowly-defined areas actually receiving assistance and certainly not definitive. This should very much be borne in mind throughout the succeeding analysis. It should also be borne in mind that non-assisted areas with which comparisons are made below vary significantly in terms of prosperity and labour market characteristics. Because a region is not eligible for Structural Fund support does not necessarily mean that it is free from economic and employment problems or that convergence is only to be measured in terms of differences between assisted and non-assisted areas, merely that assisted regions have been identified as having the most acute structural weaknesses.

The importance of assisted areas in the Community

All member countries of the Community have some assisted areas within their borders at the time of writing — though this may change after 1993 when the allocation of the Structural Funds is reassessed (Map 10). In three countries, Greece, Portugal and Ireland, all regions have Objective 1 area status. Most regions of Spain are similarly classified and nearly all those which are not — located in the North East of the country and around Madrid — contain areas which are eligible for Objective 2 and/or Objective 5b assistance. Outside these four countries, within Europe, only Southern Italy, Corsica and Northern Ireland are classified as Objective 1 regions (the

French Overseas Departments outside Europe are also so classified).

Outside Spain, Objective 2 areas, in terms of both population and land mass, are most important in Northern France, including Brittany and the North-East, and in the UK, north of a line crossing the country diagonally from the Severn to the Wash. Objective 5b regions, in population terms, are most important in Southern France and the South-East and North-West of Germany.

In the Community as a whole, 42% of the working-age population (those aged 15–64) lived in assisted areas in 1989 — about the same proportion as for total population, which was the point of reference when eligibility for Structural Funds support was determined in 1989. Half of these lived in Objective 1 regions, which, between them, currently receive over 60% of the total aid available from the Structural Funds and around 75% of that which is allocated purely on a regional basis (ie excluding Objectives 3 and 4 payments). Of the rest of the population of working age in assisted areas, over 75% were in Objective 2 areas (16% of the working-age population in the Community), which together receive some 20% of regionally allocated funds, and under 25% (5% of Community working-age population) in Objective 5b.

Of those living in Objective 1 regions, almost a third are Spanish and another 30% are Italian. In Spain, 58% of the population of working age lived in Objective 1 regions in 1989, another 23% in Objective 2 areas and 3% in Objective 5b (Graph 78). In Italy, 36% of working-age population were in Objective 1 regions in the same year, while a further 12% lived in other assisted areas. Outside these two countries, and outside Greece, Portugal and Ireland, where all the population is covered, Structural Funds support was most important in the UK, where 40% of working-age population lived in assisted areas — most of them in Objective 2 regions.

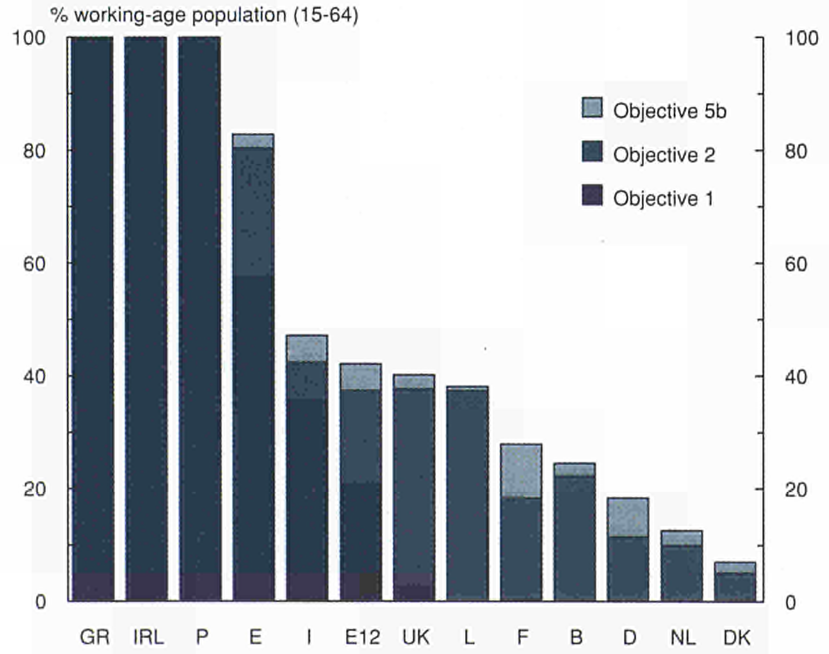
In the case of the other Member States, under 30% of the population of working age lived in assisted areas in France and Belgium, under 20% in Germany and the Netherlands and under 10% in Denmark.

Income per head in assisted areas

The proportion of the working-age population living in assisted areas in Member States bears an inverse relationship to income per head — in the sense that the poorest countries receive the most aid. Indeed eligibility for Objective 1 status depends, for the most part, on having an average per capita income (or more precisely GDP) of under 75% of the Community average. On average, the level of income of Objective 1 regions — measured in terms of purchasing power standards (PPS) to correct for differences in what a given level of income is capable of buying — was under 55% of that in non-assisted regions in 1990 (Graph 79).

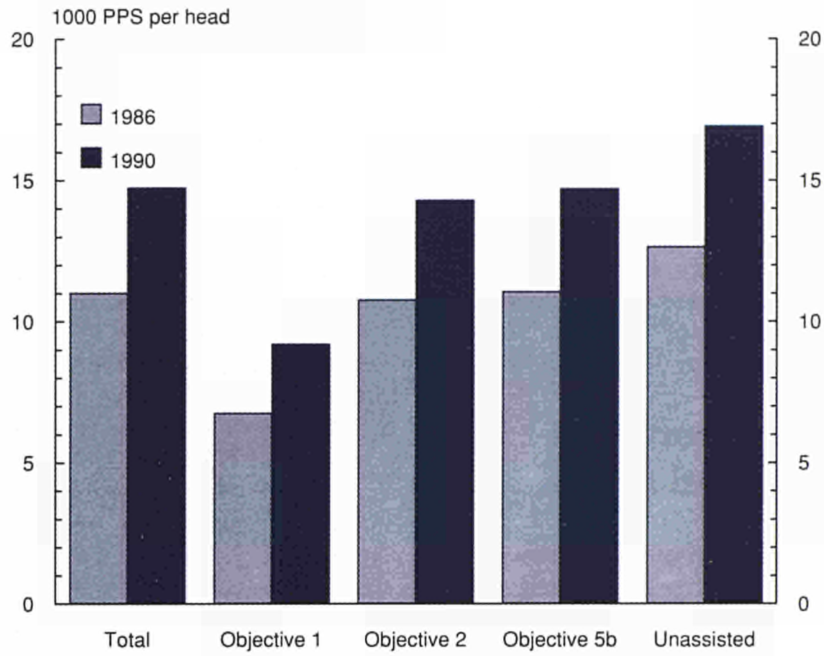
Relative levels of income per head differ between Objective 1 regions. In 1991, average income per head in Corsica and Northern Ireland was around 65% of the average in non-assisted areas in the rest of the Community, whereas in Ireland and Southern Italy it was around 60%, in Objective 1 regions in Spain 55%, in Portugal 46% and in Greece as low as 42% (Graph 80).

78 Working-age population assisted by the Structural Funds in the Member States, 1989

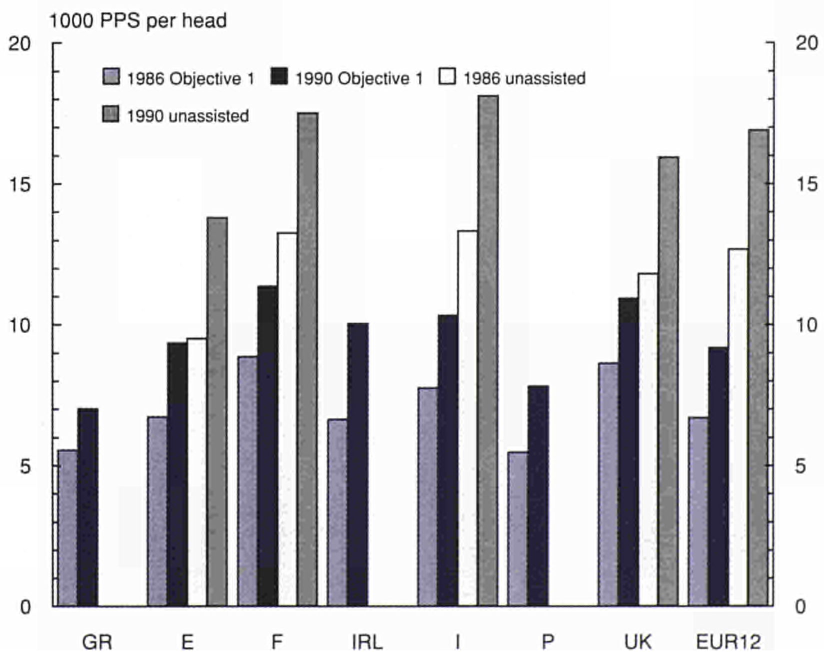


Excludes ex-DDR and French DOM

79 Income per head by Structural Funds status in the Community, 1986 and 1990



80 Income per head in Objective 1 and unassisted regions, 1986 and 1990



Growth of GDP

Between 1986 and 1990, GDP increased by around 15% — almost 4% a year — in Objective 1 regions in the Community as a whole. This was some 1½% more than in non-assisted areas (Graph 81). Growth was particularly high in Spain, Ireland and Portugal, at close to 20% or more, whereas in Greece, it was only 7%, half the rate in the rest of the Community. However, in Spain as well as in France and the UK, growth in the Objective 1 regions of the country was significantly lower than in the non-assisted areas, while in Italy, there was little difference between the North and South.

In Objective 2 regions, growth of GDP also averaged more than in non-assisted areas over these four years, though the difference was much smaller than for Objective 1 regions (Graph 82). In this case, although growth in Objective 2 regions within each Member State, apart from Belgium, was lower than in non-assisted areas, the difference was marginal in all countries except Spain and the Netherlands.

Growth of income per head

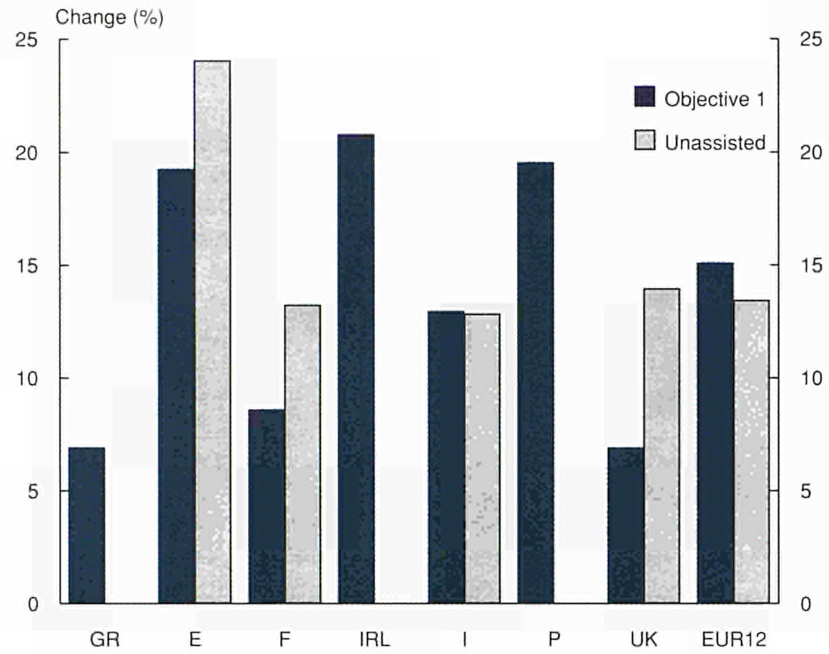
The relatively high growth of GDP in Objective 1 regions between 1986 and 1990 led to some convergence in levels of income per head (measured in terms of PPS) between the least developed and the most prosperous parts of the Community (Graph 79). In Objective 1 regions, GDP per head in real terms increased by an average of 3.5% a year over this period, compared with 3% in unassisted regions.

The experience of these four years represents a marked improvement on the previous 10 years when disparities in income per head widened. The reasons for this are difficult to disentangle. Apart from the effect of Structural Fund expenditure, it is also the case that, during most periods of economic growth in the Community, such as between 1986 and 1990, the less developed, less prosperous and largely peripheral regions have tended to perform better than other parts. Conversely, recession seems to affect them more severely.

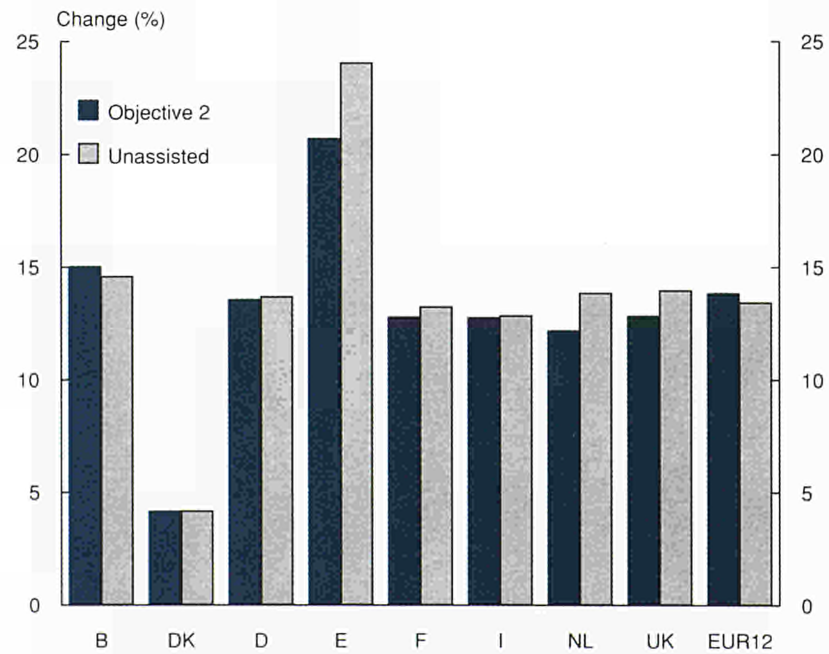
This may reflect the fact that peripheral regions, like many Objective 1 areas, tend to be relatively dependent on investment from outside. This may be reduced more than in central parts when economic activity — and income — is depressed.

The developments over this period in the Community as a whole, however, conceal marked differences within Member States reflecting the large variations in GDP growth. Whereas there was some convergence in income per head between Spain, Portugal and Ireland and the rest of the Community, in other Objective 1 regions the gap widened rather than narrowed (Graph 80 — it should be noted that the reference to "1986 Objective 1" in this and later graphs relates to the position in 1986 of regions which were classified as Objective 1 in 1989; the same applies to Objective 2 and Objective 5b regions in later graphs). This was particularly the case in Greece, Corsica and Northern Ireland, where average growth was 2% a year or less over this period — in the latter two cases, much lower than in mainland France and Britain. In Italy too, the rise in income per head in the assisted regions of the South during these five years was over ½%

81 GDP growth in Objective 1 and unassisted regions, 1986-1990



82 GDP growth in Objective 2 and unassisted regions, 1986-1990



a year less than in the non-assisted areas of the North.

Unemployment in problem regions

Unemployment is a key indicator in Objective 2 areas. The vast majority of areas qualifying for assistance had an average rate of unemployment above the Community average over the preceding three years, in addition to having a higher than average share of employment in industry and to having suffered a decline in industrial jobs.

Average unemployment in Objective 2 regions in 1991, though higher than in unassisted parts of the Community, was nevertheless considerably lower than in Objective 1 regions. While the latter had an average rate of 14%, the rate in Objective 2 regions was under 10% (9½%). This compares with a rate of 6½% in unassisted areas — only a little below the average rate in Objective 5b regions of 7% (Graph 83).

Conducting the analysis at the NUTS 3 rather than NUTS 2 regional level reduces the average unemployment rate in both Objective 2 and unassisted areas in 1991 — by ½% for the former and 1% in the latter. This also, therefore, serves to widen the measured gap slightly between the two (Graph 84 and Box, p. 123).

At Member State level, unemployment is also higher in Objective 1 and Objective 2 assisted areas.

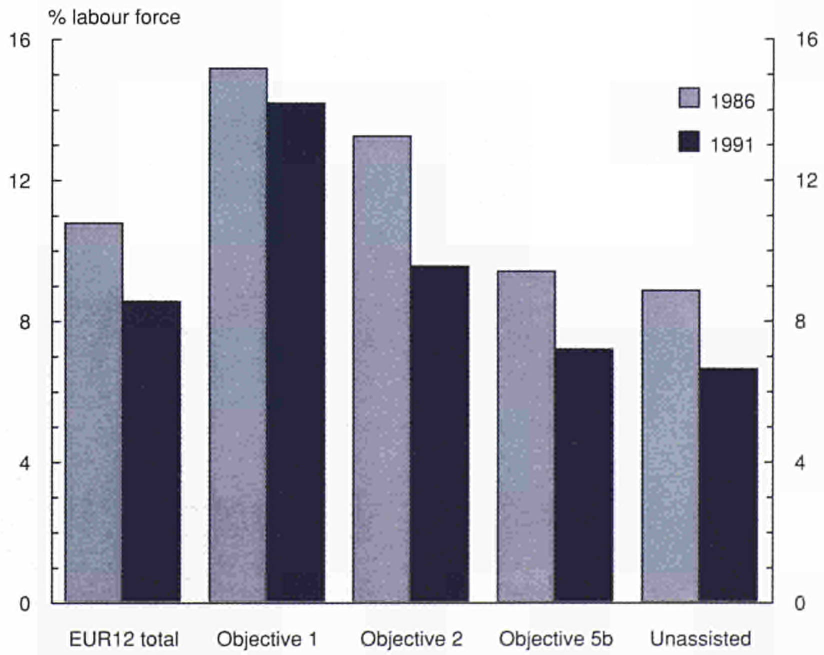
In the case of Objective 1 regions, the difference in the rate in 1991 for all countries with both assisted and non-assisted areas was substantial — the minimum being 4% in the UK with as much as 14% in Italy (Graph 85). In Ireland and Greece — which are entirely classified as Objective 1 — unemployment was also higher than in unassisted parts of the Community. In Portugal, however, the rate was significantly below that elsewhere.

In the case of Objective 2 regions, the difference is much less marked. Only in Belgium did the average rate of unemployment in 1991 in assisted regions exceed that in unassisted areas by more than 3% (Graph 86). In Spain, Italy, the Netherlands and the UK, the difference was less than 2%.

At the NUTS 3 level of regional disaggregation, however, the average rate in Objective 2 areas was more than 3% greater than in non-assisted parts, in Germany as well as Belgium. In all the other countries, except in France and Spain (where the analysis is not possible), it was more than 2% (Graph 84 and Box, p. 123).

In the case of Objective 5b regions, the difference in unemployment rates tend to be much lower than for other assisted areas. Indeed, in Germany, the average unemployment rate in 1991 was actually below that in unassisted areas (Graph 87). For the other countries, only in the Netherlands and Italy — and then only marginally — was unemployment more than 1% higher than in unassisted regions.

83 Unemployment rates in the Community by Structural Funds status, 1986 and 1991



Changes in unemployment, 1986 to 1991

Despite the comparatively high rate of GDP growth experienced by Objective 1 regions in the five years up to 1991, unemployment fell by much less in these areas than it did in other parts of the Community.

Whereas the average rate of unemployment in unassisted regions declined from just under 11% to $8^1/_2$% — it fell by only 1% in Objective 1 regions — from 15% to 14% (Graph 83).

This difference in overall Community experience is largely the result of the relative changes in unemployment which occurred in Spain and Italy — which together account for 60% of the labour force living in Objective 1 regions — as well as in Greece. Between 1986 and 1991, the average rate of unemployment in the less developed regions of Spain fell by 3% as compared with a fall of almost 9% in unassisted areas (and of 8% in Objective 2 areas) (Graph 84). In Italy, the average unemployment rate in Objective 1 regions actually increased over these five years by over 3%, while it fell by almost the same amount in unassisted regions. In Greece, unemployment also rose over this period, if only slightly.

In other countries with Objective 1 regions, the record on reducing unemployment was about the same in Ireland as in the unassisted parts of the Community and better in the UK and Portugal.

In contrast to the experience of Objective 1 areas, unemployment in the Objective 2 regions as a whole declined by almost twice as much as it did in unassisted areas between 1986 and 1991 — from over 13% to $9^1/_2$%. This aggregate result is, however, largely a consequence of events in the UK, which accounts for over 40% of the labour force in Objective 2 regions in the Community as a whole. There the average unemployment rate in Objective 2 regions fell by 4% as against a reduction of just over 2% elsewhere in the country (Graph 86).

Unemployment in NUTS 3 regions: Objective 2 and non-assisted areas

To check the difference it makes to the results for Objective 2 regions, an analysis has been carried out of unemployment rates at the NUTS 3 rather than the NUTS 2 level of regional disaggregation. Comparing average rates in NUTS 3 regions containing Objective 2 areas with those which do not contain Objective 2 areas shows, in practice, little difference from the results for NUTS 2 regions.

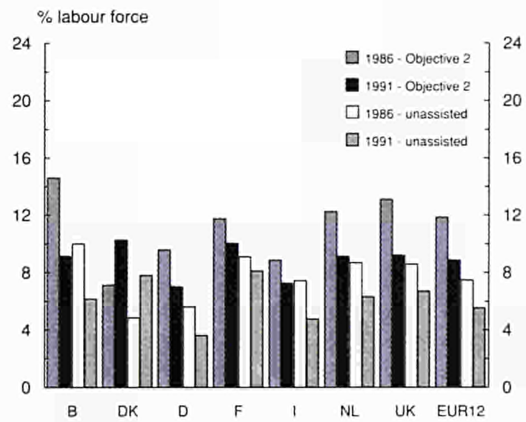
For both the Community as a whole and for most countries, the average rate of unemployment calculated for both 1986 and 1991 is similar if NUTS 3 rather than NUTS 2 regions are used as the basis. For 1991, the average rate for Objective 2 NUTS 3 regions over the Community as a whole was 9%, whereas for NUTS 2 regions it was 9.5% (Graphs 84 and 86). For unassisted regions, it was 5.5% as against 6.5%. In other words, a slightly larger difference in unemployment between assisted and non-assisted areas results if a finer level of regional disaggregation is used ($3^1/_2$% as compared with 3%).

At the country level, the difference between average unemployment rates calculated for NUTS 2 and NUTS 3 Objective 2 regions is greater than 1% for 1991 only in Germany and Denmark. For four countries, however, — Germany, Italy, the Netherlands and Denmark — a finer level of disaggregation widens the gap between unemployment in assisted and non-assisted areas by more than 1% (though for the former three countries, by less than 2%).

So far as changes between 1986 and 1991 are concerned, in five of the countries, the reduction in unemployment was greater in Objective 2 areas than elsewhere — the exceptions being Italy, where the reverse was the case, and Denmark, where unemployment rose by about the same amount in the two. Only in the case of the UK and Belgium, however, was the difference greater than 1%.

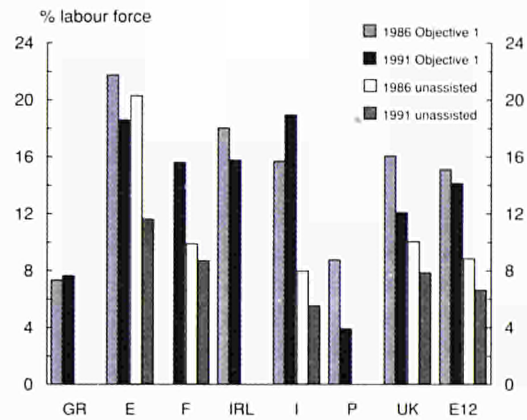
Unemployment rates in assisted and non-assisted regions, 1986 and 1991

84 Objective 2 (NUTS 3)



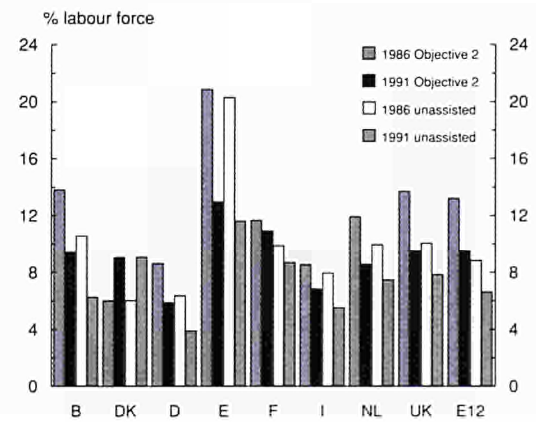
Excludes Spain (no unassisted regions)

85 Objective 1

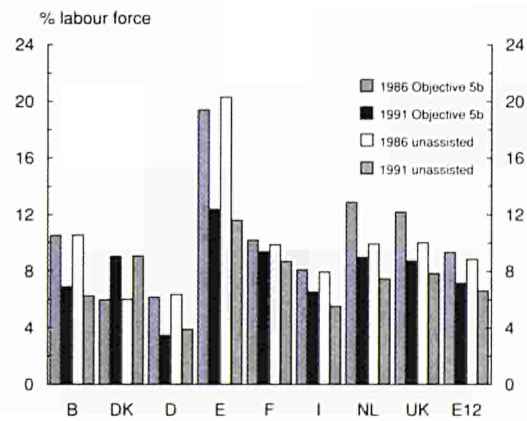


F : no data for Objective 1 regions (Corsica), 1986

86 Objective 2 (NUTS 2)



87 Objective 5b



In the Netherlands also, average unemployment in Objective 2 regions fell by more than in unassisted areas — though the difference was only around 1%. However, in three of the other five countries where such regions can be separated from the rest — Italy, Spain and France — the average fall was less than in non-assisted parts and, in Belgium and Germany, it was broadly the same.

When the analysis is carried out at a finer level of regional disaggregation — at the NUTS 3 rather than the NUTS 2 level — in order to distinguish Objective 2 areas more precisely, five of the countries showed a larger fall in unemployment in assisted areas than in non-assisted. These were Belgium, Germany and France as well as the Netherlands and the UK. Only in the case of the UK and Belgium, however, does the difference in the reduction become greater than 1% (see Graph 84 and Box, p. 123).

In the case of Objective 5b regions as a whole, the average rate of unemployment declined by the same amount as it did in unassisted areas — by just over 2%. Again, however, aggregate experience conceals differences between countries. In three of the countries where it is possible to distinguish developments in Objective 5b regions — the UK, the Netherlands and Germany — unemployment fell by more than in unassisted areas. In the other four countries, it fell by less (Graph 87).

As regards unemployment, therefore, the experience of the various types of assisted areas was mixed over this five-year period. Over the Community as a whole, there was no tendency for unemployment to fall by more than in unassisted areas.

Unemployment in Objective 2 and neighbouring areas

As a further examination of the difference in experience between regions eligible for assistance as Objective 2 areas and those which are not, unemployment rates in NUTS 3 regions containing eligible areas have been compared with those in neighbouring non-eligible regions in the same NUTS 2 region (note that all other regions are excluded from the analysis).

Over the Community as a whole, unemployment in assisted NUTS 3 regions was just under 2% higher in 1991 than in neighbouring regions not eligible for assistance (Graph 88). This was only marginally less than in 1986 or 1989.

Both the difference in rates and the relative performance over this period, however, differs widely between countries. Whereas in Denmark, the difference in average rate between the two types of region was over 3% in 1991, in France it was only 1% and in the UK less than ½%.

In only two of the 8 countries, did the difference in unemployment between assisted and non-assisted regions narrow significantly between 1986 and 1991, in Spain — by over 4% — and in Belgium — by 1½%. Although the difference was reduced in another four countries over this period, the reduction was less than ½% in three of these — Germany, France and the Netherlands. In Italy and Denmark (where unemployment went up), the difference widened.

However, this was not the case in every Member State. In the UK, for example, average unemployment in all the assisted areas — irrespective of the Objective under which they are classified — declined by more than in non-assisted regions between 1986 and 1991. In Italy, on the other hand, the reverse was the case.

Employment rates

The rate of unemployment is an important indicator of the inability of people living in different parts of the Community to find work. However, although it is intended to encompass all those actively looking for a job and unable to find one, it tends to leave out of account those who are deterred by the poor prospects of obtaining work from even entering the job market. An additional indicator is the proportion of working-age population — defined here as those aged 15 to 64 — who are in work, the employment rate. (In practice, because of data problems, *total* employment, rather than only those aged 15 to 64, is here related to the working-age population numbers; since few people of 65 and over are employed in the Community, this is not a significant distortion.)

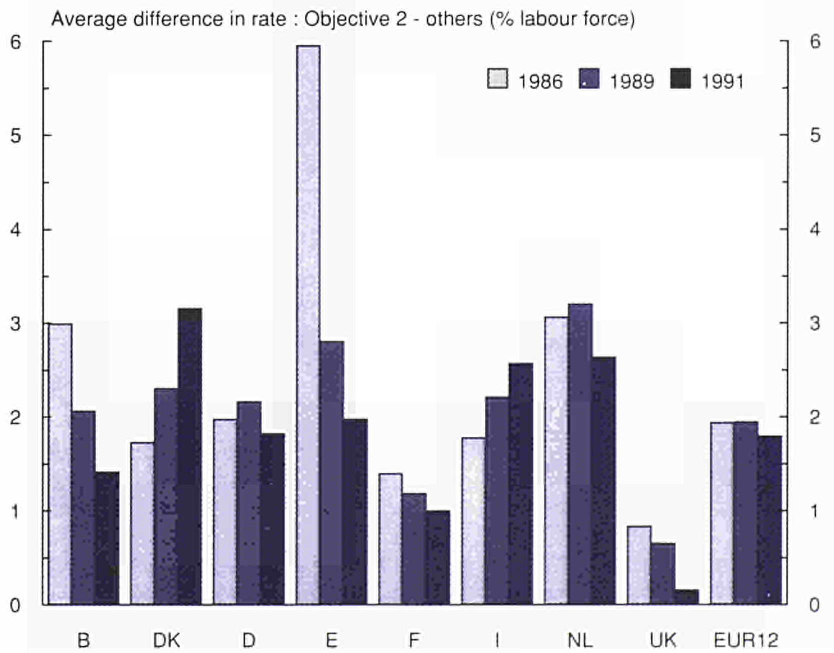
In 1991, the share of the working-age population which was in employment was lower in all assisted regions than in other areas. This was particularly the case with Objective 1 regions — where the average employment rate was only 51% as against 64% in non-assisted parts of the Community (Graph 89). This difference is considerably greater than would be implied by the difference in unemployment rates noted above (7½% of the labour force, equivalent to 4½% of working-age population). Almost two thirds of the difference in employment rates between Objective 1 and non-assisted regions is explained by differences in levels of inactivity among people of working-age rather than open — ie recorded — unemployment.

Such differences are common to all but one country with Objective 1 regions. The exception is Portugal, where unemployment is lower and activity higher than in the rest of the Community. In all countries employment rates in Objective 1 areas were less than in non-assisted regions in 1991. In Italy, in particular, the difference between the two was almost 14%, only just over half of which (around 8%) is attributable to the difference in unemployment (Graph 90). In the UK, not only was the employment rate in the Objective 1 area of Northern Ireland substantially below that in unassisted parts of the country (over 11% below, less than a third of which is explained by the unemployment difference) but it was also lower than in other parts of the Community.

In Objective 2 regions, the average employment rate in 1991 was 3½% lower than that in unassisted areas in the Community as a whole (Graph 89). In this case, differences in unemployment explain two-thirds of the deficiency, with a lower rate of activity accounting for the remaining third.

This is also generally true at the country level, with two notable exceptions. For both Spain and Italy, though the employment rates in Objective 2 regions were marginally below those in unassisted areas, the differences were less than the differences in unemployment rates. This means that rates of activity among working-age people in these regions were higher than they were in non-assisted areas.

88 Unemployment rates in Objective 2 and neighbouring regions, 1986, 1989 and 1991



"Neighbouring regions" are NUTS 3 regions within a NUTS 2 region

In Objective 5b regions, average employment rates were 2% below those in unassisted areas, significantly more than the gap in unemployment rates. In these rural areas, therefore, almost all of this difference is attributable to the fact that a higher proportion of people of working age were outside the labour force as measured.

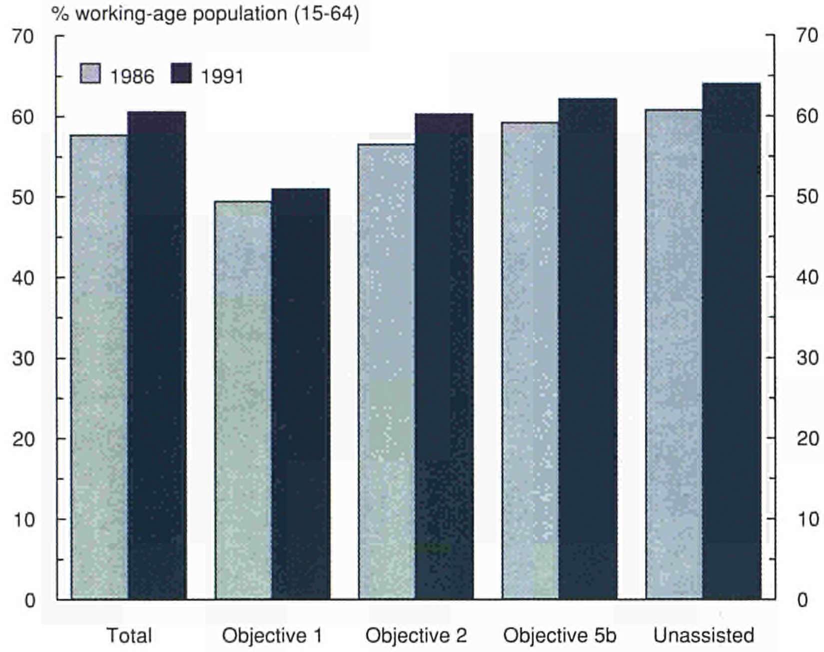
Changes in employment rates, 1986–1991

In all parts of the Community, employment rose relative to working-age population by more than the fall in unemployment. In other words, part of the growth in employment resulted from increased participation of working-age people in the labour force force as well as from people moving out of unemployment. In the unassisted areas in the Community taken together, the increase in the average employment rate from 61% to 64% between 1986 and 1991 was attributable more or less equally to the reduction in unemployment and to an increase in activity (Graph 89).

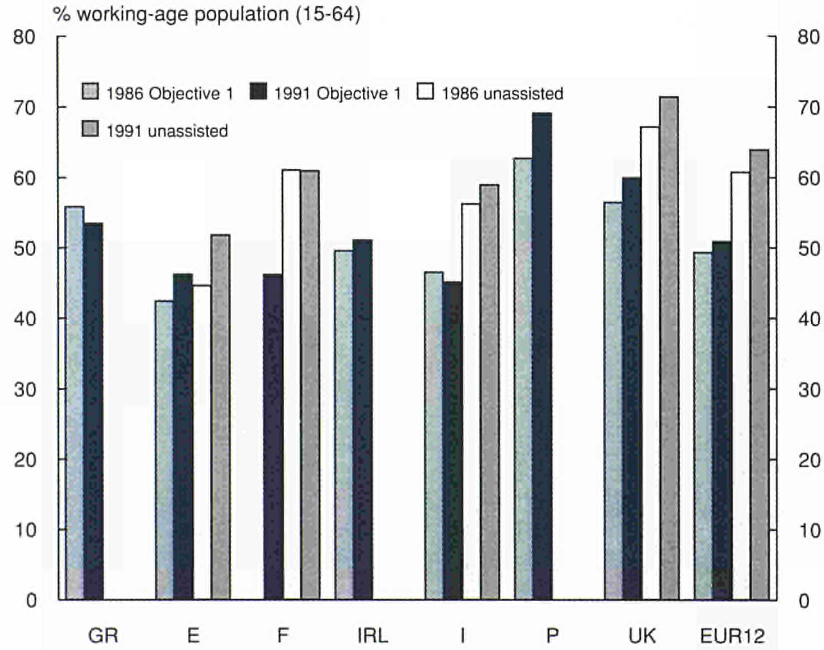
In Objective 1 regions, however, a rise in activity was a more important source of job growth, accounting for over 60% of the increase in employment relative to working-age population over this period, though there were differences between countries — in Greece, in particular, activity fell. Nevertheless, it was still the case that the rise in activity in Objective 1 regions was lower on average than in non-assisted areas (1% as against 1½%).

In Objective 2 regions, the employment rate rose on average by 4% between 1986 and 1991, as against the 3% increase in unassisted areas

89 Employment rates in the Community by Structural Funds status, 1986 and 1991

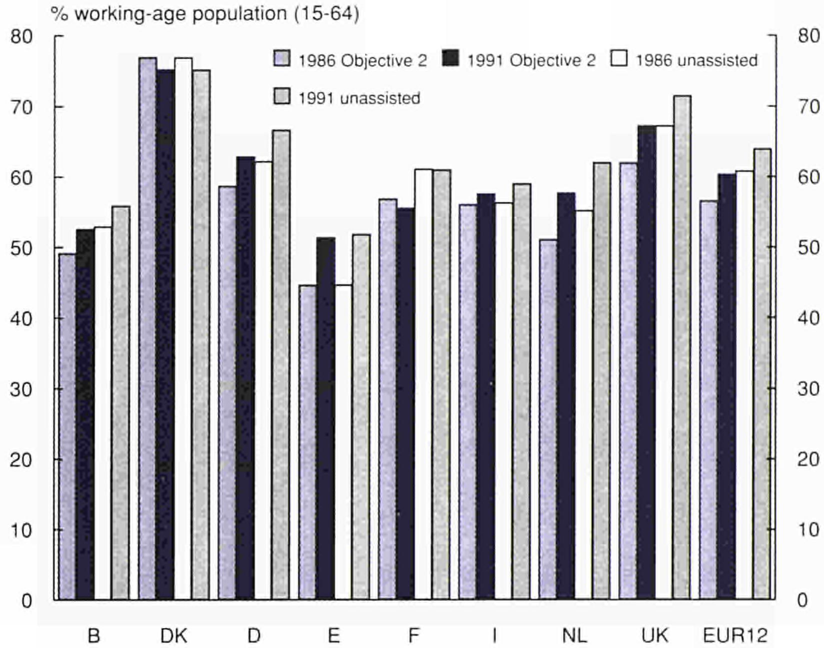


90 Employment rates in Objective 1 and unassisted regions, 1986 and 1991

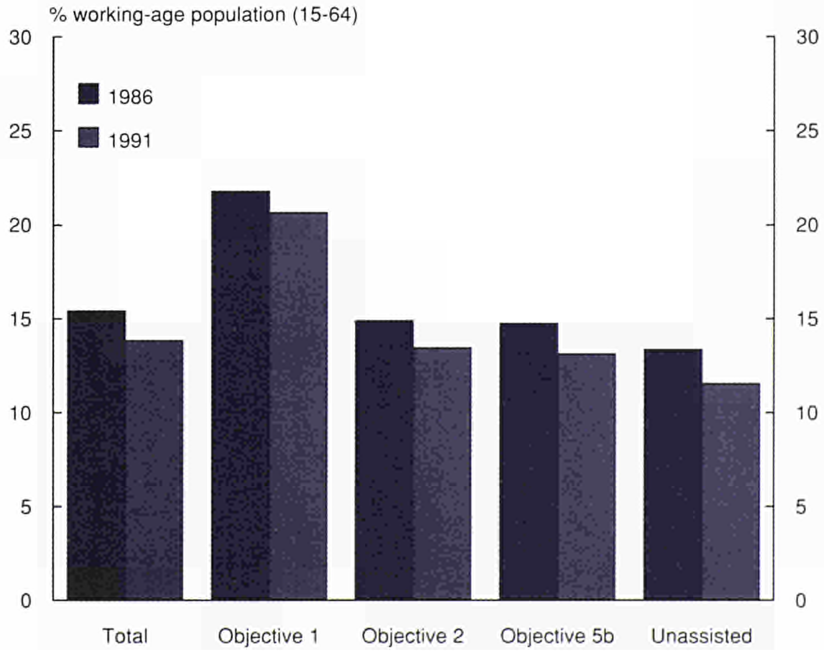


F - no data for Objective 1 regions (Corsica), 1986

91 Employment rates in Objective 2 and unassisted regions, 1986 and 1991



92 Estimates of hidden labour supply in the Community by Structural Funds status, 1986 and 1991



(Graph 91). Around two-thirds of this rise can be attributed to the fall in unemployment which occurred and a third to a rise in labour force participation. Again there were differences between countries, with France recording a fall in the employment rate in Objective 2 regions between 1986 and 1991 and a fall in activity (of some $2^1/_2$%). (This is partly attributable to a substantial decline in activity among young people, those under 25, for whom the rate was 10% lower in 1991 than in 1986.)

In Objective 5b regions, the employment rate rose by slightly less than in non-assisted regions over this period, half because of lower unemployment, half because of higher activity.

Hidden labour supply

The differences in the extent of activity among people of working age imply that the potential labour supply in assisted regions, especially in Objective 1 regions but also to a lesser degree in Objective 2 areas, may be greater than actually recorded. In time, the further development of labour markets in the less developed regions and the likelihood of more women working should lead to a convergence in rates of labour force participation, so long as economic conditions also converge.

If economic conditions were to improve in less developed regions and if the chances of finding employment were to increase — if, in other words, the cohesion policies now being pursued were to be successful — rates of activity should tend to rise. As a consequence, the rate of job creation required to absorb the new entrants to the labour market would be even greater than that implied by the current unemployment statistics.

An estimate of the scale of this potential, dormant problem of hidden labour supply in these regions, can be obtained on the basis of levels of activity which now prevail in some advanced areas of the Community where labour market conditions, social attitudes and social infrastructure are conducive to high participation. Even on the most favourable assumptions, it is likely that a "hardcore" of inactivity would remain — for whatever reasons — of the order of 20% of the working-age population. This level is equivalent to that in the South-East of England and somewhat higher than the 17% which now prevails overall in Denmark.

On this assumption, the hidden labour supply in Objective 1 regions amounted to just over 20% of the working-age population in 1991 (Graph 92). This compares with a figure of under 12% in unassisted parts of the Community. Added to the numbers unemployed, which represented over 8% of working-age population in 1991, almost 30% of people of working-age in Objective 1 regions could be viewed as either actual or potential job-seekers in the long run — almost twice as many as in unassisted areas.

At the country level, hidden labour supply was of similar magnitude in the less developed areas of Italy, Spain and Greece in 1991, at between 22 and 24% of the working-age population, while in Corsica, it was slightly higher at 25%. In Portugal, on the other hand, it was only around 8% (Graph 93). In all countries with both assisted and non-assisted areas, apart from Spain, the figure was significantly higher in the former than the latter, the difference ranging from 12% in France to 7% in Italy.

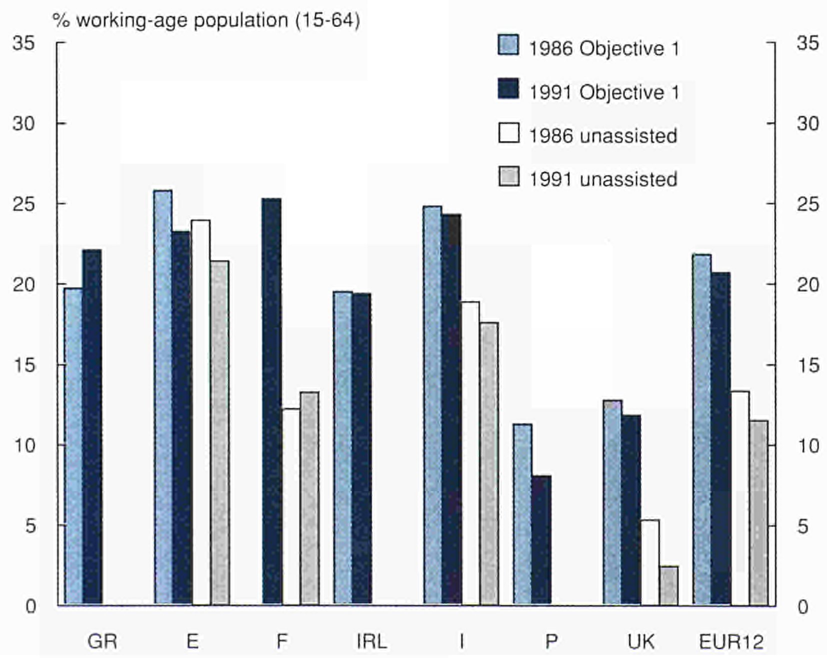
In both Objective 2 and Objective 5b regions, the extent of hidden labour supply was only marginally greater than in non-assisted parts of the Community, at 13% of working-age population in 1991. At a country level, however, the proportion in Objective 2 regions varied from 21–22% in Belgium and Spain — about the same as in Objective 1 regions — and 17–18% in France, Italy and the Netherlands to 13% in Germany and only 5% in the UK (Graph 94).

In all cases (apart from Spain, where there were relatively few non-assisted areas), the extent of hidden labour supply was greater in the Objective 2 regions than elsewhere in the country. This was especially so in France, the Netherlands and the UK, where the difference amounted to around 3–4% of working-age population — the equivalent of a difference in the rate of unemployment, as usually measured, of 5–6%.

Changes in hidden labour supply

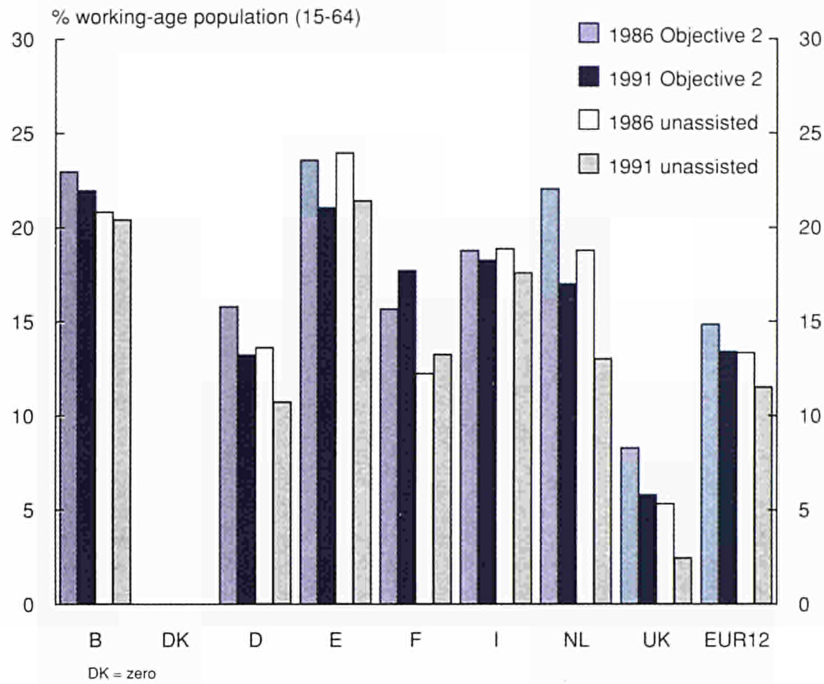
Between 1986 and 1991, the extent of hidden labour supply was reduced in most parts of the Community as activity rates increased. The reduction was, however, less in Objective 1 regions taken together than in other areas — 1% of working-age population as against 2%. The disparity between the less developed regions and the rest, therefore, widened over this period in respect of both unemployment — as noted above — and hidden labour supply.

93 Estimates of hidden labour supply in Objective 1 and unassisted regions, 1986 and 1991

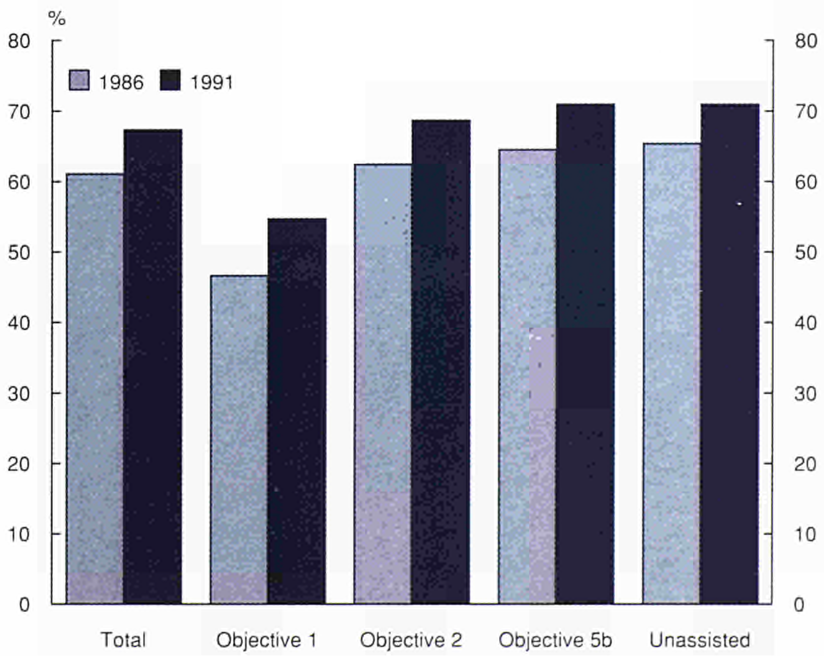


F - no data for Objective 1 regions (Corsica), 1986

94 Estimates of hidden labour supply in Objective 2 and unassisted regions, 1986 and 1991



95 Activity rates of women aged 25-44 in the Community by Structural Fund status, 1986 and 1991



At a country level, the reduction in hidden labour supply in Objective 1 regions was particularly marked over these five years in Portugal and Spain where it fell by around 3% of working-age population (equivalent to a fall in unemployment of around 5%) (Graph 93). In Italy and Ireland, however, the fall was much less than 1%, while in Greece, the extent of hidden labour supply went up significantly.

In Objective 2 and Objective 5b areas, hidden labour supply declined by much the same over this period as in non-assisted parts of the Community. For Objective 2 regions, however, the extent of the fall varied markedly between countries, ranging from 5% of working-age population in the Netherlands (though in the latter case this was less than in non-assisted parts of the country) to 1% or less in Italy and Belgium (more than in non-assisted parts).

In France, hidden labour supply increased by 2% of working-age population in assisted regions (and by 1% elsewhere). (As noted above, this was largely due to a rise in inactivity among young people of under 25. Insofar as this reflects more people staying in education, what appears as a rise in hidden labour supply may in effect be a precursor to a more qualified and adaptable workforce in the future.)

Activity rates of women

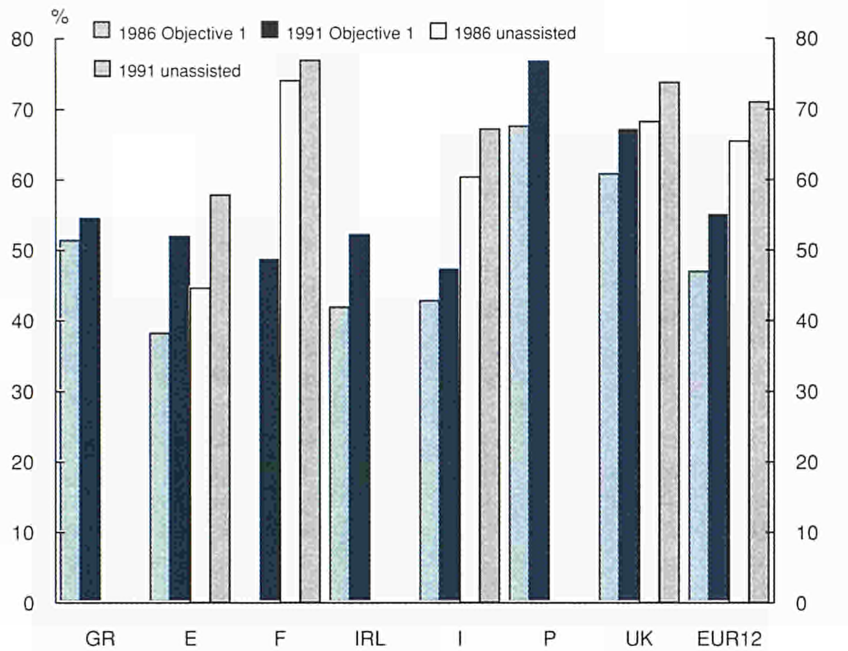
Differences in the extent of hidden labour supply largely reflect differences in the participation of women in the labour force. In the case of men, except in the youngest and oldest age groups (under 25 and over 54), almost all those of working age tend to be either employed or actively looking for work. In the case of women, however, as considered in more detail in Chapter 6 below, family responsibilities or social attitudes have tended to prevent large numbers joining the labour force in many parts of the Community.

Taking women aged 25 to 44 (data at the regional level are not readily available for the 25-49 age group analysed in Chapter 6), the rate of activity — or labour force participation — in the less developed Objective 1 regions is generally much lower than elsewhere in the Community. In 1991, under 55% of women in this age group were formally part of the workforce in Objective 1 regions as a whole, compared with 71% in non-assisted areas of the Community (Graph 95).

In all the Mediterranean regions, as well as in Ireland, the rate in Objective 1 areas was 54% or less in 1991. In Southern Italy and Corsica, it was below 50% — in both cases very much lower than the rate in Northern Italy and mainland France (Graph 96). In Portugal, in contrast, a higher proportion of 25–44 year old women (77%) were economically active than in other parts of the Community.

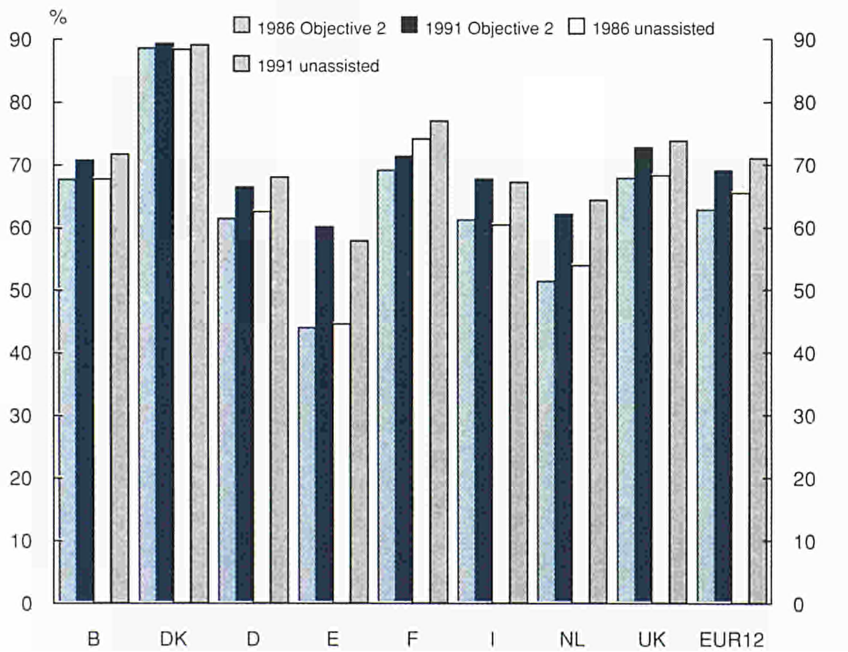
In other assisted regions — Objective 2 and Objective 5b — rates of female activity are much more similar to those in unassisted areas. Nevertheless in Objective 2 regions they were still on average over 2% less than in the latter in 1991. In Northern countries, as well as in the North of Italy, the rate in Objective 2 regions was generally within 5% of the Community average of around 70% (Graph 97). The exceptions are Denmark, where the rate was markedly higher, and the Netherlands, where it was much lower at just over 60% — similar to

96 Activity rates of women aged 25-44 in Objective 1 and unassisted regions, 1986 and 1991



F - no data for Objective 1 regions (Corsica), 1986

97 Activity rates of women aged 25-44 in Objective 2 and unassisted regions, 1986 and 1991



the rate in industrial regions in Spain. In all the countries, apart from France, where it was over 5% lower, the rate of women's activity was not much different — though generally lower — in Objective 2 areas to that in other parts.

Changes in women's activity

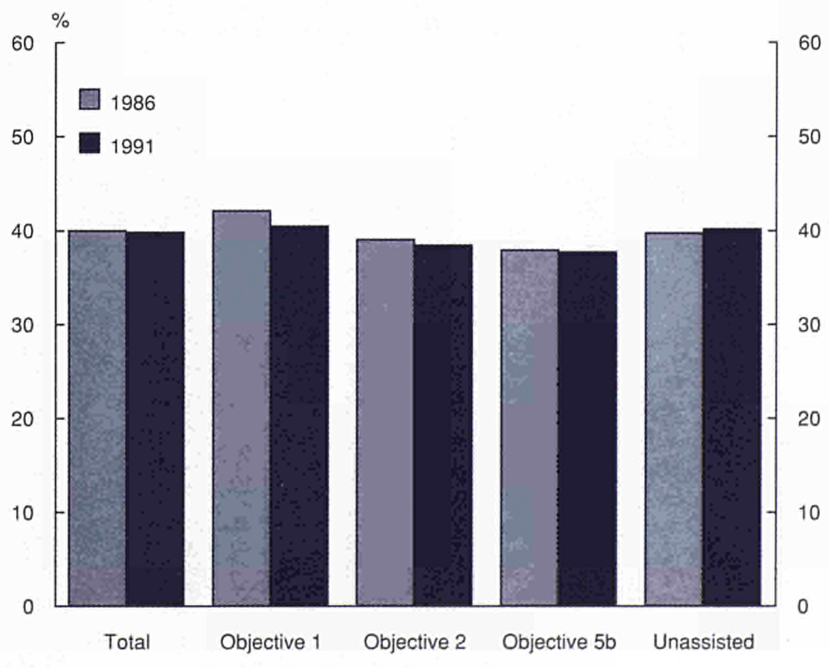
Unlike other indicators of labour market performance, there is evidence of reduced regional disparities as regards women's participation in the labour force over recent years. Between 1986 and 1991, the average rate of activity of women aged 25 to 44, increased significantly more in Objective 1 regions than in non-assisted parts of the Community — by 8% as opposed to 5½% (Graph 95). In Objective 2 regions, the average rate also rose by more than it did in the more prosperous areas, though the difference was much smaller (6% as against 5½%).

The rise in women's activity in Objective 1 regions was common to all countries, though it was particularly marked in Spain and Ireland. There the rate for the 25–44 age group increased by over 10% in just five years (Graph 96). In Portugal, moreover, the rate went up by just under 10% from what was already a higher than average level. In Greece and Southern Italy, on the other hand, female activity rose by less than 5% — less than elsewhere in the Community.

In Objective 2 regions, the proportion of 25–44 years old women in the labour force also increased in all countries over these five years, but generally by less than in non-assisted areas. The rise was especially pronounced in Spain, where the rate went up from only 44% in 1986 to 60% in 1991. However, it was also higher than average in the Netherlands, where it was almost 11% (though still only marginally more than in unassisted parts) (Graph 97). By contrast, in France and Belgium, the rate increased by comparatively little (by only 2–3%).

In all countries apart from Spain and the Netherlands, the average activity rate of women in this age group went up by less in Objective 2 areas than elsewhere.

98 Activity rates of older people aged 55-64 in the Community by Structural Funds status, 1986 and 1991



Activity rates of older people

Unlike female activity rates, participation of older people in the labour force, those aged 55 and over, varies little between assisted areas and other parts of the Community. In 1991, the activity rate for this age group averaged just over 40% in Objective 1 regions, marginally more than in non-assisted areas (Graph 98). In Objective 2 and Objective 5b regions, the average was just under 40%.

At the country level, the rate in Objective 1 regions was close to 40% in four of the countries — Ireland, Spain, Greece and Italy, while in Portugal and the UK (Northern Ireland), it was around 50%. In Corsica, however, the rate was below 30% (Graph 99).

In Objective 2 regions, there is a much wider variation in the activity rate of older people between Member States. In 1991, the rate ranged from 57% in Denmark and 48% in the UK to 27–28% in France and the Netherlands and only 19% in Belgium (Graph 100). Significantly, the rate in all countries in Objective 2 regions was lower than that in non-assisted areas, the difference being over 6% in France and the UK, and around 5% in Germany. This suggests that as well as experiencing higher rates of unemployment, people living in Objective 2 regions in these countries also have a greater likelihood of ending up taking early retirement.

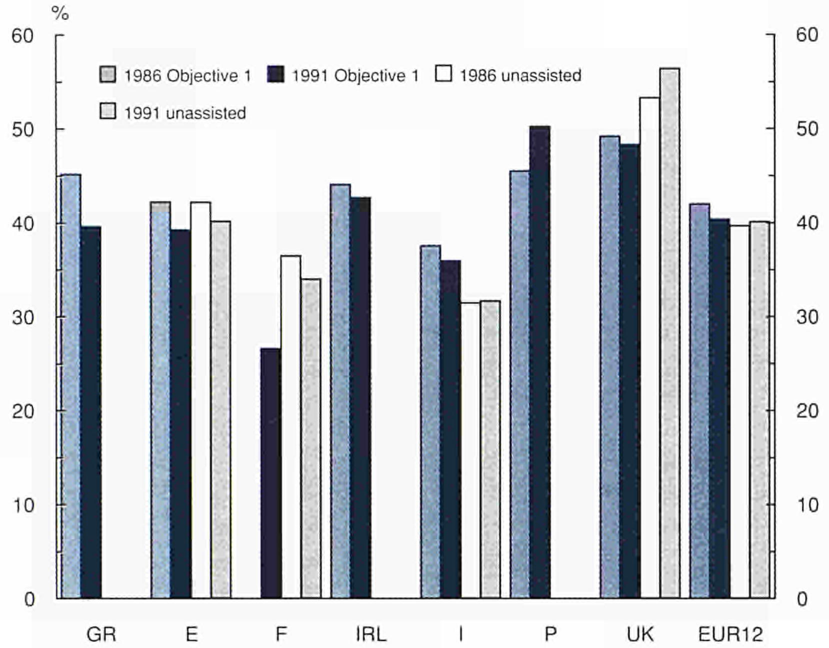
Changes in activity of older people

Activity rates of people in the 55–64 age group declined in all assisted areas in the five years prior to 1991. While the fall was marginal in Objective 2 and Objective 5b regions, it was around 1½% in Objective 1 areas (Graph 98). This contrasts with a small rise in activity for this age group in non-assisted parts of the Community.

The reduction in activity of older people was a common feature of Objective 1 regions in all Member States, apart from Portugal where the rate went up from an already high 46% to over 50% (Graph 99). In both Italy and the UK, where it is possible to compare developments in assisted and non-assisted areas, the fall in activity in the former was accompanied by a rise in activity in the latter.

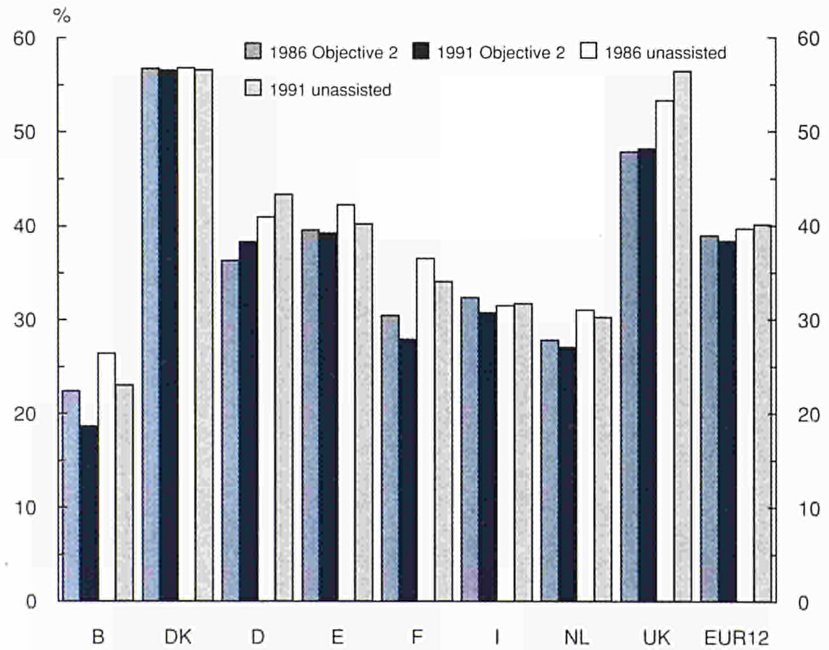
In Objective 2 regions, the activity rate of older people declined in all countries, apart from in Germany, where it rose, and in Spain and the UK, where it hardly changed (Graph 100). The fall was particularly significant in Belgium and France, where, in each case, the rate was already below the Community average and below the rate in the rest of the country. In both cases, the fall was greater than in non-assisted areas, if only slightly. In the UK, a virtually unchanged rate in the assisted areas contrasted

99 Activity rates of older people aged 55-64 in Objective 1 and unassisted regions, 1986 and 1991

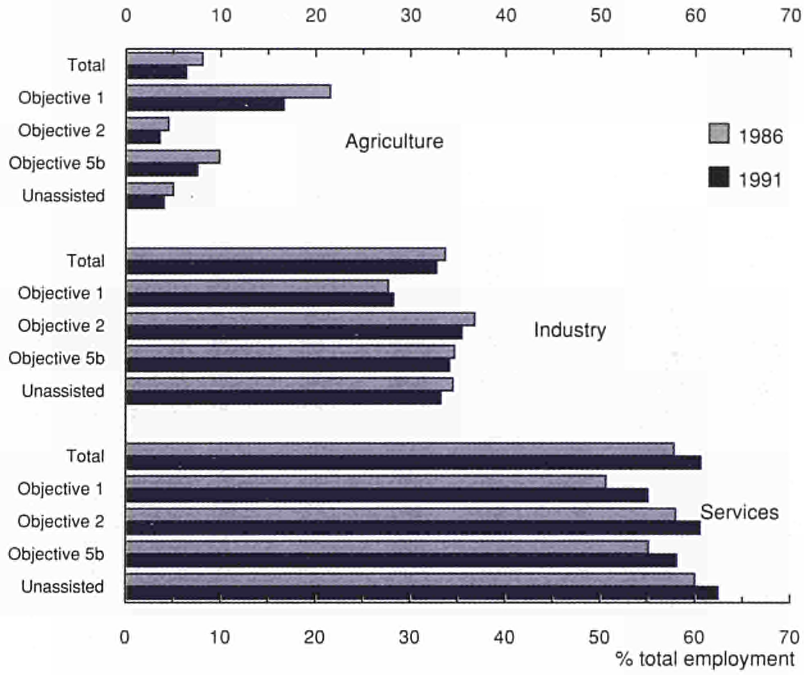


F - no data for Objective 1 regions (Corsica), 1986

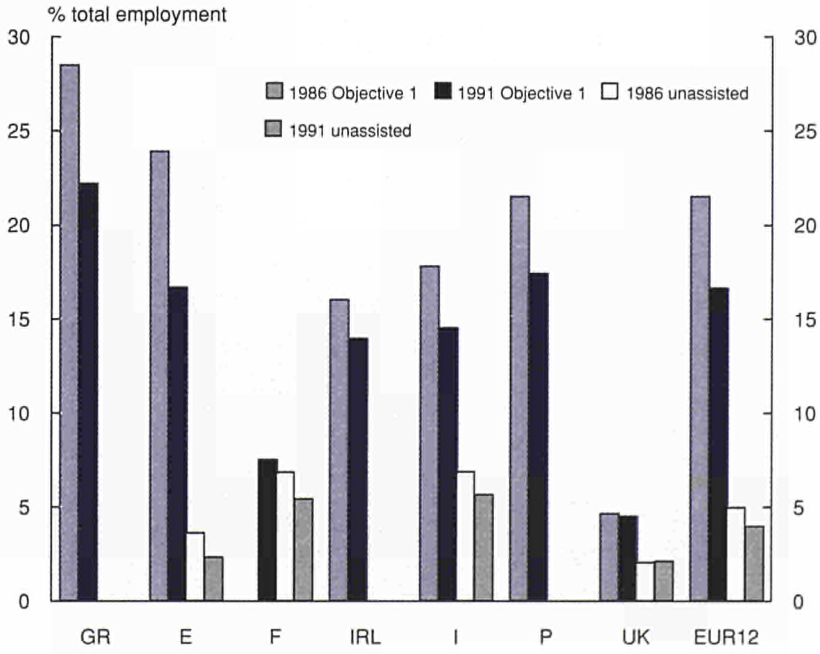
100 Activity rates of older people aged 55-64 in Objective 2 and unassisted regions, 1986 and 1991



101 Sectoral distribution of employment in the Community by Structural Funds status, 1986 and 1991



102 Agricultural employment in Objective 1 and unassisted regions, 1986 and 1991



F - no data for Objective 1 regions (Corsica), 1986

with a rise in other parts of the country.

Structure of employment

Given the problems of the regions eligible for Structural Fund assistance, it is only to be expected that the distribution of employment between different sectors of activity will differ between these priority regions and other areas. However, except in respect of employment in agriculture in Objective 1 regions, the differences are not as pronounced as might be expected.

In 1991, over 16% of those employed in Objective 1 regions across the Community worked in agriculture — accounting for nearly half of all those employed in the sector in the Community as a whole — as compared with under 5% of those employed in non-assisted areas (Graph 101). In the Objective 1 regions, 28% were employed in industry and 55% in services, in both cases less than in non-assisted areas — where the rates are 33% and 63%, respectively.

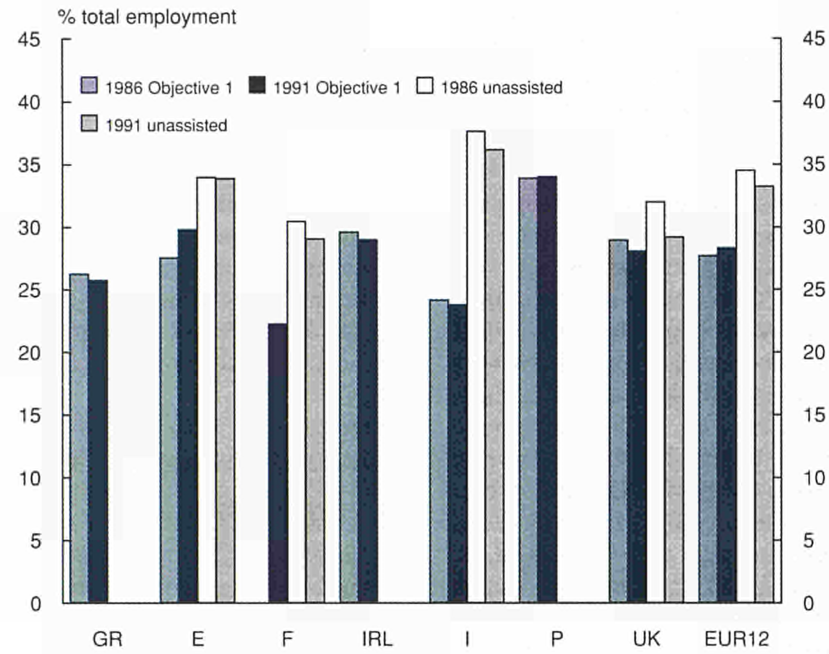
In Objective 2 areas taken together, however, the sectoral division of employment differs little from that in unassisted parts. The proportion working in agriculture was much the same in 1991, while the proportion in industry was only slightly higher (35% as against 33%) and that in services only slightly lower (61% as against 63%).

Objective 5b regions taken together combine the sectoral features of Objective 1 and Objective 2 areas, in that they have proportionately more people employed in both agriculture — around 8% in 1991 — and industry — 34% — than non-assisted areas. The sectoral pattern of employment in Objective 1 regions is broadly similar in the different Member States, with a few exceptions. In 1991, agriculture accounted for around 15% or more of total employment in Portugal, Ireland and Greece (where the figure was over 20%), as well as in the Objective 1 areas of Spain and Italy (Graph 102). In Corsica, however, the proportion was under 8% and in Northern Ireland, under 5%. Nevertheless, in both cases, the agricultural share was higher than in the non-assisted parts of mainland France and the UK. The same was also true, and to a much greater extent, for Italy and Spain.

Industry accounted for under 30% of employment in Objective 1 regions in 1991 in all countries except for Portugal, where the figure was 34% — above the average in non-assisted parts of the Community (Graph 103). In Southern Italy and Corsica, the share of industry was less than 25%, substantially below that in unassisted areas in Northern Italy (36%) and mainland France (29%).

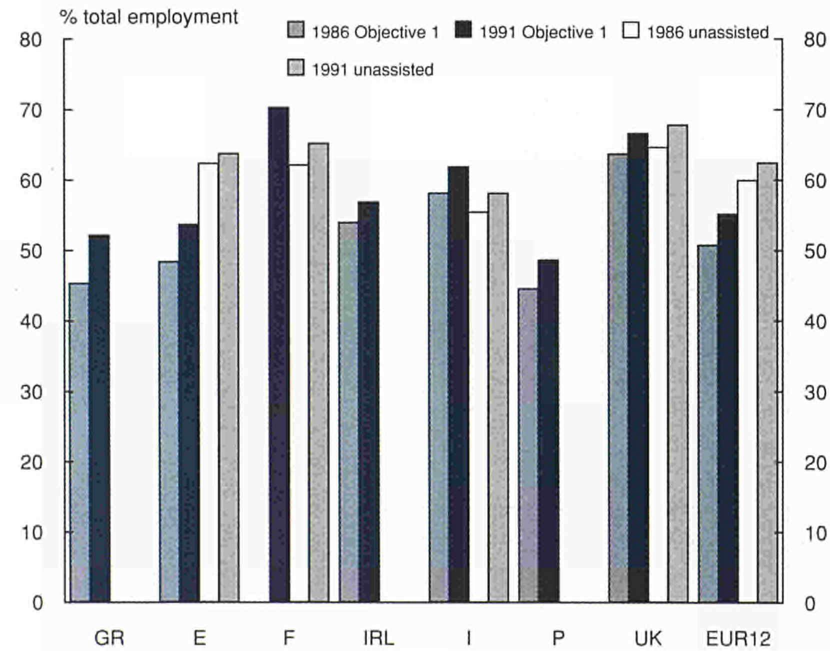
The service share of employment in the less developed regions is, however, less uniform between countries. In 1991, the proportion employed in services in three of the countries, Greece, Spain and Portugal, was less than 55% (under 50% in Portugal) and in Ireland, it was only slightly above (57%) — in all cases well below the average figure in unassisted areas (Graph 104). On the other hand, in Northern Ireland, the South of Italy and Corsica, the share of services was close to or above that in non-assisted parts of the Community, and in the latter two cases, significantly higher than in Northern Italy and mainland France respectively.

103 Industrial employment in Objective 1 and unassisted regions, 1986 and 1991



F - no data for Objective 1 regions (Corsica), 1986

104 Service employment in Objective 1 and unassisted regions, 1986 and 1991



F - no data for Objective 1 regions (Corsica), 1986

The composition of services differs, however, in these latter three regions. Whereas in Corsica, a large part of those employed in services work in the tourist industry, in both Southern Italy and Northern Ireland, disproportionate numbers are employed in the public sector.

In the case of Objective 2 regions, employment in industry in 1991 exceeded the 33% average in non-assisted parts of the Community in all countries except the Netherlands and Denmark (where it is below 30%, though the data used may not be sufficiently disaggregated by region to distinguish between Objective 2 and other areas) (Graph 105). In Spain, the proportion was over 40% and in Germany and Italy, over 35%. In the latter two countries, however, the share of industry in employment in Objective 2 areas was in each case *lower* than in non-assisted areas of the country — especially in Germany, where the difference in share was almost 3%.

As a reflection of this, in these two countries, the share of services in employment was also higher in Objective 2 regions in 1991 than in non-assisted parts (Graph 106). In all other Member States, services accounted for a much smaller proportion of employment in these regions than elsewhere, the difference being 5% or more in Spain, France, the Netherlands and the UK.

Sectoral changes in employment

Over the five years preceding 1991, although all classes of region distinguished here experienced similar changes in the sectoral pattern of employment, the Objective 1 regions showed one significant difference — an increase in the share of industry as opposed to the decline registered in other areas. There was, however, some difference between regions in the scale of change which occurred, the effect being in general to reduce interregional differences in the sectoral distribution of employment (Graph 101).

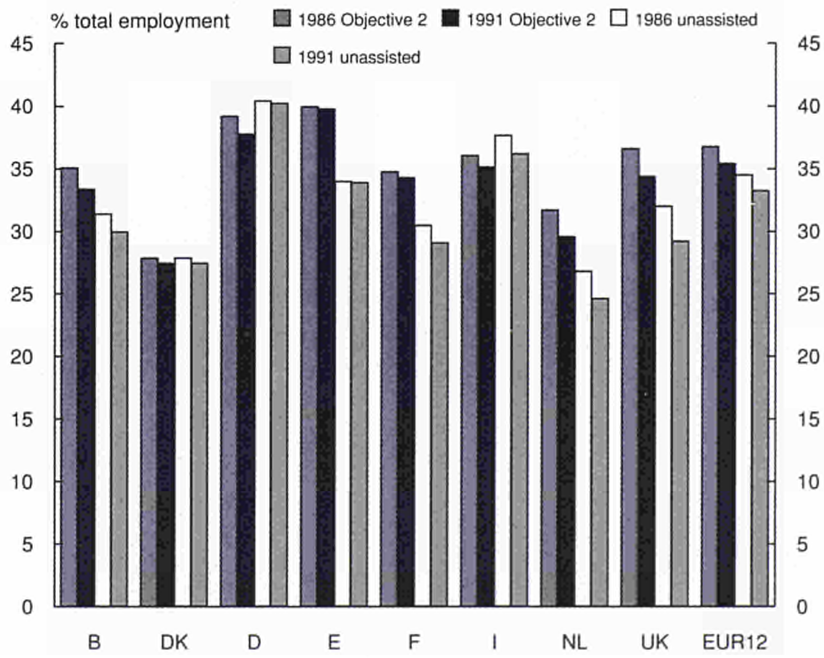
This was especially the case in Objective 1 areas where the share of agriculture, on average, declined by some 5% between 1986 and 1991, as against a fall of only around 1% in unassisted parts. At the same time, the share of employment in services increased by 4%, almost twice as much as elsewhere.

In Objective 2 regions, on the other hand, the sectoral changes which occurred over this period were similar both in nature and scale to those in unassisted areas.

At the country level, the fall in the proportion employed in agriculture in Objective 1 regions was especially pronounced over these five years in the two countries where the share in 1986 was the highest, namely Spain and Greece. There the fall exceeded 6% in each case (Graph 102). Moreover in Portugal, where the agricultural share was also high, it also declined significantly (by 4%).

Despite the aggregate change, the share of employment in industry in Objective 1 regions only increased in two countries, Spain and Portugal — in the latter case only very marginally. This was nevertheless sufficient to produce an overall rise in the share in these regions over the Community as a whole (Graph 103). In all other countries, the proportion employed in industry fell

105 Industrial employment in Objective 2 and unassisted regions, 1986 and 1991



between 1986 and 1991, though in all cases, by less than the decline in non-assisted regions.

By contrast, the service share of employment in Objective 1 areas increased throughout the Community over this period. The rise was particularly large in Greece, Spain and Portugal where the share was relatively low initially, and where it went up by between 4 and 7% (Graph 104). These changes partly reflected the big fall in agricultural employment.

In Objective 2 areas, the fall in the proportion employed in industry was common to all countries, though in Spain and France, the decline was small (Graph 105). The scale of the fall, however, varied between countries, especially in relation to that experienced in non-assisted regions. In three of the countries, France, Italy and the UK, the proportion declined by less than in other areas, while in the Netherlands, the fall was much the same. In Belgium and particularly in Germany, however, the industry share fell by more than elsewhere.

The experience as regards changes in the share of employment in services adds further evidence. This shows that in Objective 2 regions, only two countries — Germany and Spain — registered a greater rise in the proportion employed in services than non-assisted areas between 1986 and 1991 (Graph 106). In the former case, this served to raise the service share in such regions even higher than in the rest of the country. In other countries, the increase in share was either much the same as, or smaller than, the rise in other regions. In Objective 2 regions, therefore, no general tendency towards convergence in the sectoral division of employment could be observed over this period.

Employment growth

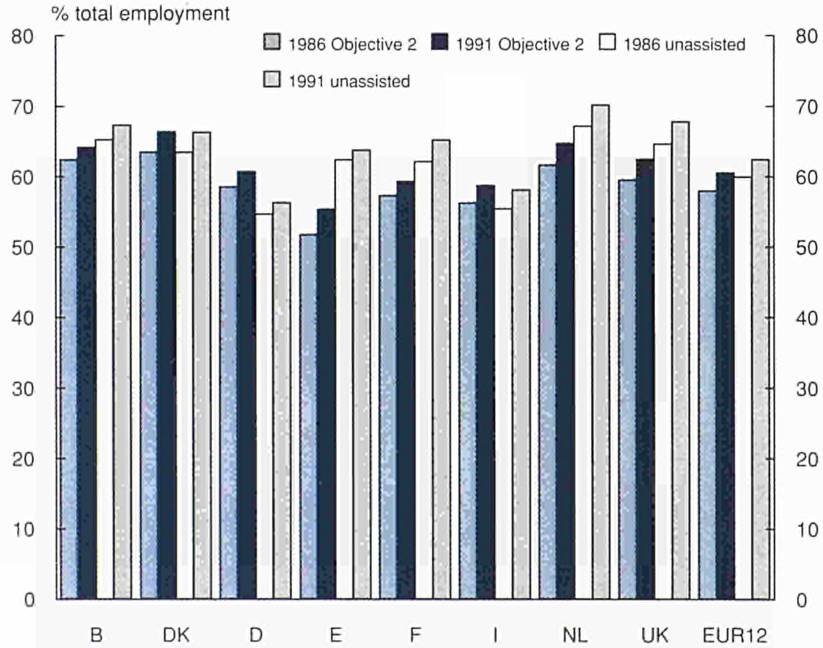
The significant differences in the sectoral division of employment between regions examined above have important implications for future employment growth. This applies especially to Objective 1 regions where, despite the large reduction which occurred over the 1980s, the share of employment in agriculture is still substantially higher — around three times higher — than that in other parts of the Community.

The implication is, if the numbers employed in agriculture were to fall by the same percentage in these regions as elsewhere, the number of people thrown out of work would be three times greater in relative terms — ie relative to the total number employed — in the former than in other areas. In consequence, the relative number of jobs which would need to be created in these regions in order to absorb these people is correspondingly greater than elsewhere. This is one important aspect of the challenge facing Objective 1 areas.

Despite the relatively high growth of GDP in Objective 1 regions between 1986 and 1991 — as noted earlier — employment in these areas failed to grow faster than in non-assisted parts of the Community. Indeed, over this period, the numbers employed rose by just under $7^1/_2$% in Objective 1 regions — an average of $1^1/_2$% a year, while, in non-assisted areas, they increased by just over $7^1/_2$% (Graph 107).

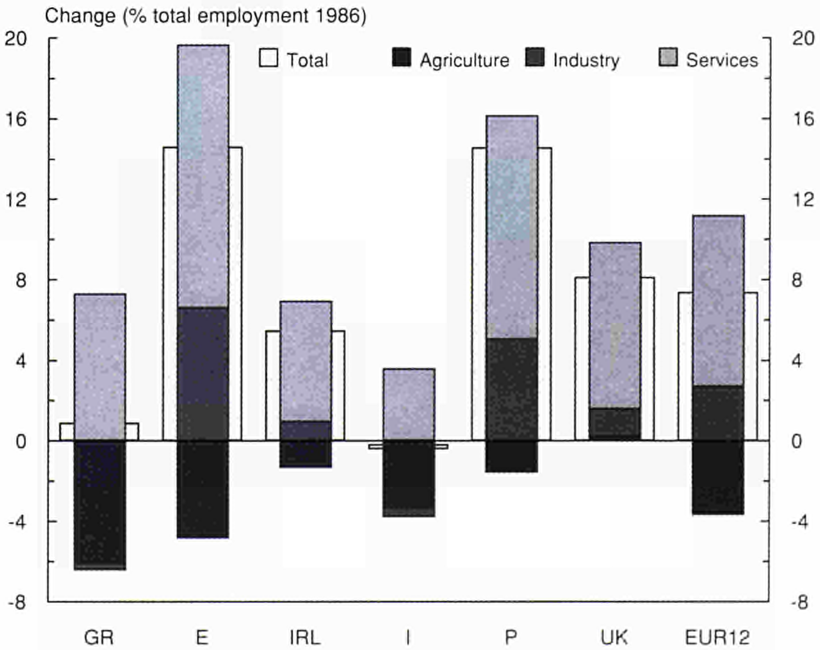
In both industry and services, however, employment in Objective 1 regions did grow at a significantly higher rate than elsewhere over

106 Service employment in Objective 2 and unassisted regions, 1986 and 1991



107 Sectoral changes in employment by Structural Funds status in the Community, 1986-1991

108 Sectoral changes in employment in Objective 1 regions, 1986-1991



No data for France (Corsica)

this period. In industry, the increase in numbers employed was almost twice that in non-assisted areas — 9½% as opposed to 5½% — while in services it was around 40% greater — 16½% as against 12%. In these two sectors together, the rise in employment over these five years was 4% higher in Objective 1 regions than in non-assisted areas — equivalent to a differential growth rate of almost 1% a year. As a result, the total number of jobs in the former were increased by almost 3% more than in the latter.

Unfortunately, this was not sufficient to compensate for the decline of employment in agriculture. In non-assisted areas, the fall in agricultural employment was only slightly less than in Objective 1 regions over this period — 14% as opposed to 17%. Yet whereas in the former this had the effect of reducing total employment by only just over ½%, in Objective 1 regions, it reduced it by over 3½%.

In Objective 2 regions, by contrast, because the sectoral division of employment is more similar to that in non-assisted areas, the higher growth of both industry and service employment — around ½% more in each case — led to a similarly higher growth in total employment over these five years — 8½% as opposed to 7½% in non-assisted areas. Despite a slightly lower rise in GDP, therefore, the rate of job creation in Objective 2 areas outpaced that in other regions.

In Objective 5b regions, employment rose by slightly less over this period than in non-assisted areas despite the higher growth of both industry and service jobs. As with Objective 1 regions, this reflects the effect of the decline in agriculture on these regions, which in this case caused total employment to fall by almost 2% — over 1% more than in non-assisted areas.

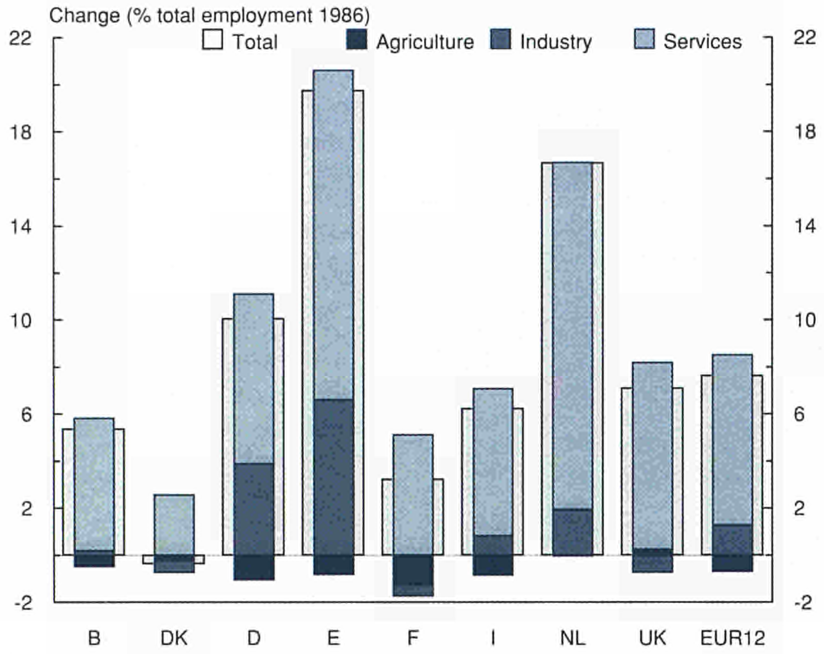
The growth of employment in Objective 1 regions between 1986 and 1991 recorded for the Community as a whole was concentrated predominantly in Spain and Portugal (Graph 108). In both cases, the rate of total job creation was around twice that in non-assisted areas of the Community. In industry, the growth of employment in these two countries was particularly marked over this period. The number of industrial jobs increased by 24% in Objective 1 regions in Spain and by 15% in Portugal, as compared with a rise of under 4% in unassisted parts of the Community (Graph 109). In services, employment rose by over 25% in both Spain and Portugal as against a rise of 12% elsewhere.

Nevertheless, in Spain in particular, the overall rate of job creation was depressed significantly by the decline of agriculture, which in this country served to reduce total employment by almost 5% over these five years.

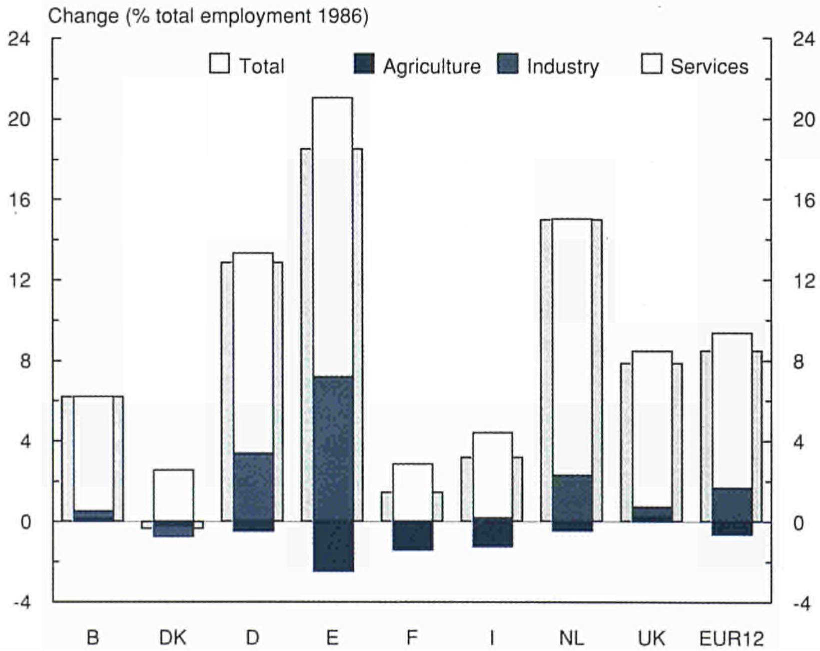
In Objective 1 regions in other parts of the Community, the record on job creation between 1986 and 1991 was less impressive. In all countries, apart from the UK (Northern Ireland), the total numbers in work rose by much less in these regions than they did in non-assisted areas and, in Italy, they actually fell slightly.

Greece, especially, suffered from the large numbers employed in agriculture (at over 22% of total employment in 1991) as well as from the relatively large reduction in jobs in this sector (a fall of 21% over this period as against 14% in non-assisted areas). The decline in agriculture effectively reduced

109 Sectoral changes in employment in unassisted regions, 1986-1991



110 Sectoral changes in employment in Objective 2 regions, 1986-1991



High and low growth industries

Industries, defined at the NACE 2-digit level, are divided into groups according to the change in their employment across the Community as a whole between 1981 and 1989. The high growth group, in which employment over this period did not fall significantly, consists of five NACE industries:

- Office and data processing machinery
- Electrical engineering
- Instrument engineering
- Paper, paper products, printing and publishing
- Rubber and plastics

The low growth group, in which employment fell over this period by more than 20%, consists of six NACE industries:

- Iron and steel
- Chemicals and man-made fibres
- Manufacture of means of transport other than motor vehicles
- Textiles
- Leather and leather goods
- Clothing and footwear

Greek employment by over 6% in these five years, which, combined with a small fall in industrial employment, made it difficult to achieve a significant rate of job creation overall. Despite a higher than average increase in service employment — by 16% — therefore, the total numbers in work went up by only 1% over the period.

In the case of Objective 2 regions, the same kind of difference as regards job creation is evident as between countries. In four of the Member States containing Objective 2 regions — Belgium, France, Denmark and Italy — the growth in employment between 1986 and 1991 was less than in non-assisted areas in the Community as a whole and in four countries — Spain, France, Italy and the Netherlands — it was less than in non-assisted parts of the country (Graph 110).

Only in France and the UK was the performance in creating industrial jobs significantly better in assisted areas than in other regions, and only in Germany did the growth of services add proportionately more jobs in assisted areas than elsewhere.

Structure of industry

The capacity for self-sustaining growth and job creation of problem regions in the Community depends over the long-term not only on the number of jobs being created but also on the sectors in which they are located. The growth of production of traded goods and services is particularly important since this generates the income to support the development of the local economy and the creation of employment in a range of other activities. Indeed, it is the lack of such growth in the past in many parts of the Community which is a major cause of current regional disparities.

While the tradeability of services is increasing all the time, with the development of information technology and new means of communication, manufacturing, nevertheless, remains of critical importance for many areas as a source of income and employment growth. Where new dynamic industries locate and develop will continue to be a key determinant of the regional pattern of long-term growth. Conversely, regions where old, declining industries are located will remain vulnerable to slow economic growth and job losses.

In order to examine the differential potential for industrial growth and job creation in different regions, industries have been divided into high and low growth groups according to the change in employment shown over the 1980s in the Community as a whole. The high growth group consists of six (NACE 2-digit) industries, including, as might be expected, high-tech, high value-added sectors such as data processing machinery, instrument engineering or electrical engineering (see Box). These all experienced an increase in jobs between 1981 and 1989 and together account for just over 25% of employment in manufacturing in the Community. By contrast, the low growth group consists predominantly of basic, labour-intensive industries, such as textiles, clothing and footwear, or heavy industries, such as iron and steel or shipbuilding, in which employment fell significantly in the Community over this period.

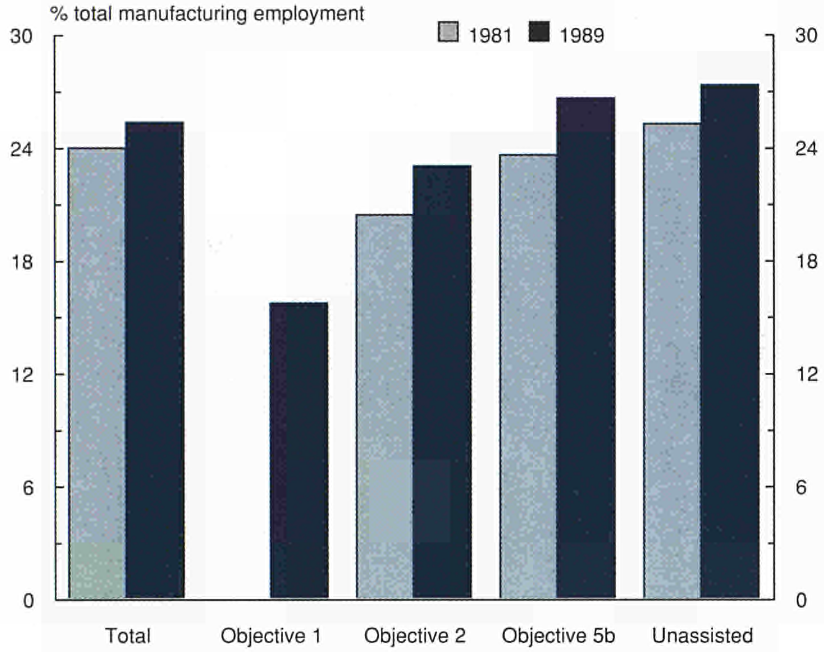
So far as high growth industries are concerned, these are disproportionately located in the more developed and prosperous areas of the

Community. Whereas they accounted for under 16% of the total numbers employed in manufacturing in Objective 1 regions in 1989, their share of employment in non-assisted areas was over 27% (Graph 111). Although high growth industries were more important in Objective 2 regions than in the less developed areas, their share of manufacturing jobs, at 23%, was still less than in other parts of the Community. On the other hand, the share in Objective 5b regions was only marginally lower than in unassisted areas.

In only one Member State — Ireland — was the proportion of employment in high growth industries in Objective 1 regions above the average in non-assisted parts of the Community in 1989, at some 30% (Graph 112). (This excludes Corsica, where the proportion was over 35%, but where only a few hundred jobs were involved.) In all other Member States, apart from the UK (Northern Ireland) where it was slightly above, the proportion was less than 20%. Indeed in Spain it was only 10%, in Greece 13% and in Portugal only just over 15%. While the figure was higher in the South of Italy, it was still only around 19%, much less than the proportion in non-assisted parts of the country.

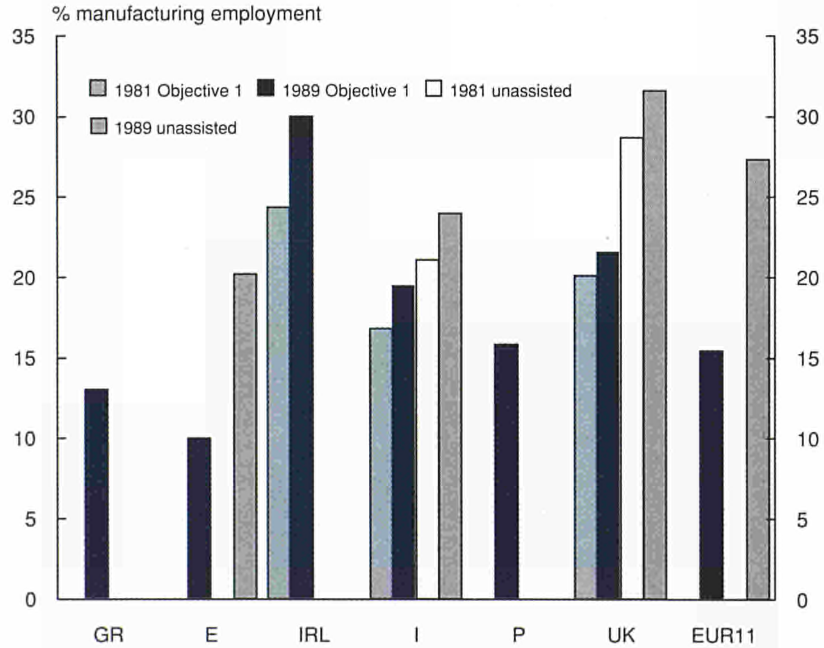
Similarly, in only two countries, Denmark and Germany, did the share of employment in high growth industries in Objective 2 regions exceed 25% in 1989 (Graph 113). In three countries, however — Belgium, Spain and the Netherlands — the share was higher than in other parts of the country, and in Germany and Italy, the difference in the share was small. Only in France and the UK, was the share markedly lower in assisted than in non-assisted areas (by 7% of

111 Employment in high growth industries by Structural Funds status in the Community, 1981 and 1989



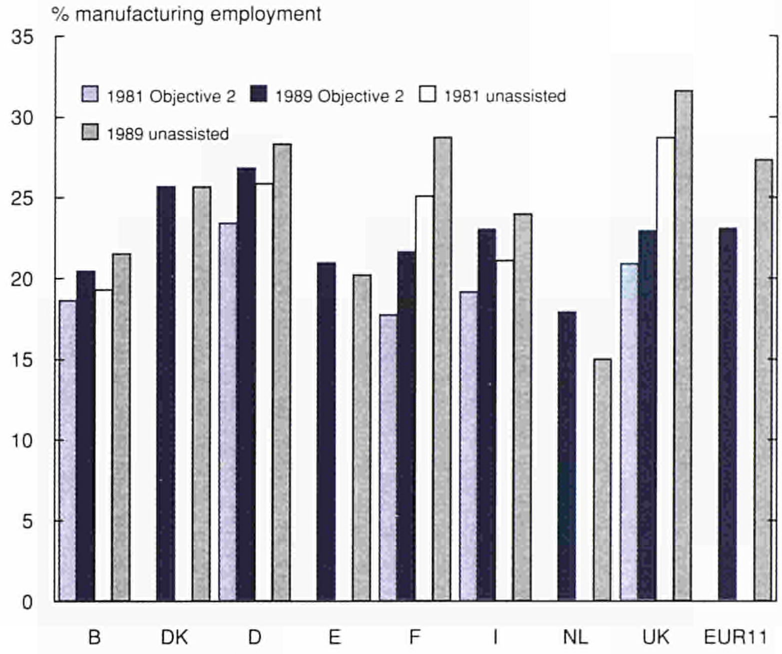
Note: 1981 excludes GR, NL, P, E & DK

112 Employment in high growth industries in Objective 1 and unassisted regions, 1981 and 1989



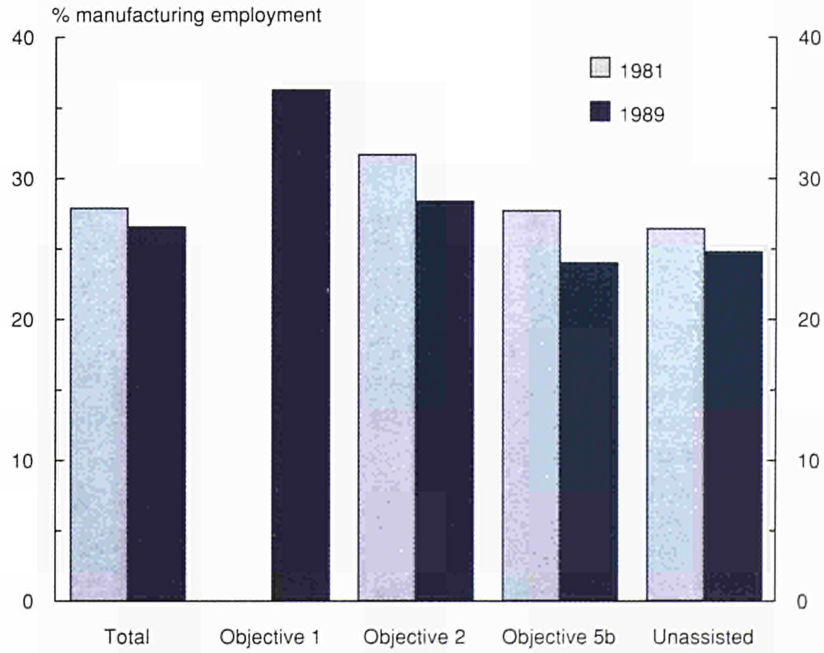
No data for GR, E & P 1981, F data too small

113 Employment in high growth industries in Objective 2 and unassisted regions, 1981 and 1989



Note: 1981 excludes DK, E, & NL

114 Employment in low growth industries by Structural Funds status in the Community, 1981 and 1989



1981 excludes GR, P & E

manufacturing employment or more), these two countries being mainly responsible for the difference in share which exists at the Community level.

There is some evidence over the 1980s of higher increase in employment in high growth industries in assisted regions than in other parts of the Community — though the lack of data for earlier years for Spain, Portugal and Greece limits the analysis which can be carried out for Objective 1 regions. In both Objective 2 and Objective 5b regions, the share of high growth industries in manufacturing employment rose by slightly more than in non-assisted areas — by $2^1/_2$% and 3%, respectively, as opposed to 2% (Graph 111).

For Objective 1 regions where data are available for the early 1980s — for Ireland, Italy and the UK — the proportion employed in high growth industries between 1981 and 1989 increased. In Ireland, the rise in the share of such industries was substantial — from 24% of employment in manufacturing to 30% — and much more than in non-assisted parts of the Community. In Italy and the UK, the rise was less than in unassisted areas. Although the difference was small for the South of Italy in relation to the North, for the UK, the increase in the share for Northern Ireland was only half the rise for the UK mainland (Graph 112).

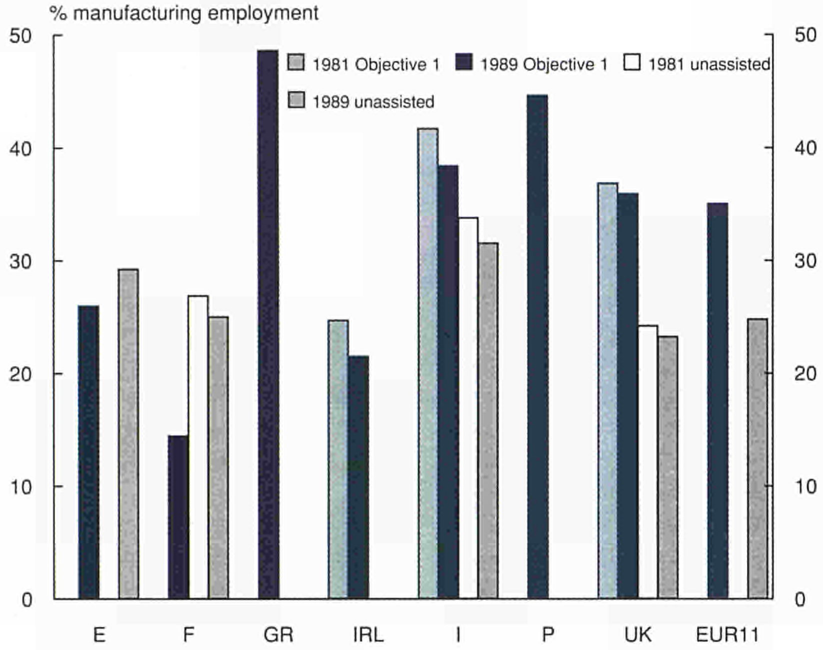
By contrast, with the exception of the UK, the share of high growth industries in total manufacturing employment in Objective 2 regions in all Member States increased by more over this period than in non-assisted areas. This was particularly the case in Belgium, where the share rose in Objective 2 regions but fell elsewhere in the country, and in Germany, where the rise in share in assisted regions was around twice as much as in other parts (Graph 113). In the UK, on the other hand, the increase in share in Objective 2 regions was only slightly more than half the rise in non-assisted areas.

The pattern of location of low growth industries is almost the mirror image of that of high growth industries. In 1989, they accounted for over 36% of the numbers employed in manufacturing in Objective 1 regions and for 28% in Objective 2 regions as compared with less than 25% in non-assisted areas (Graph 114).

High employment of the industrial workforce in low growth industries is a feature of most of the less developed areas of the Community. Apart from in Corsica — where only a few hundred people work in manufacturing — and Ireland, the share of manufacturing employment in such industries in 1989 was over 25% (ie more than in unassisted areas) in Objective 1 areas in all Member States, and apart from these two plus Spain, over 35% (Graph 115). In Portugal, the share was around 45%, in Greece over 50% and in Italy and the UK 35–40%, in each case much higher than in the non-assisted parts of the country.

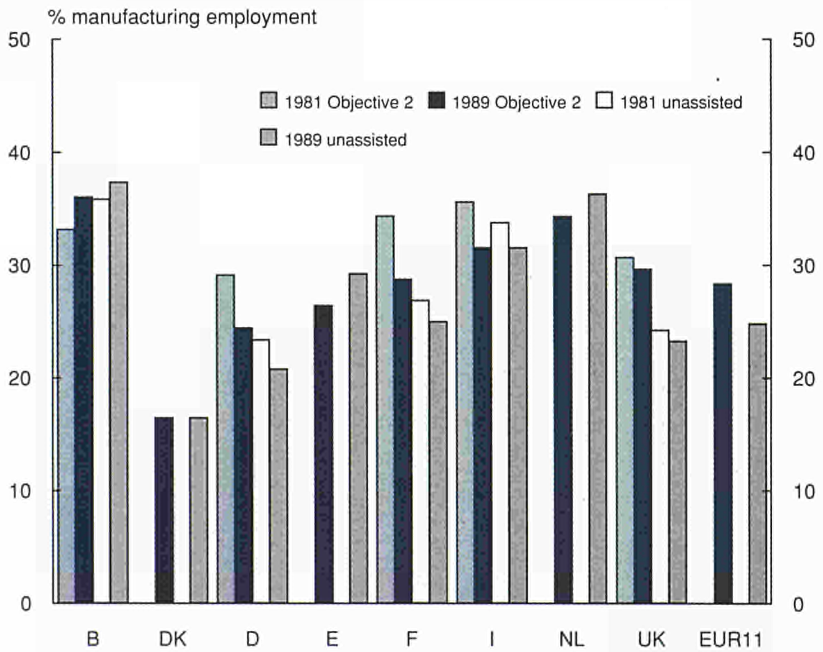
In the case of Objective 2 areas, the picture is more mixed, though in most countries low growth industries were a more important employer in such regions than in other areas. In the Netherlands, Italy and Belgium, the share of the manufacturing workforce employed in low growth industries in Objective 2 areas was over 30% in 1989, while in the UK and France, it was only just below (Graph 116). However, whereas in the latter cases,

115 Employment in low growth industries in Objective 1 and unassisted regions, 1981 and 1989



Note: 1981 No data for GR, E & P

116 Employment in low growth industries in Objective 2 and unassisted regions, 1981 and 1989



Note: 1981 excludes DK, E & NL

the share was higher than in the unassisted areas of both countries — as it was in Germany — in Belgium and Italy, the share was very similar.

Over the 1980s, there were some signs of a larger fall of employment in low growth industries in Objective 2 regions than elsewhere. Over the Community as a whole, the proportion of manufacturing employment in these industries declined by over 3% in deindustrialising regions between 1981 and 1989, whereas in non-assisted areas it fell by 2% (Graph 114). In three of the five Member States where data are available for the early 1980s — Germany, France and Italy — the decline in share in Objective 2 regions was significantly greater than in unassisted areas over this period, while in the UK it was much the same. Only in Belgium did the relative position of Objective 2 regions in terms of the share of low growth industries in manufacturing employment worsen between these two years — the share in this case increasing by much more in these areas than elsewhere in the country.

In the case of Objective 1 regions, data for the early 1980s are only available for Ireland, Italy and the UK. In Ireland, the decline in the proportion of the manufacturing workforce employed in low growth industries between 1981 and 1989 was much greater than in non-assisted parts of the Community (3% as opposed to 1%) — in line with the relative expansion of high growth sectors (Graph 115). In Objective 1 regions of Southern Italy, the fall was on a similar scale and greater than in unassisted parts of the North of the country. In the case of the UK, however, the employment share of low growth industries fell only slightly in Northern Ireland, though this was also true of non-assisted areas in mainland Britain.

Overall, taking high and low growth industries together, it would seem that there was some, albeit small, improvement over the 1980s in the structure of industrial employment in assisted regions relative to non-assisted areas in most Community countries. This is particularly true of Objective 2 regions, though lack of data makes it difficult to review structural developments over this period in most Objective 1 regions. Nevertheless significant regional disparities in the relative importance of high and low growth industries remain.

Chapter 6 Women in employment

Women are an increasingly important part of the Community labour force, though participation in employment is still low in a number of Member States and in most places women are concentrated in a narrow range of service jobs.

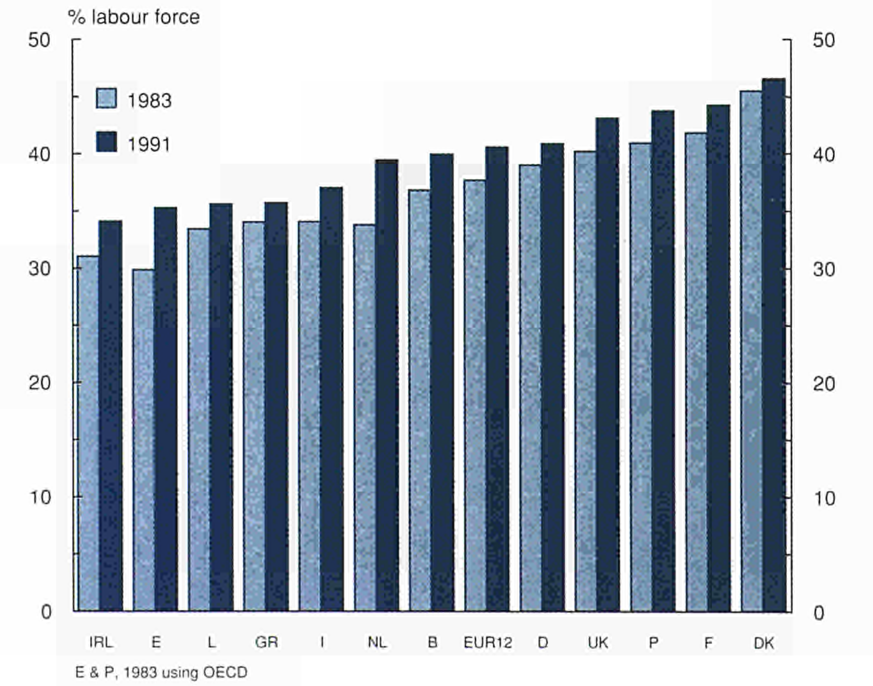
The Community labour market in the 1980s was marked by one dominant trend: the growth in the importance of women. Over this period, their contribution to employment and unemployment increased markedly, while at the same time, they were also associated with higher levels of underemployment and of job insecurity.

A second notable feature of the period is the fact that there was relatively little diversification of women's employment. At the beginning of the 1990s, women are still concentrated in a narrow range of jobs and activities.

The result of the past decade is a kind of paradox: in all 12 Community countries, at a time when the extent of men's and women's involvement in the labour market has become more similar, inequalities in employment still linger on. They show themselves in the maintenance of a marked segregation in the kind of work done as well as by an expansion of jobs performed predominantly by women. In other words, the position of women in employment is by no means as elevated as their weight in active population and their part in the growth of the labour force.

Part of this difference is due to the fact that women, far more than men, face the problem of having to reconcile the pursuit of a working career with family responsibilities, including not only caring for children but also taking care of the household and undertaking domestic chores. Partly as a result of this, many women take up part-time work, which tends to restrict the kind of jobs which are open to them and, therefore, makes it difficult,

117 Women in the labour force in the Member States, 1983 and 1991



E & P, 1983 using OECD

if not impossible, for them to attain senior positions.

For many women in the Community, part-time employment is the only viable alternative to not working at all and, in a number of Member States, the development of part-time jobs is one of the reasons why the participation of women in the labour force has risen significantly over the recent past.

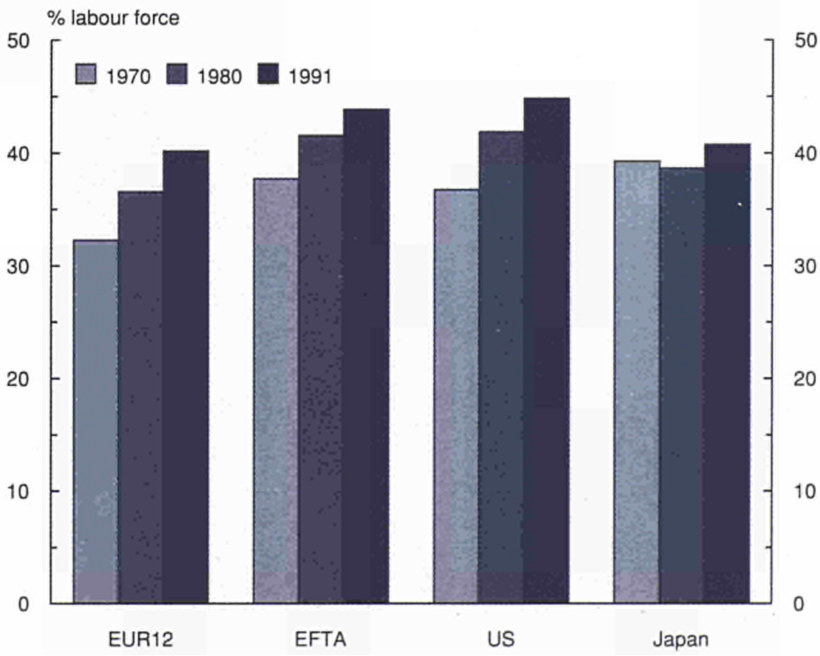
In other Member States, however, especially in the South of the Community, the development of part-time working has been restricted by legislation or by collective agreements. Here, in many cases, childcare and other support is provided within the extended family — rather than by the state or employers — to allow women to take up employment. Nevertheless, though it increased significantly over the 1980s, the participation of women in the labour force in most parts of the South — Portugal is a striking exception — remains low.

The growth of women in the labour market

The increasing participation of women is the key element underlying the growth of active population in the Community. In recent years, it is women who have been almost entirely responsible for the expansion of the labour force which has occurred. They have, moreover, transformed its social characteristics.

In the 1960s, women represented less than 30% of the total working population in Community countries. By 1991, this figure had risen to over 40% (Graph 117). The upward trend in the share of women is not recent; it dates back at least 30 years to the beginning of the 1960s and has continued at a similar pace throughout this period, even during times of relatively little growth, or even decline, in employment.

118 Share of women in the labour force in the Community and elsewhere, 1970, 1980 and 1991



Although in 1991, on average four out of every ten members of the workforce were women across the Community as a whole, there were significant differences between Member States, with the share of women ranging from only a third to almost a half of active population. The countries can broadly be divided into three groups from this perspective:

- the countries where the number of women in the labour force is above the Community average, varying between 43% and 47% in 1991, which are Denmark, France, Portugal and the UK;
- the countries where the share of women in the workforce is around the Community average, varying between 39% and 41%, which are Germany, Belgium and the Netherlands;
- the countries where women accounted for a much lower proportion of active population than in the rest of the Community, with the share varying between 34% and 37%, which are Luxembourg, Italy, Ireland, Greece and Spain.

In spite of these differences in the relative importance of women, their share of the workforce increased almost continuously in all Member States between 1983 and 1991 (the period over which consistent data are available from the Community Labour Force Survey), with countries having the lowest shares initially tending to experience the highest rates of increase and, therefore, converging towards the Community average.

This was particularly evident in the case of the Netherlands, where the share of women rose from 34% to almost 40% over this period, and of Spain, where in the five years between 1986 and 1991, the share went up from 31% to 35%. In Belgium, Ireland and Italy, moreover, the share increased by 3% between 1983 and 1991.

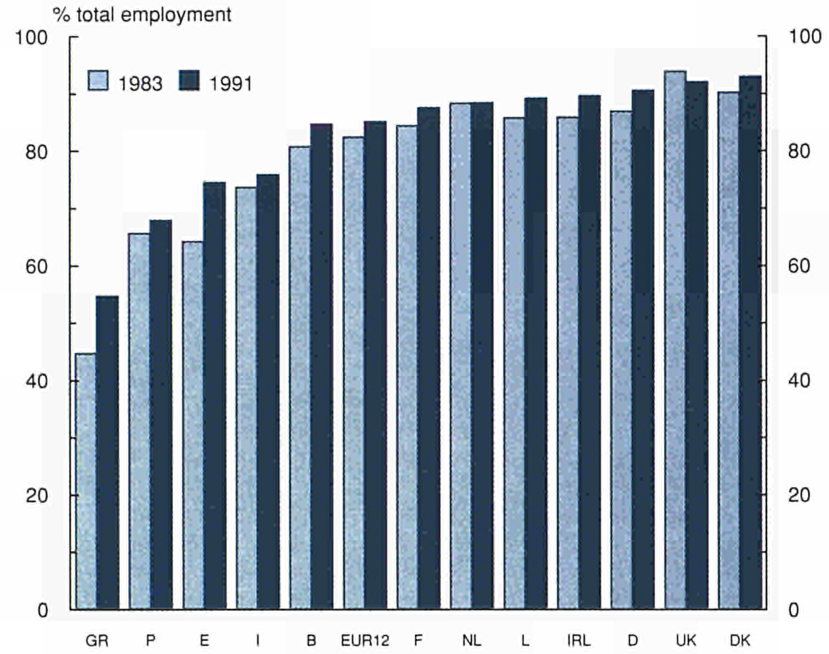
At the same time, while the share of women in the labour force in the other countries, where it was initially higher, tended to increase by slightly less over this period, the rise was nevertheless significant in each case. In Denmark, which had the highest share, it rose from just over 45% to just under 47%, in France, from 42% to 44% and in the UK, from 40% to 43%. In Portugal, moreover, the share went up from 41% to 44% between 1986 and 1991.

In spite of this growth, it should be noted that the proportion of women in the labour force in the Community is still less than in the US and in the EFTA countries — 40% in 1991 as against 44–45% — although the gap narrowed in the 1980s (Graph 118).

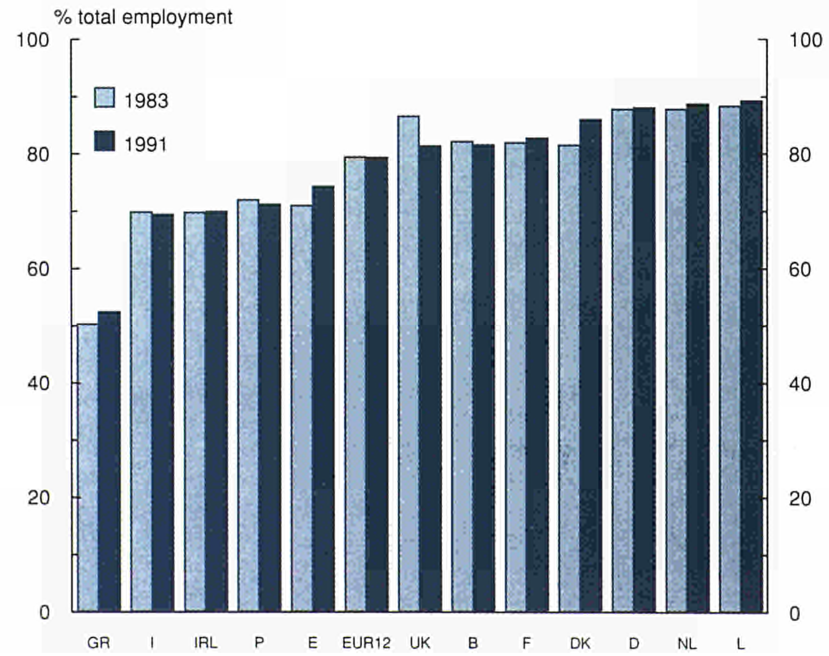
The growth of women in employment

The growth of importance of women in the labour market is equally reflected in their increasing weight in employment, a trend which, like the rise in activity, dates back to the 1960s and as yet shows little sign of slowing down. Between 1965 and

119 Working women who are employees in the Member States, 1983 and 1991



120 Working men who are employees in the Member States, 1983 and 1991



Historical data on activity rates of women

The activity rates for women of different age groups over the 30-year period examined here have been adjusted to be broadly comparable as described below, taking the Community Labour Force Survey — which ought to ensure comparability between Member States — as the basis for comparison.

The primary source of data on activity rates for 1960, 1970 and 1981 are the Censuses of Population carried out in most countries at approximately ten-year intervals and intended to cover all of the resident population. These figures are published in the ILO *Retrospective Year Book of Labour Statistics, 1945–89*.

Although the Censuses were conducted at around the same time in each of the countries, they do not all relate to precisely the same year. In the case of Greece, Italy, Ireland and the UK, the first two Census years for which rates are examined here were 1961 and 1971, and for Germany 1961 and 1970, and the data described in the text and presented in the graphs are for these years instead of 1960 and 1970 as for the other countries. In the case of France, the Census years were 1962 and 1968, so that changes in activity rates, therefore, relate to a much shorter period than for the other countries and would accordingly not be expected to be as large.

All countries except France and Germany carried out a Census in 1981. For France, the Census year was 1982, for Germany 1980. Apart from France over the 1960s, these differences in timing should affect the comparisons only marginally.

The figures for activity rates in 1991 are taken from the Community *Labour Force Survey* for that year. These are on a slightly different basis than the Census figures in that they relate only to people living in private households and exclude those — such as some students, people in hospital and the armed forces — living in institutional accommodation. They are also derived from a sample of households rather than a full coverage of the population.

A comparison of the LFS with the Census figures for near adjacent years (comparing the 1983 LFS with the 1981 Census — 1982 in the case of France, 1980 in the case of Germany) shows that for most age groups they are quite close and, therefore, reasonably consistent. The main exceptions are:

- France, where in the youngest age groups the Census figures are significantly lower than the LFS figures, either reflecting problems of small sample size or the exclusion of the those living in collective households (who for the most part may not be economically active);
- Ireland, where the activity rates for women of middle age (30–54) shown by the Community LFS are significantly higher than the Census figures;

1991, the number of women in employment rose from just under 40 million to just over 53 million. During the same period, the number of men employed fell slightly from 83 million to 82 million. Women are, therefore, entirely responsible for the growth of employment in the Community since the 1960s.

There is little indication that the reduction in employment in many parts of the Community in 1991 and 1992 has depressed the increasing tendency for women to enter the labour market. This may owe something to the fact that jobs in services, in which women's employment is largely concentrated, have so far been protected against the effects of recession — though, as noted in Chapter 1, this appears to be changing in a few countries (in Denmark and the UK, employment in services declined in 1991).

Most of the women coming into employment have taken jobs as employees rather than becoming self-employed — 85% of all women in work are employees as opposed to 79% of men (Graphs 119 and 120). As in the case of employment as a whole, the number of female employees in the Community increased much more strongly in the 1980s than the number of men.

Three countries, however, are exceptions to this. In the Netherlands, the number of women employees remained more or less unchanged in relation to total employment between 1983 and 1991 while the relative number of male employees rose slightly. In the UK, the relative numbers of both men and women employees fell over this period, though the decline was much more marked for men (from 87% of the total in 1983 to 81% in 1991 as against a fall from 94% to 92% for women). In both cases, the decline reflects the growth in importance of self-employment. In Denmark, the relative number of male employees increased by more (from 82% to 86% of total in employment) than the relative number of women employees (from 90% to 93%). Nevertheless, in these and other countries, the proportion of women working as employees remains higher than that of men and the proportion working as self-employed significantly lower.

The growth of women working as paid employees was particularly pronounced in the Southern Member States, as family working declined in importance. In Greece, the number of female employees increased by 10% in relation to the number of women in employment between 1983 and 1991 — as against a rise of only 2% in the case of men — while in Spain, it rose by 8% in the four years 1987 to 1991 alone — double the rise for men.

Activity rates of men and women

The increase in the share of women in employment is the result not only of their increased participation in the labour force but also of the fall in activity rates of men, especially in the older age groups. Whereas activity rates of both men and women under the age of 25 have fallen in most Member States — except in Denmark, the UK and, to a lesser extent, in Germany — for those of 25 and over, the trends have been very different.

For women of prime working age, 25 to 49, activity rates rose significantly in all countries between 1983 and 1991, while the rates for men changed very little. For those over 49, the activity of men fell in all

- Italy, where the Census rate for the very oldest age group (65 and over) is higher than the LFS rate.

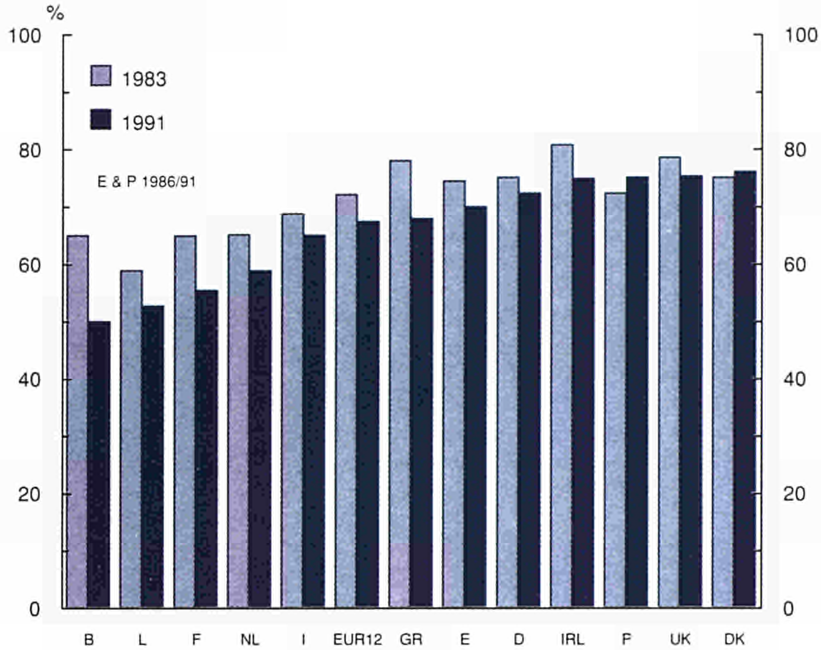
To improve comparability, the ILO estimates of activity rates for various years during the 1980s, derived from national Labour Force Surveys — and published in the ILO *Year Book of Labour Statistics*, various years — which are more consistent with the Census data (ie they do not show the significant differences noted above) have been used to adjust the Census figures to a Community LFS basis. Specifically, the rates from the Community LFS have been related to the ILO rates for a year in the mid-1980s — either 1985 or 1986 — for which both sets of figures exist for the country in question and the ratio of the former to the latter for each five-year age group has been applied to the Census data to adjust these to a Community LFS basis. In virtually all cases, apart from those noted, the adjustment factors change the Census figures by only around 1–2%.

For Belgium, no detailed breakdown of activity rates by age is published by ILO after 1981 and, therefore, there is no basis for making an adjustment to the Census figures which accordingly have not been altered. Since a comparison of the 1983 Community LFS figures with the 1981 Census figures shows little significant difference either in the level of rates or in the pattern of variation between age groups, the unadjusted Census figures ought to be reasonably consistent with the 1991 LFS rates.

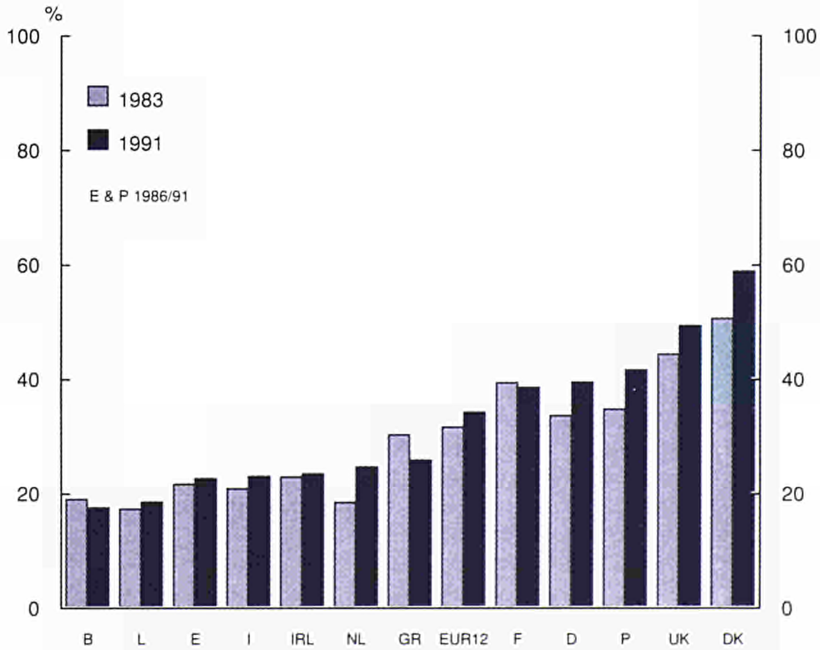
In the case of Spain, Ireland and the UK for 1960/61, Belgium and the Netherlands for 1960 and 1970 and Germany for 1980, the ILO does not give activity rates for each five-year age group but in a few cases only for more aggregated groups. In the first two cases, where two five-year age groups have been aggregated, the same rate can be applied to each subgroup without affecting the comparisons more than marginally. For the other countries, where three, four and even, for the UK in 1961, six five-year age groups are aggregated, United Nations figures have been used to estimate the rates for more disaggregated groups within the age span. In none of the cases where detailed activity rates are missing are the results likely to be greatly affected by this estimation procedure.

Although the rates for the different years examined ought to be broadly comparable, it should be recognised that some changes in definitions may have occurred in some countries over the period being examined. In particular, the definition of activity — and specifically the amount of time which a person needs to work during a given period in order to be treated as employed and, therefore, as active — may have changed between the Census years. Similarly the treatment of atypical cases, such as students, part-time workers and the armed forces, may also have changed. Unfortunately, there is no way of knowing how important such definitional changes are and, therefore, no way of making any adjustment for them.

121 Activity rates of men aged 50-64 in the Member States, 1983 and 1991



122 Activity rates of women aged 50-64 in the Member States, 1983 and 1991



countries apart from Denmark, reflecting the trend towards earlier retirement, while that of women rose in all countries apart from Greece, though by much less than in the younger age group (Graphs 121 and 122).

It was, therefore, the increase in activity among women aged 25 to 49 which was the primary cause of the growth of the Community's labour force in the 1980s.

Changes in the activity of women, 1960 to 1991

Behind the growth of activity rates lies a significant change in the behaviour of women towards participation in the labour force. The experience of the period 1983 to 1991 merely confirms a long-term tendency which began in the 1960s and which can now be seen as a real change in social attitudes and behaviour towards employment so far as women in the 25 to 49 age group are concerned — in other words, women of child-bearing, and child-caring, age.

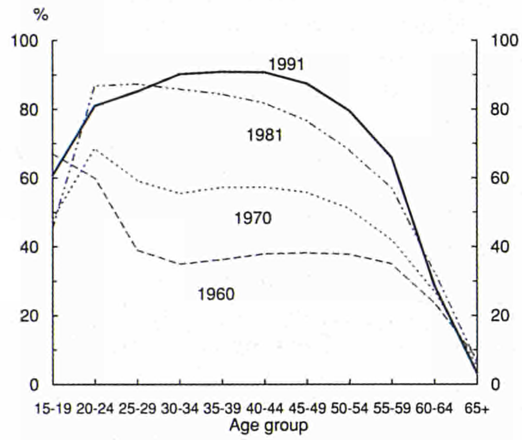
The effects of this change can be seen in the movement of activity curves, tracing the participation of women in the labour force at different ages, which indicate the nature, timing and scale of the growth in activity over the past 30 years in each of the Community countries (see Box, p.148).

Traditionally, three types of activity curve can be distinguished for women:

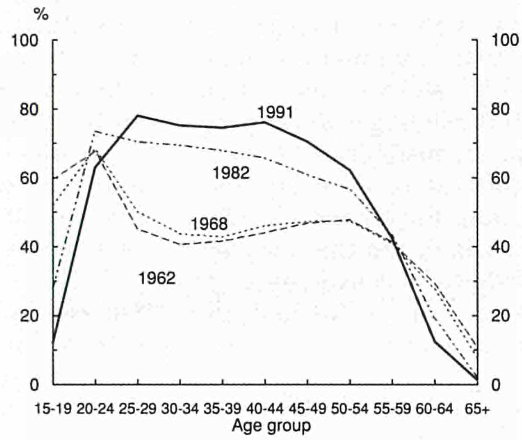
- a curve with a single peak, with only women in the 20–25 age group, for the most part single, having high activity rates and

Activity rates of women in Denmark, France, the UK and Germany, 1960–1991

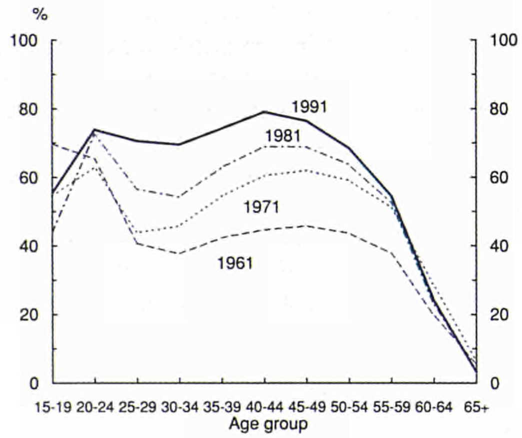
123 Denmark



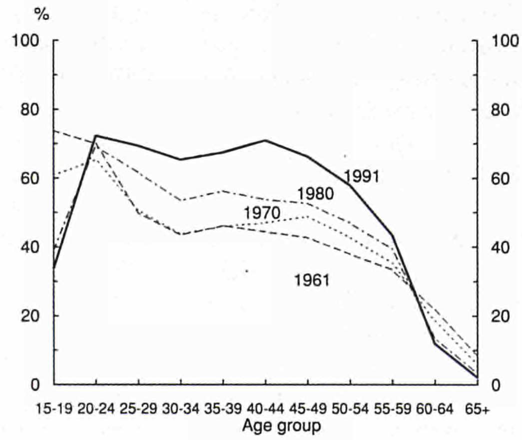
124 France



125 United Kingdom



126 Germany



the rest having low rates: after marriage and children, most women stop working;

- a curve with twin peaks (ie an M-shape), with most women stopping work between the ages of 25 and 40 when they are bringing up children and then beginning again once the children have grown up;

- a curve with an inverted U-shape with continuously high levels of activity and with women combining working with family responsibilities, most of them continuing in employment while they have children; this curve is similar to that for men and reflects a convergence in the behaviour of women towards that of men.

At the beginning of the 1960s, in none of the Community countries did the participation of women in the labour force conform to the third of these three curves. At that time, four Member States had similar curves. For Denmark, France, the UK and Germany, the activity curve for women was M-shaped, with rates for women between 25 and 40 falling from around 60% or above to around 40% or below and then rising slightly for older age groups. A discontinuity in working life was, therefore, the norm (Graphs 123, 124, 125 and 126).

Thirty years later, the curves for all four countries had become more like an inverted U-shape. This was particularly the case for Denmark, where the curve in 1991 reflected continuous participation of women in the labour force at a high rate — well over 80% — and where activity rates for most age groups had increased consistently since 1960. To a slightly lesser extent, it was also true of France, where activity rates for women between the ages of 30 and 44 were around 75% and only marginally below the rate for those aged 25 to 29, where activity was at its peak.

In the other two countries, Germany and the UK, although the M-shape of the curve had become much less pronounced by 1991, there were still traces of interruption to women's working careers between 25 and 40. In the UK, however, unlike in Germany — or indeed in France — the activity rate reached its peak, at just under 80%, for women aged 40 to 44, significantly above the rate for women in their late 20s and early 30s, the age when most women have children.

Whereas in the UK, much of the increase in rates, especially for older age groups, occurred in the 1960s, in France, most of the change took place in the 1970s between 1968 and 1982 and in Germany, it was delayed until the 1980s.

The Southern Member States of Italy, Spain, Greece and Portugal, had similarly low rates of female activity in the 1960s, of not much more than 20% for most age groups, and activity curves which were virtually linear from the age of 25 on. Between 1960 and 1991, however, there were radically different developments in the four countries, so much so that there is no longer much uniformity in the pattern of activity rates in the South of the Community (Graphs 127, 128, 129 and 130).

In Italy and Spain, over this period, rates increased for younger women much more than for older women, especially in Spain, and the curve in 1991 declined continuously from around the age of 30 onwards, with peak activity occurring between 25 and 29. In these two countries, therefore, many more women have joined the labour force but a significant proportion still do not work in their 30s and even more in their 40s and 50s.

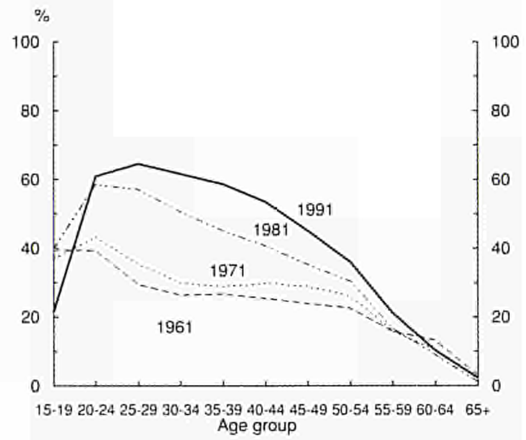
From the shape of the curve and its movement over time, it would seem that this is a generational effect: as the younger generation grows older, activity rates in the older age groups can, therefore, be expected to increase. This contrasts with the changes in the activity curves for the four Northern Member States described above where relatively little of the increase over time seems due to generational effects, in the sense that activity rates rose for women in most age groups by similar amounts.

Developments in Greece, on the other hand, differed from those in all other parts of the Community: it was the only country where there was a fall in activity rates of women between 1960 and 1980. The subsequent increases in the 1980s, however, have produced a curve which is similar to that in Italy, though rates remain lower.

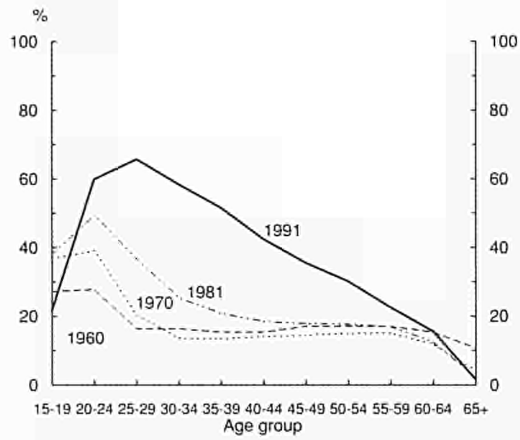
In Portugal, the activity curve, which was almost constant after the age of 25, with rates as low as 20% as in the other three countries, has become similar to that in Denmark. In 1991, female activity rates were high for all age groups, after a rise over the preceding 30 years — and in the 1970s and 1980s, especially — more pronounced than in any other part of the Community. Over this period, women in Portugal changed from being mostly inactive to participating in the labour market virtually throughout their working lives. Whereas in 1960, less than 20% of women aged 25 to 49 were active, in 1991, almost 75% were part of the workforce.

Activity rates of women in Italy, Spain, Greece and Portugal, 1960–1991

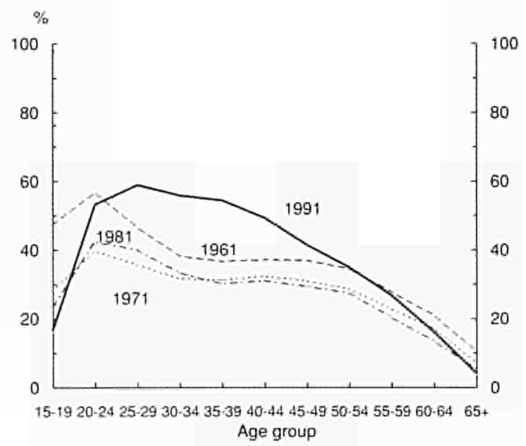
127 Italy



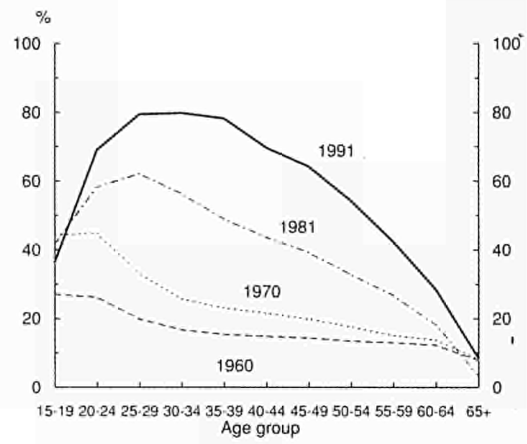
128 Spain



129 Greece



130 Portugal



In the other four countries of the Community, Ireland and Luxembourg were similar in having activity curves in 1960 which, as in the Southern Member States, were broadly flat from the age of 25 on with rates of around 20%. In 1991, the curve had a single peak at around 25 with rates then falling almost continuously for women in older age groups. As in Italy, Spain and Greece, the younger generation of women have significantly higher activity rates than the older generation, which may, therefore, mean that the rates for the women in the older age groups will increase as younger women grow older (Graphs 131 and 132).

In the Netherlands and Belgium, in 1960 activity rates for women over 25 were also around 20%. 30 years later, the activity curve for the Netherlands had become one with two peaks, similar to the UK or Germany, reflecting interrupted working among women with children. In Belgium, on the other hand, the curve continued to have a single peak in activity rates at around 25, with rates for older women tending to decline, though progressively more slowly. In this case, activity rates for most age groups have risen significantly and many women have come to have continuous working careers, although a substantial number as yet are still inactive (Graphs 133 and 134).

The most marked feature of the three decades between 1960 and 1991 is the general tendency for participation of women over the age of 25 to increase. This is true for almost all countries up to the age of retirement. For a number of countries, however — Germany, the UK and the Netherlands, in particular — traces of an M-shaped activity curve remain, indicating that for many women their working career is interrupted in their late 20s or early 30s. In a number of other countries — especially in the South of the Community, but also a few in the North, such as Belgium and Luxembourg — rates of older women rose by less, so that the activity curve of women tends to decline from the late 20s onwards. In both cases, however, there are clear signs that changes in activity are still going on. As younger women accustomed to working grow older, it is possible that the curves will tend more towards an inverted U-shape as in Denmark or Portugal.

Activity rates of women of prime working age

The growth in activity has been particularly pronounced among women aged between 25 and 49. Indeed in all 12 Member States, the rise in participation of women in this age group shows no sign of coming to an end and, in a number of cases, rates have come to exceed those for other age groups — as in Denmark or Portugal. In more and more countries, the working careers of increasing numbers of women are coming to resemble those of men, with no interruption, as before, to bring up children.

After the changes in activity which have occurred over the past 30 years, the Community countries divide into four groups (Graph 135):

- Ireland, Spain, Greece, Luxembourg and Italy, where half of women between the age of 25 and 49 are active;
- the Netherlands, Germany and Belgium, where the activity rate for this age group is around the Community average of 65%;
- the UK, Portugal and France, where 75% of the group are active;
- Denmark, where 9 out of 10 women in this age group participate in the labour force.

In some sense, therefore, it is women of child-caring age who have been primarily responsible for the growth of the Community workforce over this period. Indeed, within the 25 to 49 age group, activity rates of mothers increased by most in the 1980s. Between 1984 and 1991, the average rate of activity of women with children went up from just over 50% to just over 60% in the ten countries of the Community excluding Spain and Portugal. For women with no children, the rate increased from 71% to 75% over this period. Moreover in Spain and Portugal, activity rates for women with children rose by around twice as much as for women without between 1987 and 1991.

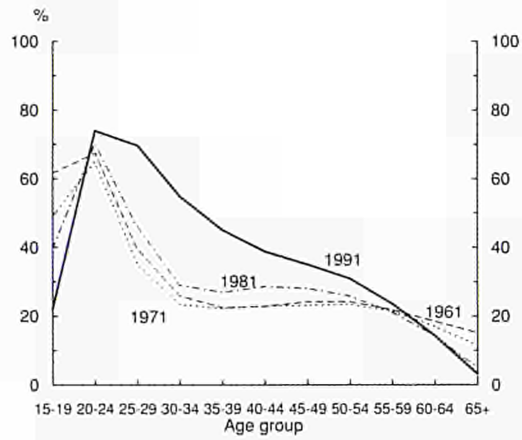
Nevertheless, significant differences in labour force participation between women with and without children remain in many Member States, as too do differences between single and married women.

Activity rates of women and family responsibilities

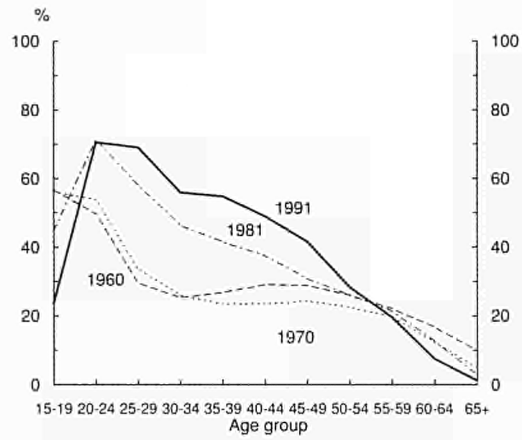
In 1991, over the Community as a whole, 84% of single women aged 25 to 49 without children were members of the labour force, in the sense that they were either employed or actively looking for work. By contrast, the figure for married women in the same age group without children was only 67% (Graph 136).

Activity rates of women in Ireland, Luxembourg, the Netherlands and Belgium, 1960–1991

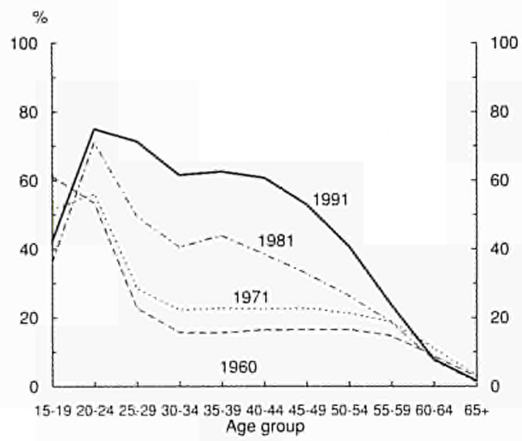
131 Ireland



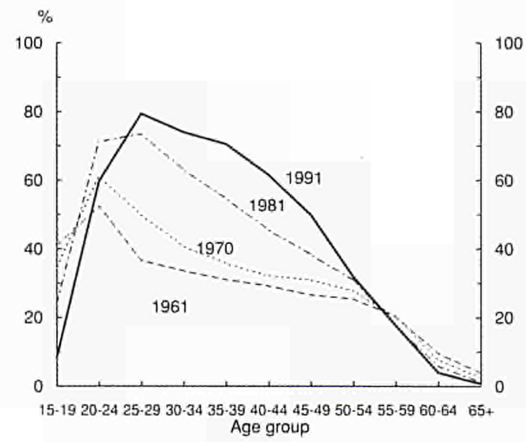
132 Luxembourg



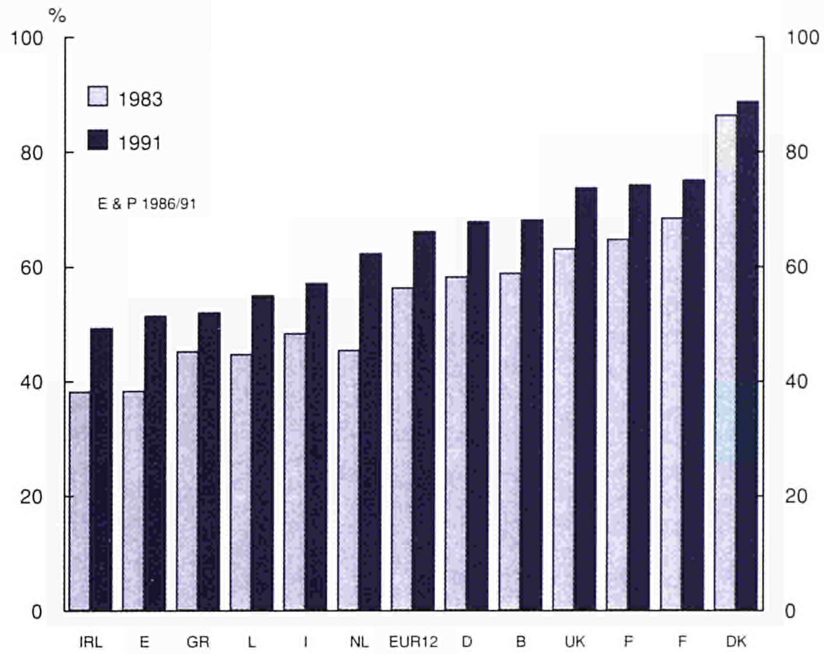
133 Netherlands



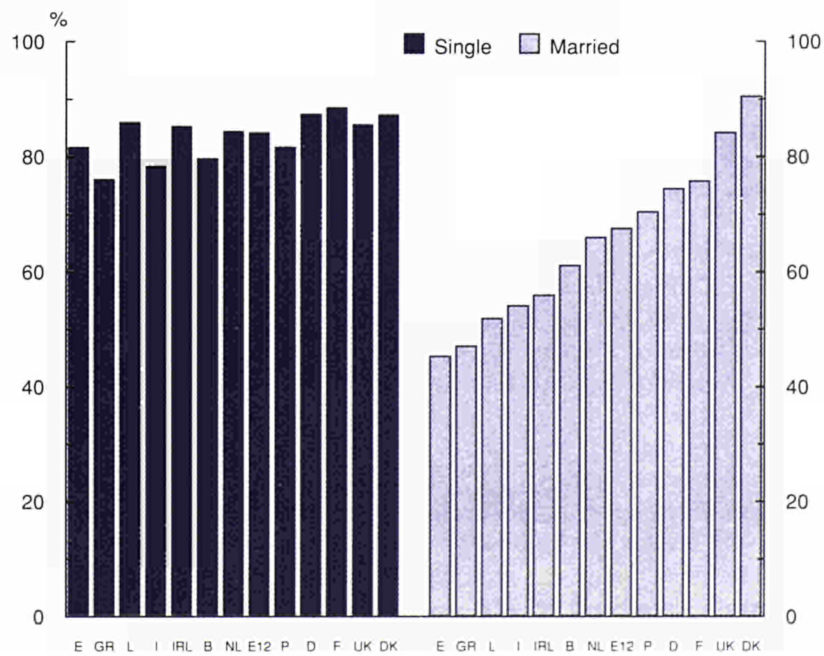
134 Belgium



135 Activity rates of women aged 25-49 in Member States, 1983 and 1991



136 Activity rates of women aged 25-49 without children, 1991



The difference, however, is far from uniform between Member States. Whereas in Denmark, the activity rate was higher for married women than for single women and in the UK, only marginally lower, in Spain, Greece, Ireland and Luxembourg, it was as much as 30–35% lower. Indeed, Portugal apart, in all Southern Member States together with Ireland and the Benelux countries, the difference between activity rates for single and married women was substantial — around 20% or more.

For all of these countries, moreover, the fact of being married rather than single has a much greater effect on the activity rates of women than having children. In 1991, in Spain, Greece and Belgium as well as in Portugal and France, the average activity rate of women aged 25 to 49 was actually higher if they had a child than if they were married with no children (Graph 137). In Italy, Ireland, the Netherlands and Luxembourg, as well as in Denmark, though activity rates were lower for women with children, the difference was less than 10%.

Only in the UK and Germany did the presence of a child reduce the activity rate for women by more than 10% — in the UK, by as much as 15%. This may reflect differential incentives in these two countries for women with children to join the labour force or a lack of childcare facilities, though the latter problem is by no means confined to these two countries.

There are various reasons for this difference in labour force participation between single and married women over much of the Community. As well as cultural and social factors, they include the fact that family responsibilities are not confined to bringing up children but extend to caring for a household and carrying out the domestic chores which this entails. It may also be the case that although the comparison relates to married women without children of 15 and under, a proportion of these will have children who are now older than this, who may have been a reason for such women giving up work in the past. The low activity rate, in other words, may partly reflect the difficulty which these women have in returning to the labour market after a period of absence.

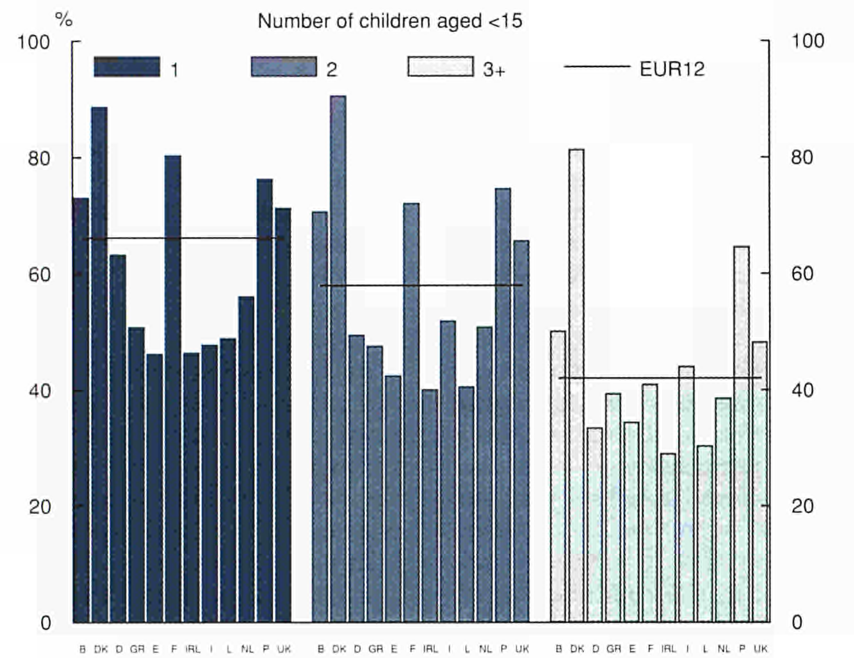
Although having one child seems in general to have a relatively minor effect on the participation of women in the labour force, the responsibility of taking care of more than one child, however, does reduce activity rates in most parts of the Community. While in Denmark, Portugal and Belgium, the average rate for women with two children was around the same level as that for women with one child, in all other countries it was lower — especially in Germany and Luxembourg where the difference was 10–15% (Graph 137).

For women with more than two children, as might be expected, activity rates are lower throughout the Community than for other women. The difference in 1991 was most pronounced in France and the UK, where women with three or more children had average rates of 25–30% lower than for women with two children.

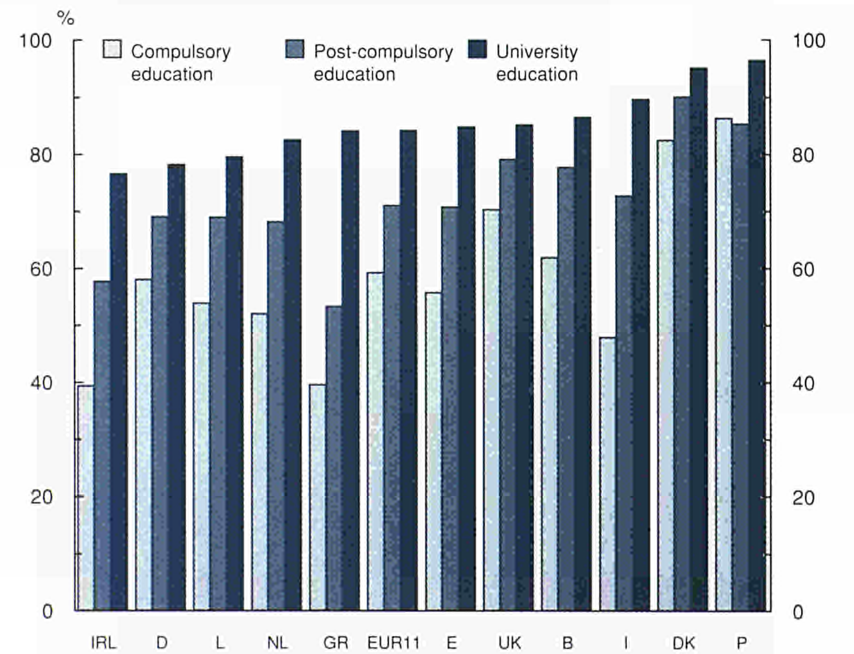
Women's activity rates and education

Throughout the Community, the probability of women participating in the labour force increases with education. In all Member States,

137 Activity rates of women aged 25-49 with children in the Member States, 1991



138 Activity rates of women aged 25-49 by level of educational attainment in the Member States, 1991



activity rates of women aged 25 to 49 are higher for those who have completed university education or the equivalent than for other women, in most countries, considerably so. In 1991, the only countries where the activity rate for women in this age group with university or closely equivalent qualifications was less than 80% were Ireland, Germany and Luxembourg, where it was only slightly below (Graph 138). In Denmark and Portugal, it was over 95%.

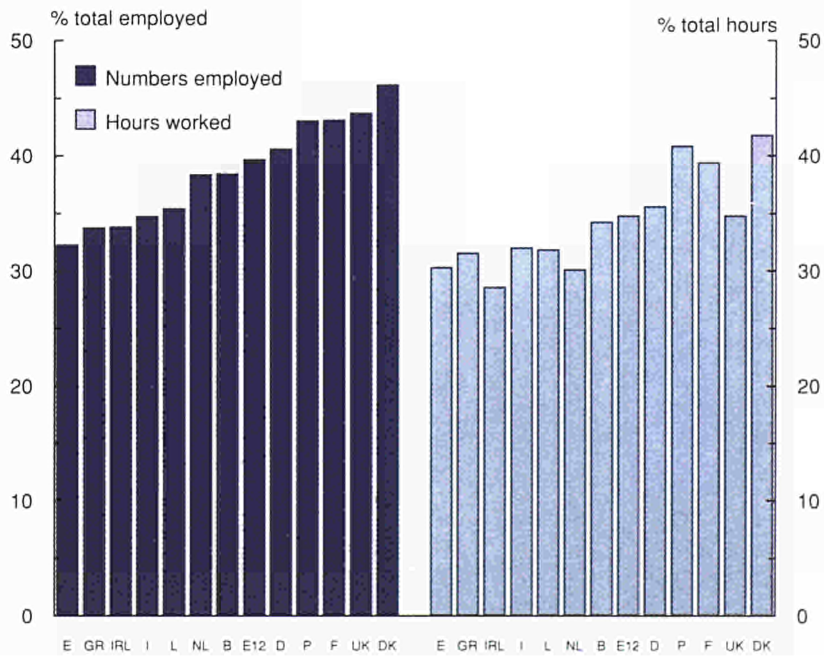
Over much of the Community, therefore, activity rates for highly educated women of prime working age are not much lower — in some cases, no lower at all — than for men.

Similarly, in all countries apart from Portugal where the difference was very small, women who have completed post-compulsory education are more likely to be active than women who have not. In 1991, the difference in the average rate for these two groups of women was 25% in Italy and 15% or more in Belgium, the Netherlands, Spain and Ireland.

These disparities in activities rates reflect a number of differences in the position of women with different levels of educational attainment. In the first place, more highly educated women have more — and more highly paid — job opportunities open to them than other women. Secondly, because of their greater earning capacity, making suitable childcare arrangements where necessary and paying for the costs involved are likely to represent less of a problem. Thirdly, any break in employment to bring up children may tend to be more costly in terms of the effect on their future careers. In economic terms, therefore, the opportunity cost of not working is likely to be much higher for better educated women than for others.

Significantly, however, in Ireland, Germany and the Netherlands, where having children has the greatest effect on activity rates, the rates of women with post-compulsory education qualifications are lower than in other countries, Greece apart. The lack of suitable childcare facilities, or perhaps the difference in attitude towards women with children working, therefore, seems to depress activity rates even for the better educated women.

139 Employment and hours worked by women in the Member States, 1991



Part-time working among women

The rise in the participation of women in the labour force and their contribution to the growth of employment are both reduced somewhat if hours of work are used as the measure of employment rather than the numbers in work. Whereas women represented just over 40% of the Community labour force in terms of numbers in 1991, they accounted for under 35% of the total hours worked (Graph 139). There are two main reasons for this disparity: first, women tend to work less overtime than men and, therefore, usually work fewer hours when in full-time jobs; secondly, many more women than men work part-time rather than full-time.

Part-time employment expanded markedly over the 1980s and a significant number of the women joining the labour force over this period, who were responsible for the growth in activity rates, went into this kind of employment. (It should be noted that part-time working is defined here as in the Community LFS, which means that in some countries it relates to employment for less than a specific number of hours a week, in others, to employment which respondents regard as being part-time.) In a decade when there was a clear tendency for the activity rates of women to converge with those of men, the development of part-time working was an element distinguishing the areas in which women took up work — and the kind of jobs which they did — from the employment of men. In 1991, over 28% of women in employment in the Community worked part-time as compared with only 4% of men. In the 12 Member States, women accounted for between 76% and 90% of all part-time employment.

Although part-time working is predominantly a female preserve throughout the Community, its importance varies significantly from one part to another, especially between North and South. In three Northern Member States, around 40% or more of women worked part-time in 1991 (the Netherlands, where the figure was as high as 60%, the UK and Denmark), while in a fourth (Germany), over a third were so employed. By contrast, in Greece, Spain, Italy and Portugal, only around 10% of women were in part-time rather than full-time jobs. Between these two extremes, the proportion in France and Belgium was around 25% and in Ireland and Luxembourg, just under 20%.

In large measure, this difference reflects differences between countries in the extent to which part-time working is permitted and hours of work are regulated either by legislation or by collective agreement.

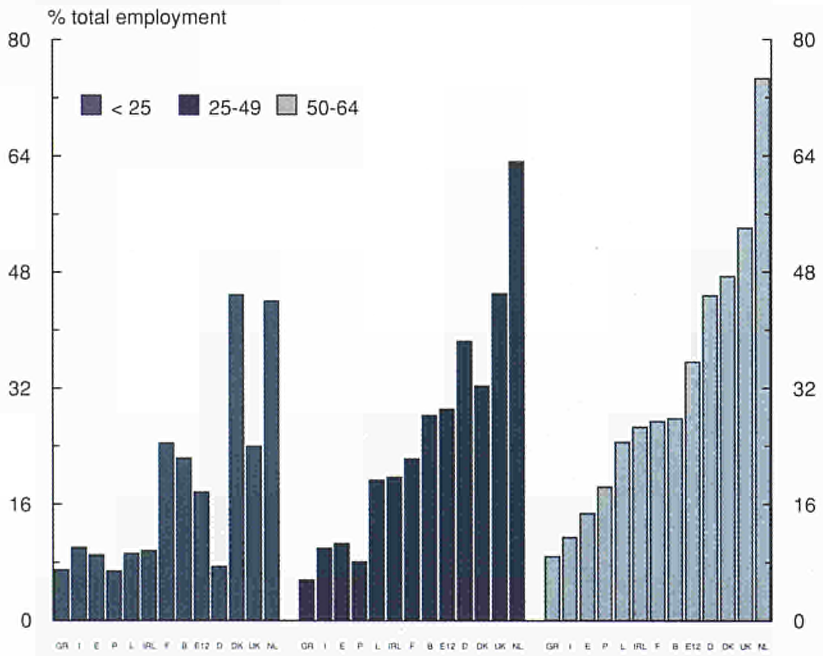
The growth in part-time working also differed between countries over the 1980s. Whereas in the Netherlands and Belgium, the share of employment accounted for by part-time working rose by around 10% between 1983 and 1991, it increased by only some 2% in the UK and Ireland, and in Luxembourg hardly at all. Moreover, in three Member States, Denmark, Greece and Spain, the share fell over this period.

In the countries where part-time working increased significantly over the 1980s — notably, the Netherlands, Germany, France and Belgium — the contribution of women to the growth of employment, measured in terms of the volume of work rather than the number of people, tends to be overstated to this extent.

Part-time working and family responsibilities

It is significant that part-time working is most prevalent in all Member States except for Belgium, not among women of child-bearing age between 25 and 49, but among older women of 50 and over. In 1991, just under 36% of women in employment aged between 50 and 64 worked part-time in the Community as a whole (Graph 140), while for those over 64, the figure was 52%. By contrast, only 29% of women aged 25 to 49 were employed part-time. Indeed in a number of countries — Denmark, France, Italy and Greece — the lowest proportion of women working part-time was in this age group. This fact is not wholly consistent with the frequent argument that

140 Women in part-time employment by age group in the Member States, 1991



the major reason for women working part-time is to enable them to reconcile employment with family responsibilities. Since the constraints imposed by such responsibilities are likely to have diminished considerably once a woman has reached the age of 50, they can hardly explain why part-time working is more prevalent among women above this age than below.

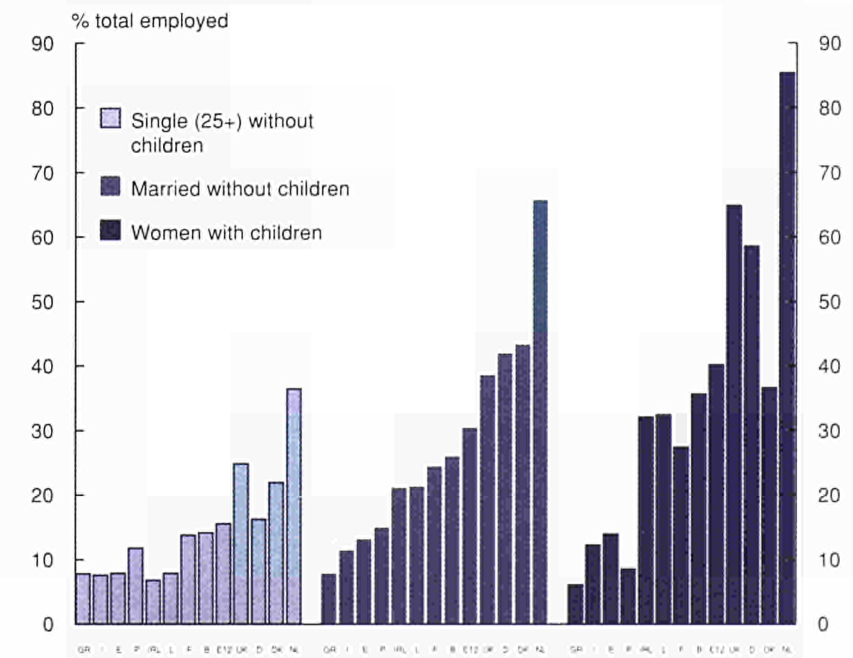
Nevertheless, this does not mean that family responsibilities are not a factor underlying the importance of part-time working among women, only that they are not the only factor. Despite the high incidence of part-time working among older women, it is still the case that in a number of Member States, significant proportions of younger women in the 25 to 49 age group work part-time. In 1991, the figure was as high as 63% in the Netherlands, 45% in the UK and almost 40% in Germany, while in Denmark, it was almost a third. For these countries in particular, a clear relationship emerges between being married and/or having family responsibilities and part-time working.

In all four of these countries, the proportion of married women working part-time is significantly greater than the proportion of single women, as indeed it is in the Community as a whole. Children, moreover, are only part of the explanation for this. In 1991, 30% of married women without children (under 15 years old) in the Community worked part-time as opposed to only 16% of single women aged over 25 without children (Graph 141). In the Netherlands, the proportion of married women with no childcare responsibilities working part-time was as high as 66%, as compared with only 36% of single women without children. In Germany and Denmark, over 40% of married women without children worked part-time, in each case around twice the proportion of single women without children. Similar differences on a smaller scale are also evident for other countries, the only exception being Greece where the figures for married and single women without children are almost identical.

This difference in behaviour may reflect a number of factors, similar to those underlying the differences in activity rates, such as a different attitude among single and married women — and husbands — towards work, domestic responsibilities and a lower need for married women to earn income. It may also reflect the greater likelihood that married women have had breaks in their working careers in the past to bring up children, even though at the time of the survey they had no children under the age of 16. Such breaks may have made it more difficult to find full-time employment.

Childcare responsibilities tend to increase the numbers of women working part-time even further. Across the Community as a whole, 40% of women (both married and single) with children worked part-time in 1991 as compared with 30% of married women without children (Graph 141). In the Netherlands, the proportion reached 85% and in the UK, 65% while in Germany, it was only slightly lower at 59%. Of the other countries, however, only in Belgium and Ireland was the proportion of women with children in part-time work significantly higher than the figure for married women without children (around

141 Women in part-time employment by family status in the Member States, 1991



10% higher in both cases — the same as in Luxembourg where, however, the figures may well be distorted by sampling errors).

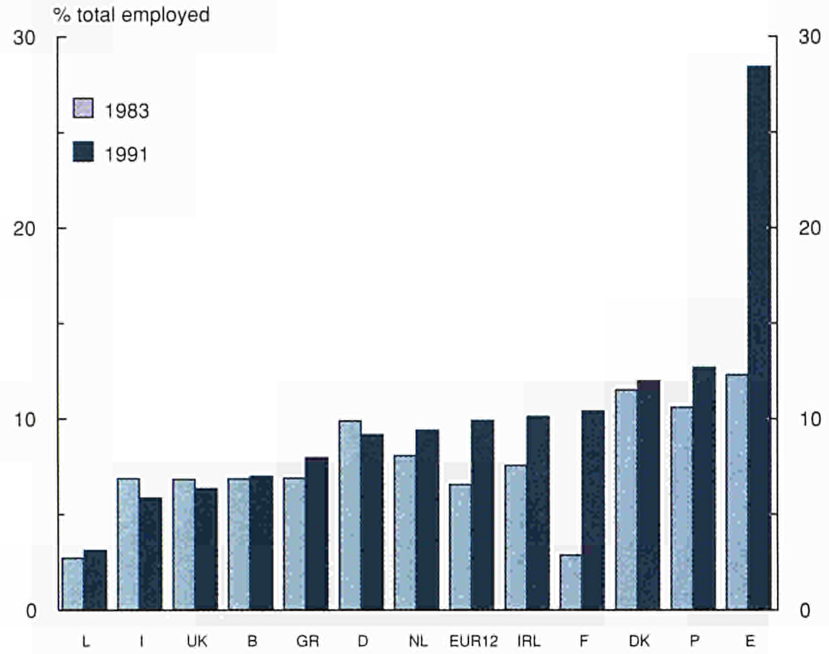
In Denmark, Portugal and Greece, proportionately fewer women with children worked part-time than married women without children. In Italy and Spain, the difference between the two figures was only around 1–2%.

In these countries — ie throughout the Southern part of the Community plus Denmark in the North — childcare responsibilities do not, therefore, appear to be a major reason for women working part-time. In most of the Northern parts of the Community, however, but most especially in the UK, Germany and the Netherlands, the need to balance looking after children with doing a job of work seems to be an important reason for women to work part-time rather than full-time.

It is no accident that the three countries where part-time working is most prevalent among women aged 25 to 49 — and within this group among those with children — are also those for which activity rates are relatively low (ie the activity curve dips) for this age group. In these countries, therefore, for substantial numbers of women with children the main choice seems to be between being inactive and working part-time.

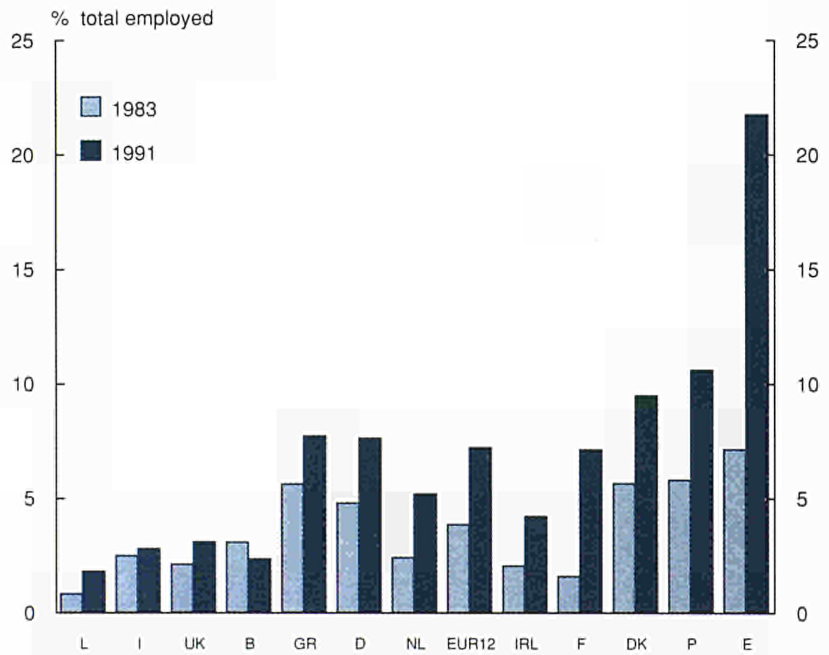
A further implication of the above is that the main reasons for women working part-time differ from country to country. In each country, the existence of part-time jobs may partly be due to women, for whatever reason — because of inadequate childcare and other social facilities or because of domestic responsibilities — seeking

142 Women in temporary jobs in the Member States, 1983 and 1991



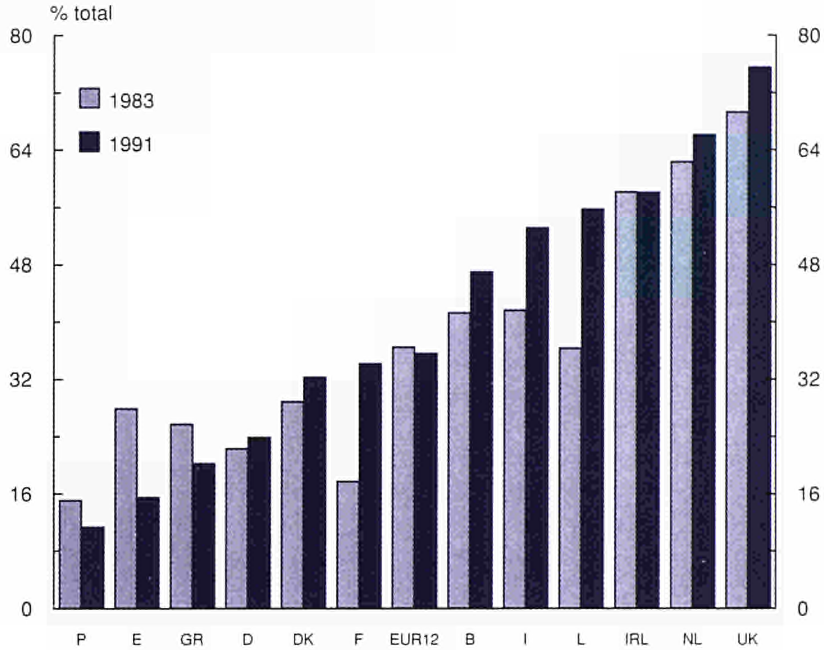
1983 data - D and DK 1984, P 1986, E 1987

143 Men in temporary jobs in the Member States, 1983 and 1991

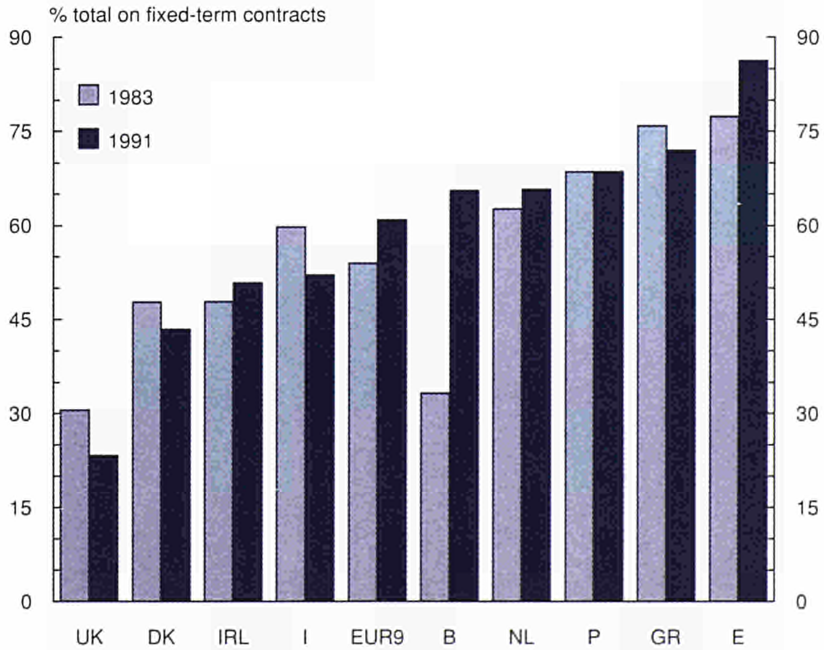


D and DK 1984, P 1986, E 1987

144 Women in temporary jobs working part-time in the Member States, 1983 and 1991



145 Women in temporary jobs because they could not find permanent jobs in the Member States, 1983 and 1991



DK 1984, P 1986, E 1987; D, F, L no data

part-time rather than full-time employment.

It also, however, reflects the jobs on offer, and the conscious policy of firms to employ people on a part-time rather than a full-time basis in order, for example, to increase the flexibility of production or — more usually — the provision of services.

Distinguishing the relative importance of these demand and supply side factors is extremely difficult, if not impossible. In practice, the two are closely interrelated and, therefore, inseparable from a conceptual as well as practical point of view. In other words, women work part-time partly because such jobs exist and the fact that they are prepared to do so encourages the development of part-time jobs.

Women and temporary employment

As well as working part-time, a significant and growing number of women in the Community are employed under fixed-term contracts rather than in permanent jobs. In 1991, 10% of women in employment worked in jobs which were of fixed duration as opposed to 7% of men (Graph 142). Apart from in Spain, however, where it was almost 30%, in no Member State was the proportion much more than 10%. Moreover, between 1983 and 1991, the proportion of such jobs increased by more for men than for women both across the Community as a whole and in most Member States (Graph 143).

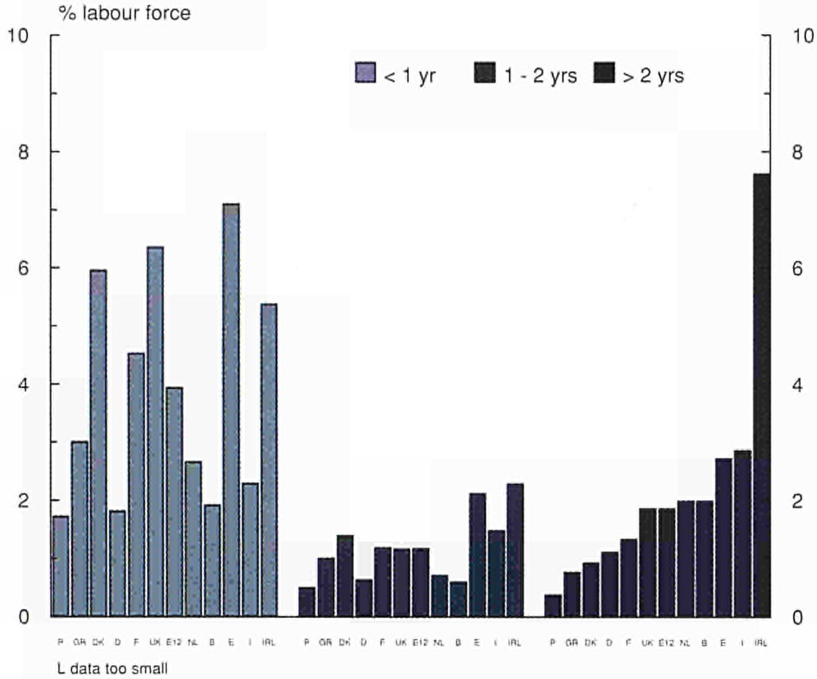
A substantial proportion of the temporary jobs for women are part-time rather than full-time. In

1991, 36% of women employed in the Community under fixed-term contracts worked part-time (as opposed to 14% of men). In the UK, the figure was over 75% (50% for men), in the Netherlands 66% and in Ireland, Luxembourg and Italy, over 50% (Graph 144). Nevertheless, because of the comparatively limited importance of temporary jobs in the former two countries and the high importance of part-time working, only just over 10% of women working part-time in the UK and the Netherlands were employed on fixed-term contracts. By contrast, in Ireland as well as Spain, almost 40% of part-time jobs for women in 1991 were temporary and in Italy the figure was over 30%.

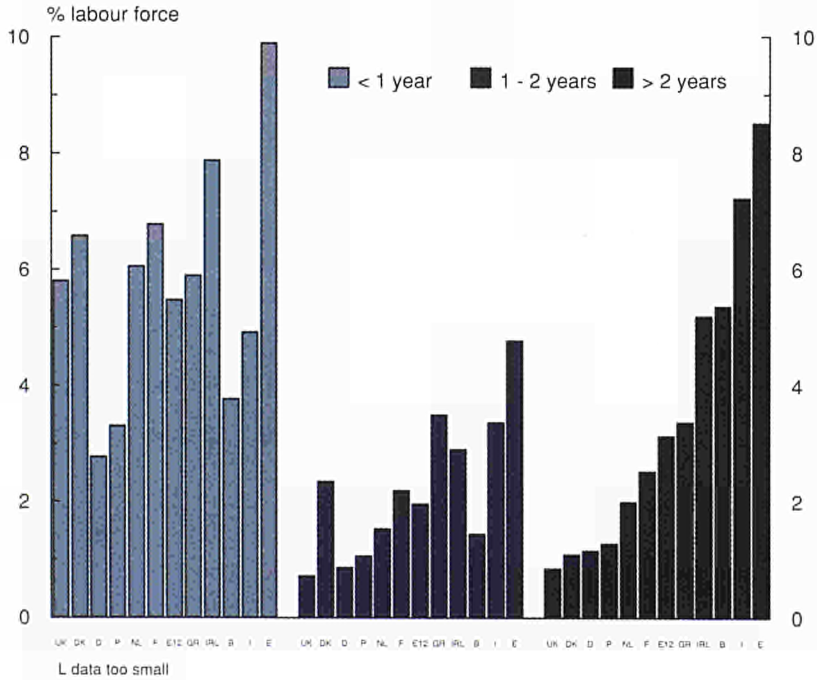
Although the term "temporary" covers a wide range of jobs, including some for which the contract extends for several years as well as many seasonal and very short-term jobs, substantial numbers of women in the latter three countries in particular would seem to be working under inferior terms of employment. While such jobs may give employers a high degree of operational flexibility, they tend to leave the women so employed in a vulnerable and exposed position.

To a large extent, women working in temporary jobs do so because they are the only jobs available. In 1991, for the nine Community countries where the relevant LFS data are available, over 60% of women replying to the question on why they worked in temporary jobs did so because they had been unable to find permanent employment (Graph 145). In Spain, the proportion was over 85%, in Ireland and Italy, where fixed-term contracts are also an important element in part-time working, it was over 50%.

146 Unemployment rates of men by duration in the Member States, 1991



147 Unemployment rates of women by duration in the Member States, 1991



Unemployment of women

As in the case of part-time working, unemployment of women can be seen in different lights. The high rates of female unemployment which prevail throughout the Community emphasise the difficulty which women have in finding employment. At the same time, however, they are also a confirmation of the indisputable presence of women in the labour market: even though they might not be in employment, at least they are part of the workforce. In other words, the women who are today recorded as being unemployed would in former times have been defined as inactive.

Despite these difficulties of interpretation, a few tendencies are clear. In the first place, unemployment rates of women are systematically higher than those of men throughout the Community, apart from in the UK, and have been so over the whole of the past decade (see Chapter 1).

Secondly, this disparity holds for all age groups. In the South of the Community, for those under 25, the combination of being young and female can push unemployment rates to extremely high levels. In Spain, Southern Italy and Greece, more than one in three women under 25 was unemployed at the last count — though this is less than rates reached in the mid-1980s, when in some areas they rose to as much as 50%.

Thirdly, so far as the duration of unemployment is concerned, the situation is more complicated. In the Community as a whole, the average rate of long-term unemployment — those who have been out of work for a year or more in relation to the labour force — is higher for women than for men (Graphs 146 and 147). There are, however, important differences between countries. In most countries — in Belgium, Denmark and France in the North and in all four Southern Community countries — more women are affected by long-term unemployment than men and this remains true as the duration of unemployment increases. In a few other countries, on the other hand, after one or two years of unemployment, the gap between male and female rates disappears — in Germany and the Netherlands — or is reversed — in Ireland. In the UK, there are substantially fewer women in long-term unemployment than men, especially in the case of those out of work for two years or more.

The difference between these four countries and the others is difficult to interpret. On the one hand, it could be due to a greater capacity on the part of women in these countries to find work, on the other, to women moving from long-term unemployment into inactivity. Some indication of which of these is likely to be more valid can be gained from the evidence on unemployment benefits.

With the exception of Belgium and Denmark, there are considerable disparities between the eligibility of men and women for unemployment benefits or assistance. In the Community as a whole, over half of unemployed men were in receipt of benefits or assistance in 1991 as opposed to only a third of women (Graph 148). The difference between men and women is particularly marked in the UK, the Netherlands and Ireland, where the proportion of unemployed men receiving benefits or assistance is twice that for women. By contrast, the difference is less for the Southern Member States, though in all cases, the relative numbers of both men and women receiving payments were much lower than in the North of the Community.

The receipt of benefits or assistance also varies according to family status. In all Member States, a higher proportion of married men received payments in 1991 than single men, which might partly reflect the difference in average age between the two. For women, although a higher proportion of married than single women were in receipt of benefits or assistance (35% as opposed to 32%), in most countries the difference was small and in four countries, the reverse was the case. In Ireland, the UK and the Netherlands, the proportion of unemployed married women receiving benefits or assistance was only around half that of single women, while in Germany, the difference was over 10%.

Indeed in the latter four countries, a non-negligible part of the disparity between men and women receiving state payments seems to be due to the relatively low proportion of married women entitled to benefit or assistance. Moreover, since these four countries are also the ones in which the long-term unemployment rate of women is relatively low as compared with that of men, it is possible that unfavourable benefit systems in these countries tend to persuade an increasing proportion of women to withdraw from the labour market and become inactive the longer they are unemployed.

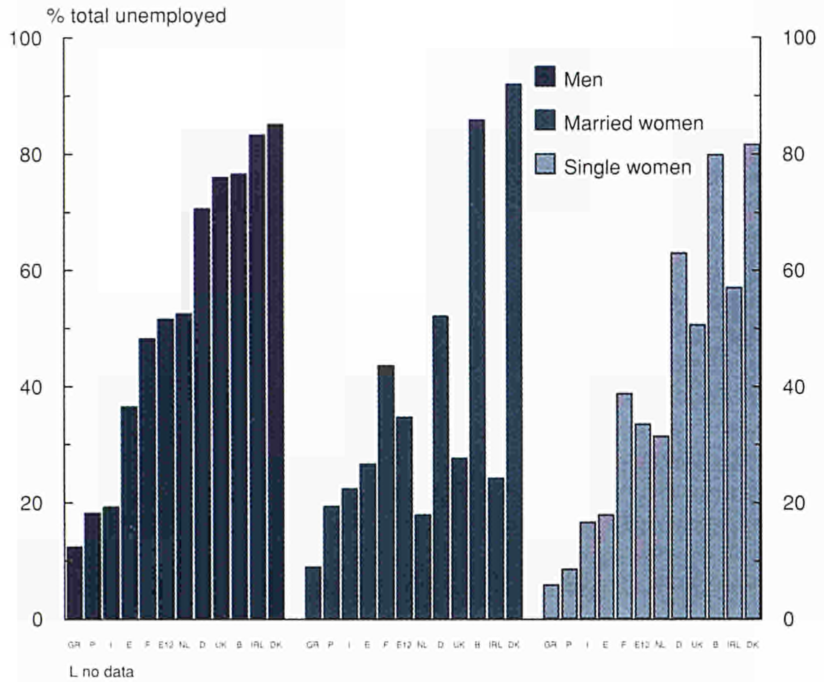
The border between being unemployed and inactive is, therefore, by no means clearcut, and it seems in a number of parts of the Community that married women more than others are driven out of the labour market at the end of a period of unemployment, for which they are often not eligible for benefits.

Unemployment, employment and inactivity

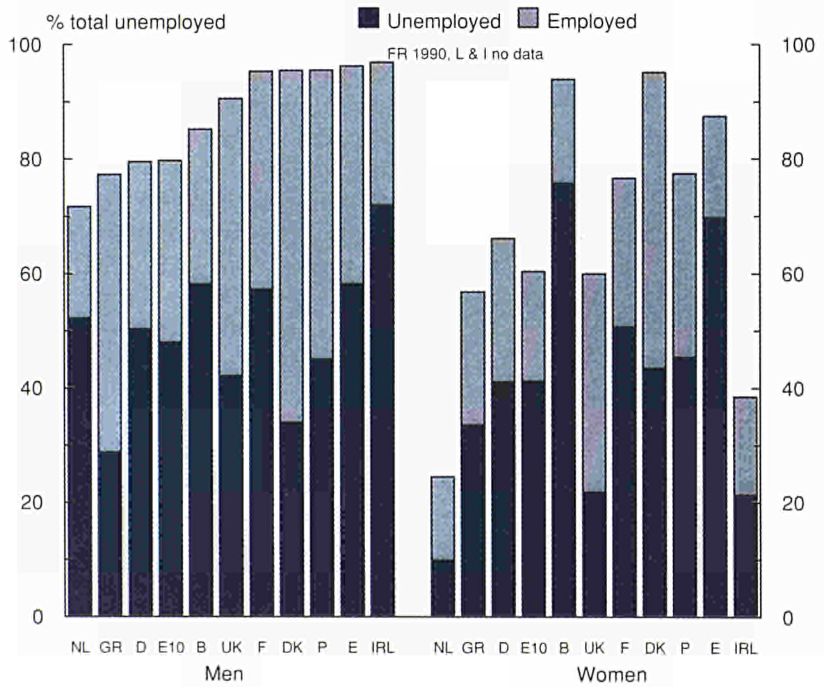
Evidence of the lack of a neat dividing-line between unemployment and inactivity in the case of women can be obtained from the Community Labour Force Survey. Since this includes questions on what respondents were doing one year before it provides some indication of the extent of movement between employment, unemployment and inactivity. At the same time, because people sometimes have difficulty recalling what they were doing a year ago, because not everyone asked replied to the question and because it ignores what happened in the intervening period, this evidence needs to be interpreted with some caution. (To reduce some of these problems, the responses to the surveys for a number of years have been examined to check the consistency of the 1991 results discussed below with earlier surveys.)

Nevertheless the replies are illuminating. In 1991, in the 10 Member States for which data are available (ie excluding Italy and Luxembourg), 40% of women of 25 and over who were recorded as unemployed — in the sense that they were actively seeking work — had been inactive one year before (Graph 149 — the analysis is confined to those of 25 and over to exclude the vast majority of those moving from education into the labour force). By contrast, the proportion of men of 25 and over who had previously been inactive

148 Recipients of unemployment benefit by status in the Member States, 1991



149 What the unemployed (25+) were doing a year ago in the Member States, 1991



was only 20% (the disparity was much the same for earlier years).

Moreover there were marked differences between Member States. In the Netherlands, the figure for women who had been inactive the year before was 75% in 1991 and in Ireland over 60%, whereas in Belgium it was less than 15% and in Denmark less than 10%. In all countries apart from these two, however, the proportion who had been inactive was significantly higher for women than for men.

A similar disparity between men and women is also evident for employment. In 1991, less than 20% of women who were unemployed in the Community had been in employment one year earlier as compared with over 30% of men. Again, however, there are substantial variations between Member States, reflecting, as would be expected, the importance of long-term unemployment. In countries where a high proportion of unemployed women are recorded as having been out of work for over a year, such as Belgium, Ireland and Spain, comparatively few women had jobs the year before — well below 20%. In countries where the reverse is the case, more were in employment one year earlier.

Nevertheless, in all Member States except Denmark, the UK and Portugal, only around 25% or less of women who were unemployed at the time of the 1991 LFS had been in work the year before and only in Denmark was the figure more than 40%. This means that in that year, even after a prolonged period of employment growth between 1985 and 1990, in most of the Community 75% or more women who were unemployed had not been working the previous year. For men, the figure was lower, but still high. In six of the 10 Member States for which data are available, 60% or more of men who were unemployed had also not been in work the year before.

These results seem to confirm the impression given by the high figures for long-term unemployment in the Community — that mobility between employment and unemployment is relatively low and that, in most Member States, it takes considerable time for most people who are out of work to find a job. This is especially the case for women.

Moreover, for women the responses to the LFS suggest that the distinction between unemployment — especially long-term unemployment — and inactivity is not clearcut in the minds of respondents. In three Member States, in particular, the Netherlands, Ireland and Greece, the figures for unemployment one year earlier obtained from questioning respondents on their status at the time do not accord with the figures for long-term unemployment (reflecting differences between personal perceptions of circumstances one year previously and the application of ILO definitions of current status). In the Netherlands, only 10% of the women unemployed claimed to be unemployed one year earlier in 1991, whereas over 45% of the same women were recorded by the LFS as being unemployed for more than a year, following ILO guidelines. In Ireland, only just over 20% stated that they were unemployed the previous year as compared with the 60% or so who were counted as long-term unemployed, while in Greece the figures were 33% and 55%. For the other countries, the two figures are much closer, though apart from Spain and Belgium, the proportion who claimed to have been unemployed the year before was slightly lower than the long-term unemployment figures seem to imply.

For men, although there is some difference between the two figures in the case of the Netherlands and Greece, it is much smaller, while the figures for other countries, including Ireland, tend to be reasonably close to each other. This implies that in a number of Member States, especially the three mentioned, the distinction between unemployment and inactivity is somewhat blurred so far as the perceptions of respondents are concerned or that, alternatively, the power of recall is often defective.

The segregation of women in employment

The large influx of women onto the labour market has not been accompanied by much diversification in the jobs they do. Throughout the Community, both horizontal and vertical segregation — ie in terms of the sectors in which women are concentrated and the kind of work they do within sectors — remains a dominant feature of the structure of female employment.

The most surprising point about this lack of change is perhaps the lack, in turn, of any relationship between the concentration of women in jobs and the growth of activity. Irrespective of whether rates of activity of women are high or low and the pace at which they have changed, the same phenomenon remains evident in Community countries: most women in employment are concentrated in a few sectors of activity and in a small number of jobs. These tend to be the sectors and jobs where women were already an important part of the labour force at the beginning of the 1980s. Although the share of women has expanded in a large number of occupations in most countries, and inroads have been made into a number of higher level jobs which were previously the exclusive domain of men, in most areas the possibilities for women of gaining access to top jobs remain very small.

A number of factors seem to combine in this respect to produce a cumulative effect. In particular, the growth in importance of part-time working both reinforces job segregation and at the same time has the added effect of differentiating the women involved from other members of the workforce. Where it develops, part-time employment reinforces the concentration of women by confining them to an even more limited number of jobs and professions. This is especially true in services where women employed part-time work predominantly as cooks, waitresses, cleaners and shop assistants.

Sectoral concentration of women's employment

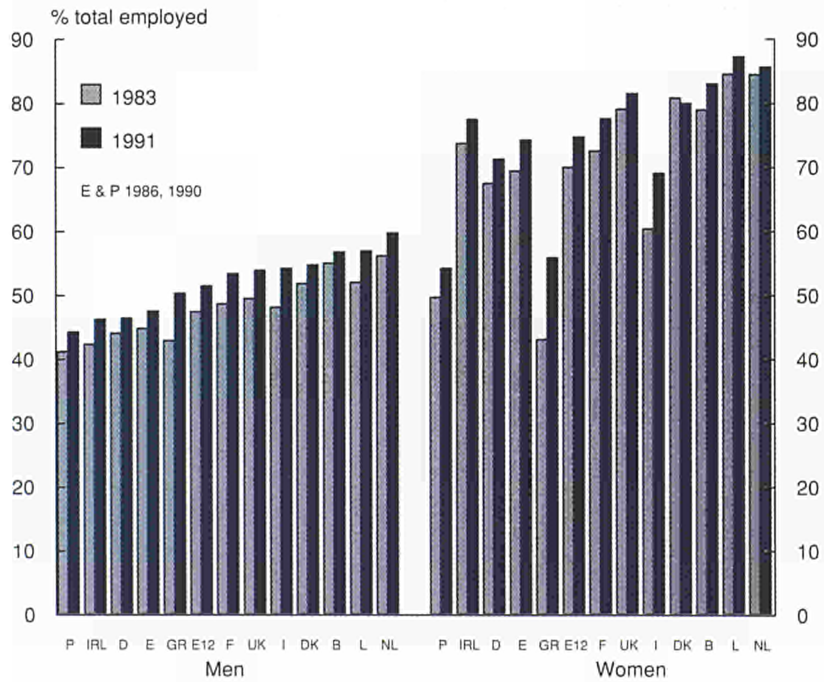
The evidence on the distribution of women's employment by sector provides little in the way of surprises. In 1991, over 75% of women in work were employed in services as against under 20% in industry, whereas only just over half of men in employment worked in services and over 40% in industry (Graph 150). Within services, the largest concentration of women's jobs is in "other services" — health, education and other services — which together employed 33% of all the women in work in the Community in 1991, while a further 22% worked in the "distribution and catering" sector. 55% of women in employment, therefore, worked in these two sectors as compared with 52% eight years earlier in 1983. Although these sectors are also major employers of men, they accounted for only 28% of male jobs in 1991, while the two sectors employing most men — distribution and engineering — between them accounted for under 30% of male employment (Graph 151).

Within industry, women's jobs are predominantly concentrated in the "other manufacturing" sector — textiles, clothing and other basic, labour-intensive industries. In 1991, well over half of women employed in industry in the Community worked in this sector as compared with 25% of men.

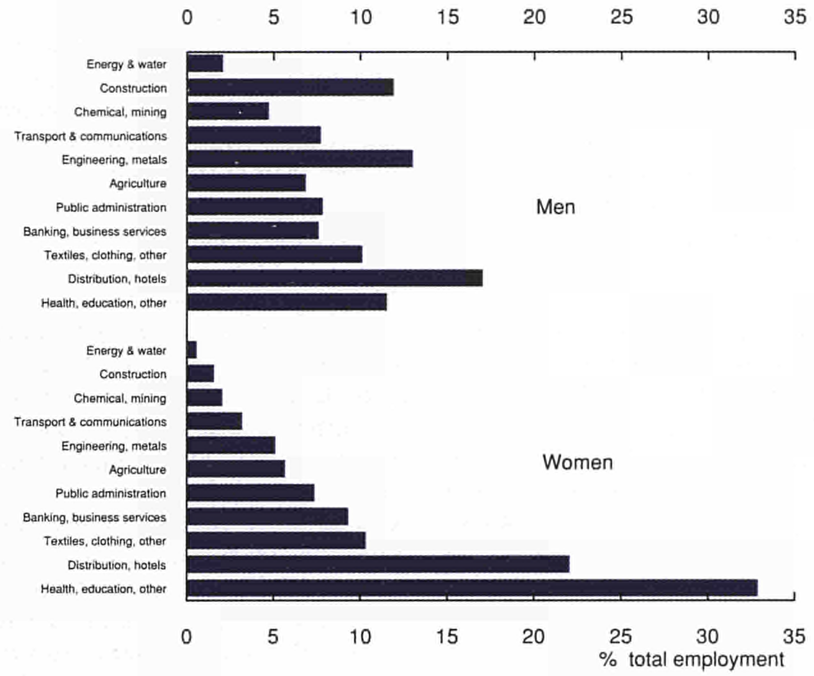
Except in Greece and Portugal, where over 20% of women worked in agriculture, health, education and other services together with distribution and catering accounted for over half of all women's jobs in 1991 in all Member States (Graph 152). In the UK, Denmark, Belgium and Spain, the figure was around 60%, while in the Netherlands, where many fewer women were employed in industry than elsewhere — only 10% as against 20% — it was as high as 67%.

Moreover these two broad sectors increased their share of women's employment between 1983 and 1991 in 7 of the 12 Member States, despite the slow growth of employment in distribution. Significantly, the largest increases occurred in Greece, Italy, Germany and France, four of the five countries where the share of these sectors was below the Community average in 1983, while Portugal, for which data are available only from 1986, also recorded a

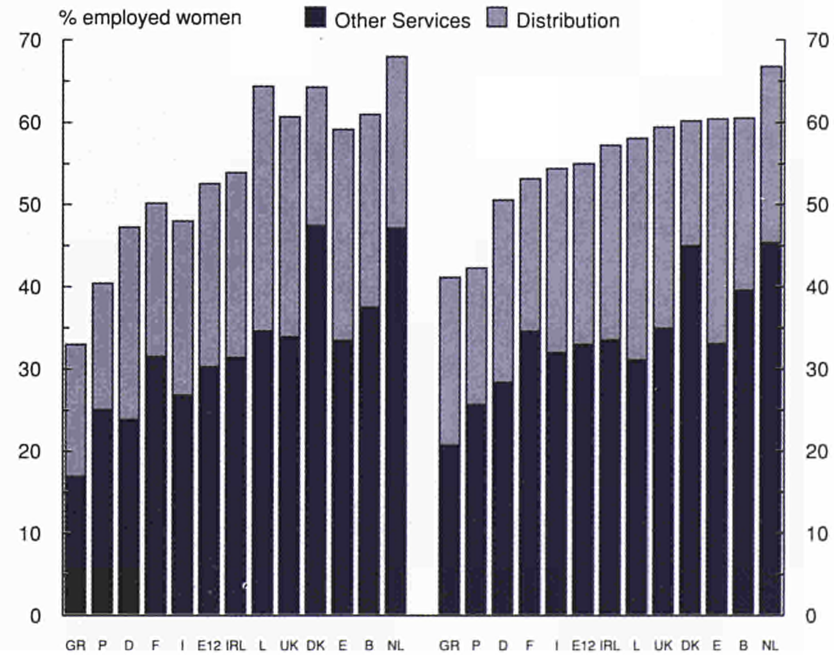
150 Employment in services in the Member States, 1983 and 1991



151 Sectoral employment of men and women in the Community, 1991



152 Women working in other services and distribution in the Member States, 1983 and 1991



significant increase over this shorter period.

At the same time, apart from Spain, the six countries in which these sectors were most important as employers of women all experienced a reduction in their share of female jobs over this period. The concentration of women's employment, therefore, declined in these five countries. Indeed in three of them, the Netherlands, Denmark and Luxembourg, even the proportion of women employed in health, education and other services declined between 1983 and 1991 — as it did also in Spain between 1986 and 1991.

Occupational divisions in women's employment

At the occupational level, two trends are evident. A significant proportion of women are becoming better educated, acquiring more qualifications and are increasing their share of senior positions, but they remain concentrated in public sector professional jobs, such as teaching, where they have an opportunity of using their intellectual or scientific abilities. At the same time, there has been a substantial increase in the number of women employed in lower level activities, particularly clerical and service jobs.

These two trends are causing a widening gulf between women at different levels of the labour market. For the first group of women, opportunities for enhancing their job satisfaction and for increasing their responsibilities are expanding. The pattern of their careers is, therefore, becoming more like that of men and less like that of other women — which is reflected in the marked differences in activity rates between the two groups of women noted above.

By contrast, for other, less well-educated and qualified women there is much less evidence of change. Their working careers are much more likely to be interrupted by family responsibilities and their career development is more likely to differ from that of men in similar types of job.

The true nature of the division between men's and women's jobs only emerges from a detailed examination of particular occupations or professions. Teaching is one area where studies have been undertaken which show such a division, though it is important to recognise that teaching may not be representative of the position in other activities.

In the Community as a whole, around 10% of women in employment worked in education and in all countries, except for the Netherlands, there were more women employed in this sector than men. However, despite the fact that systems of education differ markedly between Member States, the same pattern of employment is evident in all of them. With few exceptions, the divisions between the jobs predominantly performed by women and those which are mainly a male preserve are very similar in the different countries. The pattern of segregation is as follows:

- pre-school teaching is almost exclusively a task performed by women, with the proportion of women teachers varying between 94% and 100% in the Member States;

- primary school teaching is also predominantly undertaken by women, women teachers accounting for around 65% of the total in most countries and for as much as 90% in Italy and Portugal;

- secondary school teaching is divided fairly evenly between men and women, though in Italy and Portugal, the share of women teachers is over 60% and in the Netherlands, only around 30%;

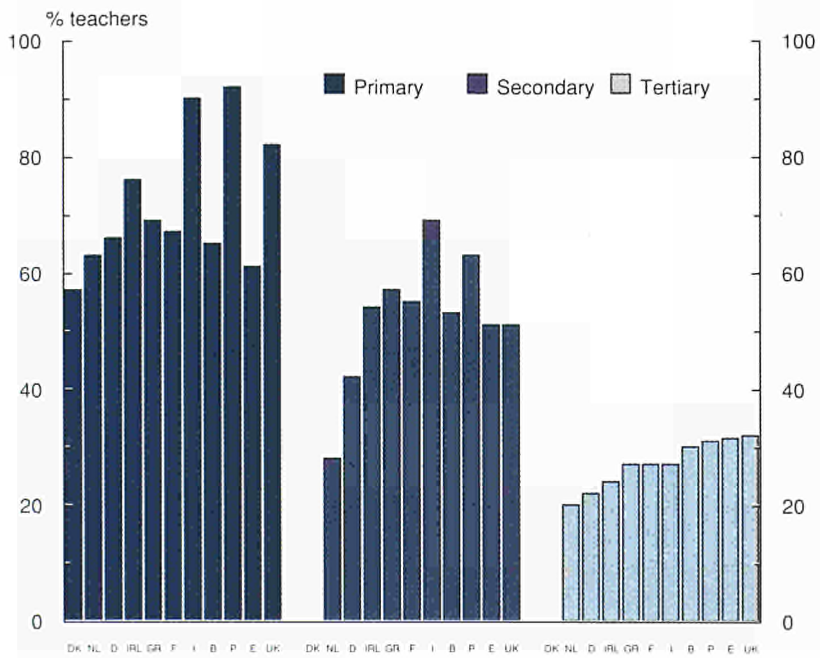
- higher education is predominantly a male preserve, with women filling only around 25% or less of jobs in most countries (Graph 153).

This pattern of demarcation, with men firmly in control of the higher echelons of the teaching profession, illustrates very well the situation in a number of areas and reflects the differential values and status, as well as salary levels, accorded to men's and women's jobs.

Nevertheless, despite the growth of women's participation in the labour force and the inroads that they have made into some occupations, distinct boundaries still exist between men's and women's jobs, with many clerical and service activities having become even more the preserve of women over the past decade.

The concentration of women in services, which for some time have been the only area of significant job creation, has facilitated the growth of importance of women in the labour force. It has also protected a large number from the effects of economic recession and job loss, though at the expense of increasing job insecurity and denigration of skills. But their position is not invulnerable. The structural changes which are in prospect in many

153 Women in teaching in the Member States, circa 1989-91



L no data, DK data for primary only

service activities, particularly as computerisation spreads and innovations are made in communications, threatens to destroy many of the jobs now performed by women.

At the same time, the division between men and women in employment is a major reason for the persistence of significant disparities in wage levels. Although the axiom of "equal pay for equal work" commands general support within the Community, its effectiveness will inevitably be limited while the actual jobs performed remain so unevenly distributed and while different values are placed on apparently similar types of job done by men and women.

Part III Employment policies

Chapter 7 Employment protection and labour force adjustment in the Member States

Restrictions on the ability of firms to hire and fire labour vary significantly between Member States. Despite the trend towards liberalisation, there have been few changes in the constraints on the freedom of action of employers over the past decade.

Although employment protection policies have been the subject of much controversy — and are likely to be increasingly so as the present recession persists — relatively little is known in practice about the importance and impact of these regulations across the Community as a whole.

The aim of this chapter is to compare the employment protection policies which exist in different Member States, to survey differences and similarities in regulations and attempt to assess their effect. It examines, in particular, how these policies have been modified in the face of the widespread tendency towards deregulation, which has occurred in many parts of the Community over the past decade. Using data from the Community Labour Force Survey, it analyses differences in labour force adjustment patterns and trends in temporary employment. It also considers the effect of employment protection regulations in relation to expenditure on active labour market policies.

Employment protection regulations consist of both individual safeguards against unfair dismissal and special procedures relating to collective, or mass, redundancies — whether based on law or collective agreement — which restrict the freedom of firms to dismiss workers. They include, for example, prior consultation with trade unions or works councils, notification of dismissal to the public authorities, the right of appeal against unfair dismissal and special protection for certain groups (such as pregnant women and the disabled). They also include provisions specifying periods of notice and severance pay arrangements.

They include, in addition, regulations on fixed-term, temporary and other atypical forms of employment, which determine the scope for labour force flexibility, and which have been a primary focus of deregulation. These various aspects are discussed in turn below. Although such measures as health and safety regulations, child labour laws and minimum wage legislation complement employment protection in a broad sense and should also be considered in any full assessment of the regulatory framework, they are outside the scope of this chapter.

While a major aim of employment protection regulations is to protect against unfair dismissal and, increasingly, to promote alternatives to redundancy, by constraining the freedom of firms to reduce their workforces, they may impose considerable costs on them, especially during periods of economic recession.

Much of the debate in this area has, therefore, focused on the allegedly adverse effects on the hiring policy of firms and on the efficient functioning of the labour market. Because of regulations, it is argued that firms are likely to be discouraged from taking on new employees and encouraged to make more use of casual workers as well as to discriminate against women, the handicapped or older people who might enjoy special protection against dismissal. On the same line of argument, regulations might reduce labour mobility, increase labour market segmentation — between those covered by protection and those not — and prolong the average duration of unemployment.

As against these concerns, it has also been argued that employment protection can potentially have beneficial effects. Apart from its effect in deterring unfair dismissal and promoting equity, regulations arguably correct the imbalance in the labour market between the power of employers and employees and so create the preconditions for efficient market transactions. Similarly, it is argued, in an unrestricted labour market the full costs of layoffs to individuals and communities are not adequately taken into consideration and to some extent regulations force firms to take more account of these when deciding their employment policy.

At the same time, regulations which impose significant non-wage labour costs on firms and national economies may cause concern that Member States with more stringent employment protection regimes may be put at a competitive disadvantage.

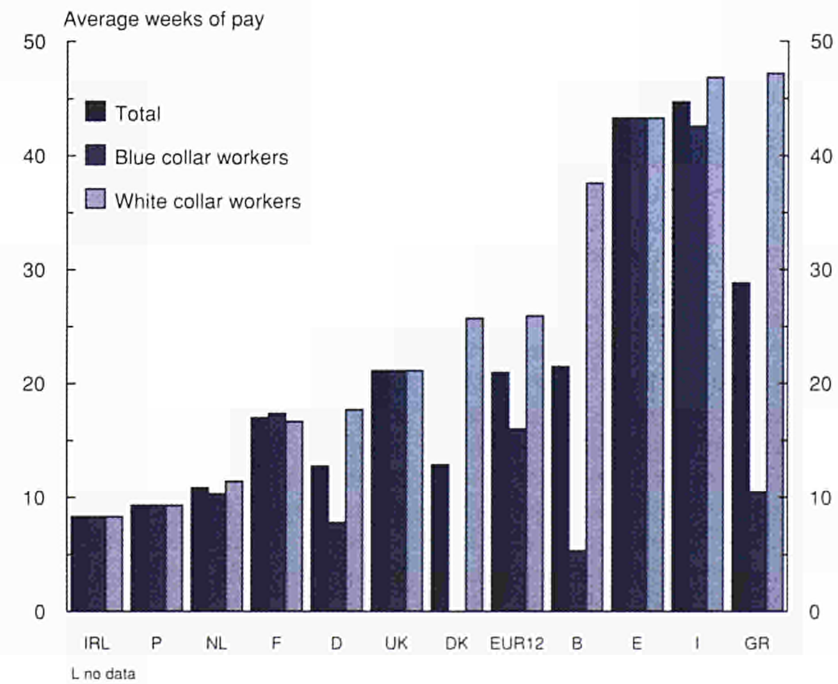
Unfair dismissal procedures

While the stringency of regulations and sanctions differ, sometimes markedly, across the Community all Member States provide workers with some form of statutory right against unfair dismissal. Most Member States require that, when employees are dismissed, they are given a written statement of the reasons (which can serve as the basis for a subsequent unfair dismissal claim) or that employers consult in advance with worker representatives. Three countries — Denmark, Portugal and Spain — require both, while only one country — the Netherlands — still requires prior administrative authorisation even in cases of individual dismissal. In all other Member States some form of monetary compensation is usual, though there are large differences in the maximum statutory amounts — which vary from six months in Belgium to more than three years in Spain. In seven countries, severance payments are mandatory either for all cases except summary dismissals (Denmark, France, Greece, Italy and Spain) or for those made redundant (Ireland and the UK).

In general, the extent of protection depends on age and length of service. In a number of countries, workers have to serve a probationary or qualifying period before being eligible for protection (eg six months in Germany and two years in the UK), while entitlement to compensation for unfair dismissal increases with the time spent in the job, and occasionally with age.

In many Member States, unfairly dismissed employees may also in principle be able to claim reinstatement, although this right is rarely exercised in practice, except in Italy.

154 Notice and severance entitlements in the Member States, 1989-90



Collective redundancy procedures

There is more similarity across the Community as regards the procedures relating to collective redundancies. Special regulations on this exist in all Member States. All require prior consultation with employee representatives and that advance notice of mass redundancies is given to labour market authorities. This uniformity is primarily a reflection of Member States complying with the Community directive on this (EC Council Directive 75/129 of 17 February 1975).

Under this directive, Member States are required to establish a statutory consultation procedure for the purpose of avoiding proposed redundancies or alleviating their impact. The employer is not only required to notify and consult with employee representatives but also to provide them with all necessary information (in written form) on the number of dismissals, the reasons for them, the timetable and so on, and to communicate the same information to national labour market authorities. The directive also requires a delay of at least 30 days before the dismissals take effect.

Although not required by the EC directive, all Member States, apart from Germany, provide for statutory redundancy payments, and in Germany obligatory "social plans", in which severance payments are a key feature, are partially equivalent. The main difference between Member States is in the definition of mass redundancies to which the special regulations apply. In France, Portugal and Spain, the definition is narrower than the EC minimum specified in the directive (at least 10 dismissals in establishments with from 20 to 99 employees, 10% in firms with 100 to 299 and at least 30 in larger firms). Four countries — the Netherlands, Greece, Portugal and Spain — moreover, go significantly beyond the directive in requiring not only prior notification but also prior authorisation of mass dismissals by the relevant authorities.

Although this is a policy area in which Community-level regulations have established meaningful international standards, major differences in the stringency of procedures still exist. Moreover, since in practice regulations primarily affect larger, and internationally mobile, firms, their potential impact may become an increasingly sensitive issue.

Notice and severance requirements

Mandatory periods of notice and severance payments are potentially an important constraint on labour force adjustment because of the possible costs they impose on firms. Unlike unfair dismissal procedures, their cost can be compared between countries in terms of weeks of pay. The calculation of an index, based on the sum of weeks of pay due either in the form of severance pay or working out a period of notice, shows that across the Community as a whole the (unweighted) average cost amounted to around 22 weeks pay in 1989–90 (Graph 154 — see Box for details of the calculation of the index). (It should be noted that though periods of notice and severance pay are combined here, their effect on costs may be quite different insofar as the firm can at least obtain some benefit from the work performed during a period of notice.)

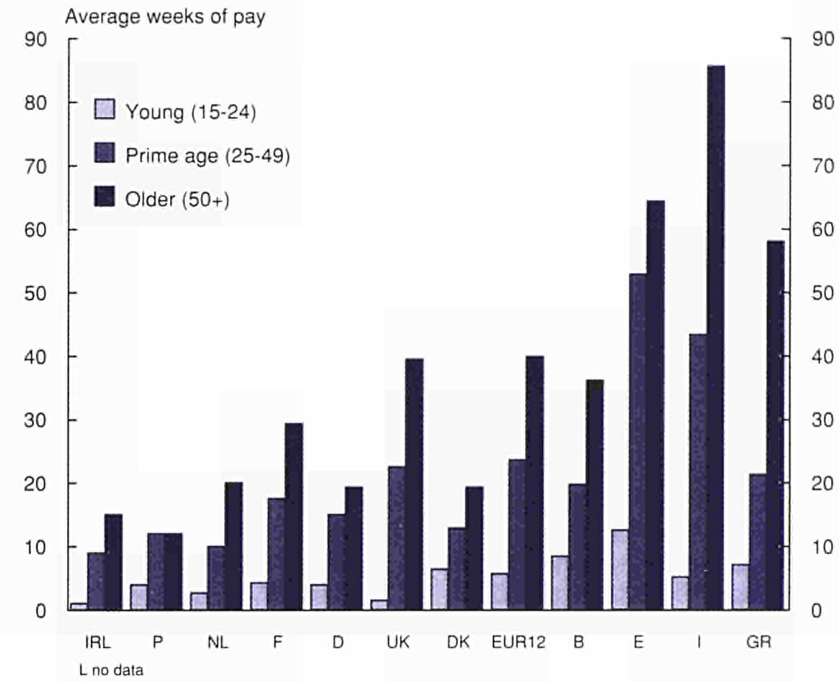
There are, however, striking differences between different groups.

Whereas for white collar workers the average is 26 weeks' pay, it is only 16 weeks for blue collar workers. This difference is entirely attributable to the employment protection regimes in five of the ten Member States covered — Belgium, Denmark, Germany, Greece and Italy — in which white collar employees enjoy markedly higher levels of statutory protection. In four of the other countries — Ireland, the Netherlands, Spain and the UK — the two groups are treated the same and only France provides better protection for blue than white collar workers.

Calculation of an index of costs of severance

The calculation of the index referred to in the text is based on the sum of weeks of pay due either in the form of severance pay or from working out a period of notice in each of the Member States. Special provisions applicable to collective redundancies are not included. Since notice and severance pay requirements vary with age, tenure and employment status there are in practice different levels of protection for different kinds of employee. For each country, the data on weeks of pay incorporated in the index represent averages for three age groups (young, prime age and older employees) and separate indices are calculated for white and blue collar employees. The indices relate only to statutory regulations and those based on nationally applicable collective agreements. They, therefore, represent national minimum rather than actual levels of protection. Nevertheless, it is plausible to assume that the indices reflect broad national differences in this aspect of employment protection.

155 Notice and severance entitlements by age-group in the Member States, 1989-90



Regulations on fixed-term contracts			
Country	**Restrictions**	**Max. Duration** (incl. renewals)	**Limitations on renewals**
B	No	no limit	no renewal
DK	No	no limit	no limit
D	Yes	no limit	no limit
E	Yes	36 months	no limit
F	Yes	18 months	once
GR	Yes	no limit	twice
IRE	No	no limit	no limit
I	Yes	6–12 months	once
L	Yes	24 months	twice
NL	No	no limit	once
P	Yes	36 months	twice
UK	No	no limit	no limit

The second and most universal feature is the greater protection afforded to more senior workers in all national employment protection regimes, this being especially so in Italy and Greece — in the former, someone aged 50 or over with a comparable length of service being entitled to 85 weeks' pay on average if made redundant (Graph 155). For young employees of under 25, average entitlement was less than 5 weeks' pay in six Member States, though over 12 weeks in Spain.

Temporary employment

Fixed-term contracts give enterprises the possibility of engaging workers for a temporary period and, therefore, of by-passing normal dismissal procedures or severance requirements. While there are often sound reasons for the choice of fixed-term rather than permanent employment contracts, they are, nevertheless, potentially open to abuse, precisely because they enable companies to avoid the obligations imposed on them by the latter. A number of countries have, therefore, introduced measures to prevent such abuse (see Table).

Since Denmark, Ireland and the UK have relatively weak employment protection regulations, it is not surprising that they do not regulate fixed-term contracts. (In Ireland, however, the Unfair Dismissals (Amendment) Bill 1993, which is likely to be enacted with effect from October 1993, will extend to certain employees whose fixed-term contracts are not renewed.) All other countries, except Belgium and the Netherlands, attempt to restrict the circumstances under which fixed-term contracts can be used and all except Germany and Spain limit the number of times a contract can be renewed (though in Spain, a fixed-term contract cannot be renewed for more than three years).

In Belgium and the Netherlands, it is probable that regulation is exercised through collective bargaining — which is important at a sectoral level in both countries — rather than by legislation.

Moreover in both countries, unlike in Denmark, Ireland and the UK, there are limits on the renewal of fixed-term contracts. In Belgium, no renewal at all is allowed except in special circumstances, while in the Netherlands, a contract can be renewed only once (and then can only be terminated by authorisation of the regional labour office).

Recent national trends

The effect of the tendency towards the deregulation of employment protection has differed significantly across the Community over the past decade (see Box). In brief, there have been substantial changes in seven Member States, the five largest countries plus Portugal and Ireland.

No uniform pattern of liberalisation, however, is evident. In only three countries have employment regulations been weakened either by eliminating the requirement that authorisation for redundancies needs to be obtained from the government (France), or by formally permitting dismissals for economic reasons (Portugal), or by limiting their coverage (the UK). In three countries, employment protection was actually strengthened, by extending coverage to smaller enterprises (Italy), by increasing sanctions (Spain) or by extending

Deregulation of employment protection in Member States

France shows the most erratic pattern of development due largely to shifts in the composition of government during the 1980s. The focus of deregulation — and, after 1989, "reregulation" — has been on redundancies and fixed-term contracts. The requirement for prior official authorisation of all dismissals for economic reasons (redundancy) was abolished after the change of government in 1986. Obligations were also placed on firms with 50 or more employees to formulate a "social plan" whenever 10 or more were made redundant, and a general requirement was introduced that all employees losing their jobs be offered an opportunity to undergo training ("contrat de conversion"). After another change in government in 1989, there was some reversal of policy, the timetable for redundancy procedures being extended and the role of public authorities strengthened. This trend towards "reregulation" continued in January 1993, in response to the recession, with the introduction of a requirement for prior official approval of social plans in the event of collective redundancies.

Regulation of temporary work has fluctuated in a similar way. After initially attempting to reverse the trend towards temporary employment, the socialist government in 1985 introduced new legislation extending the maximum duration of temporary employment and expanding the reasons justifying exceptions to permanent employment contracts. In 1986, the new centre-right government introduced further liberalisation by eliminating any requirement for such contracts to be justified in terms of specified circumstances as well as extending their maximum duration to two years. In 1990, after another change in government, fixed-term contracts had once more to be justified in terms of a limited number of specified circumstances.

By contrast, deregulation tendencies have been weak in Germany and largely confined to limited liberalisation of fixed-term employment contracts. Whereas before, fixed-term contracts were restricted to certain well-defined situations, such as seasonal work, temporary replacement of an absent employee and temporary peaks in demand, the 1985 Employment Promotion Act permits their use without any reference to special justifying circumstances. Originally enacted as a time-limited measure, the legislation was extended in 1990 for an additional six years until the end of 1995.

Although the 1985 Act was controversial, its impact appears to have been less than was anticipated.

Italy, which has the most highly regulated labour market in the Community, has strengthened employment protection further in recent years. In 1990, unfair dismissal regulations dating from the late 1960s were extended to small firms. Deregulation in Italy has mainly been confined to legitimising fixed-term contracts for young people of 15 to 29 under the guise of training contracts.

Ireland also strengthened employment protection in 1991 through the Worker Protection (Regular Part-time Employees) Act which extended protection to part-time employees.

The UK shows the most consistent trend towards liberalisation of unfair dismissal regulations, largely in the form of extending the qualifying period for unfair dismissal from 26 to 105 weeks of continuous employment. There have also been technical changes in procedures to discourage frivolous claims. Regulations on to collective redundancies have been unaffected, while temporary and other atypical forms of employment have never been subject to restraint.

Spain and Portugal, with relatively strong protection against dismissal for permanent employees, have liberalised the use of fixed-term contracts. In Spain, beginning in 1980, the circumstances in which fixed-term contracts are permissible was progressively expanded and by the late 1980s, Spain had by far the highest proportion of employees on such contracts (around 25%) in the Community. Prior approval of government for collective redundancies was a continuing requirement and, in 1990, the already high maximum on monetary compensation for unfair dismissal was increased from 42 to 54 months of pay.

In Portugal, dismissal without "just cause" is prohibited and until recently was effectively limited to cases of personal misconduct. In practice, employers make liberal use of fixed-term contracts to circumvent restrictions and Portugal is second only to Spain in the proportion of employment covered by these. In 1989, reformers secured a statutory basis for dismissal for economic reasons, while at the same time new limitations were imposed on the use of fixed-term contracts (maximum duration of 3 years with two renewals at most).

protective legislation to part-time employees (Ireland).

Perhaps the most significant common pattern is not the weakening of regulations *per se* but the liberalisation of regulations governing the use of temporary employment as a means of achieving labour force flexibility. This was the case in five of the seven countries where significant changes occurred, Ireland and the UK being exceptions, though in the latter the extension of the qualifying period for unfair dismissal to two years had the same effect by reducing the effective coverage of regulations.

The impact of employment protection on employers

Dismissal procedures cannot satisfactorily be assessed simply by examining regulations. Despite the detailed differences described above, regulations on unfair dismissal or collective redundancies are broadly similar across the Community, especially as compared with laissez-faire regimes such as the US. This formal similarity may, however, be misleading, since judicial interpretation and industrial relations practice may differ markedly. Moreover, statutory provisions are supplemented in all countries by collective agreements on employment protection, which can also vary between sectors. Statutory regulations are, however, a useful indicator of national differences in minimum standards.

Employer surveys provide a basis for comparing the perceived impact on employment protection regulations. *Ad hoc* surveys of employers sponsored by the Commission in 1985 and 1989, included questions on the importance of regulatory restraints on the hiring and firing of workers (see Box). The answers show that employers' perceptions of the severity of the restraints tended either to remain largely unchanged or to diminish between the two years, though the rank order of countries remained much the same (Graph 156). The Netherlands is the principal exception, with restrictions becoming much more stringent in the eyes of employers even though there were no substantial changes in regulations. While the perceived stringency of regulations also increased in the UK between these two years, it remained significantly less than anywhere else in the Community.

The views of employers largely confirm the conventional wisdom, in the sense that restrictions are regarded as most severe in Italy and least severe in the UK, with France and Germany in between. The liberalisation of French employment protection policies in the latter half of the 1980s, seems to be reflected in a moderation of employers' perceptions in France of the severity of restrictions in 1989 as compared with 1985.

The incidence of involuntary job losses

In the last resort the effect of employment protection regulations on employers and the functioning of the labour market can only really be assessed by examining how firms, and individuals, behave in practice. Unfortunately, there is little direct evidence on this — certainly none which is comparable between Member States. There is no alternative, therefore, but to resort to indirect information.

One source of relevant data is the Community Labour Force Survey which gives details of the number of people who lost their job during the preceding six months and the reasons for this. Relating these figures to the numbers employed gives some indication of the rate of involuntary job loss in different parts of the Community.

The results, however, need to be treated with a good deal of caution. In the first place, they relate only to those people who, when questioned, were not working and either were unemployed or had withdrawn from the labour market. They, therefore, exclude all those who had recently lost a job but had found another. In periods of employment growth, such people are likely to outnumber, perhaps considerably, those not working.

Secondly, the scale of job losses will clearly be affected by the rate of economic growth, which can vary — sometimes significantly — across the Community. In order to compare rates of involuntary job loss on a common basis, the LFS results should be corrected for this influence. This is not easy to do, but to reduce its importance, the results examined here are for 1989, a year of reasonably high economic growth in most parts of the Community. The main exception was Denmark, where GDP growth was only just over 1%, which is reflected in the comparative figures for job losses.

Nevertheless, for the other Member States, there was significant variation in the rate of involuntary job loss, whether caused by dismissal or a fixed-term contract coming to an end. In Spain, in particular, where the rate of job loss was higher than

Index of employers' perceptions of regulatory restrictions

The index is derived from the results of two ad hoc surveys of businesses conducted in 1985 and 1989.

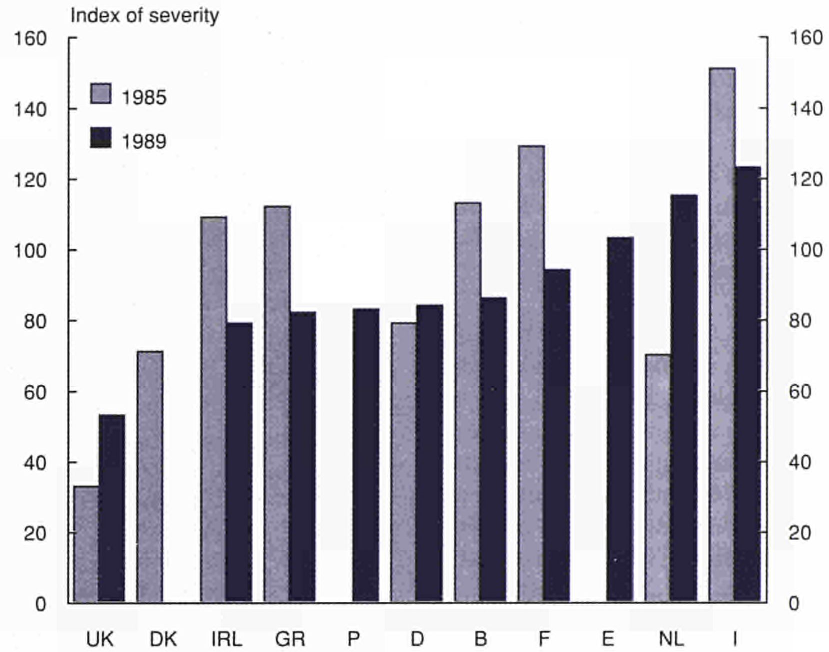
Employers were asked to assess the importance of "insufficient flexibility in hiring and shedding labour" as a reason for "not being able to employ more people".

The possible responses were:

- "very important",
- "important" and
- "not so important".

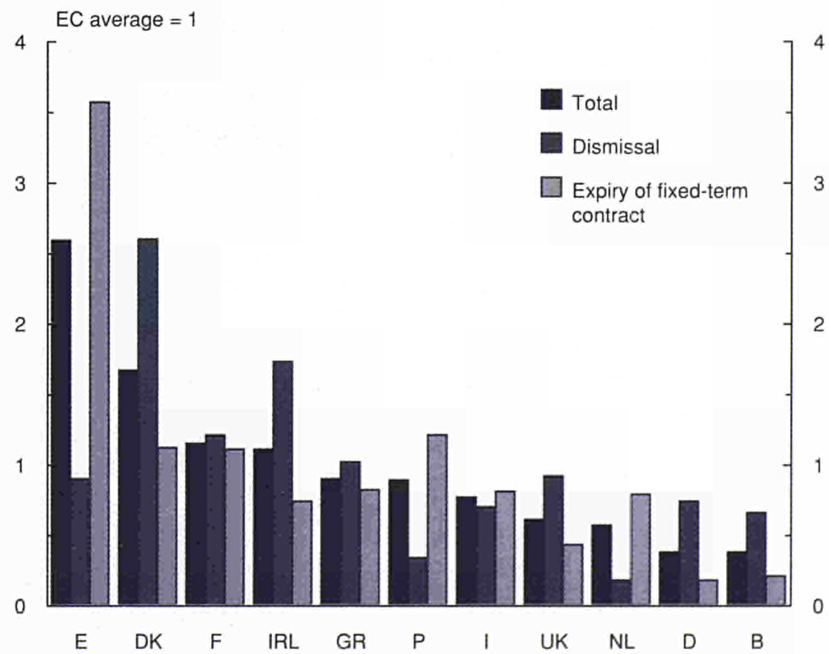
The index was compiled by assigning a weight of 2 to the percentage of employers giving the first answer and a weight of 1 to the percentage giving the second answer (eg if 40% of employers considered regulations to be very important and 30% considered them important, the value of the index would be 110).

156 Employers' perceptions of employment protection regulations in the Member States, 1985 and 1989



No data: E & P 1985; DK 1989; L 1985 & 1989

157 Relative risk of involuntary job loss in the Member States, 1989



anywhere else in the Community for all groups — men and women, young and old — despite relatively high GDP growth, the risk of redundancy was some 6 times higher than in Germany, Belgium or the Netherlands (Graph 157).

There is also significant variation between Member States in the relative importance of dismissals as opposed to the expiry of fixed-term contracts. In Denmark, the level of both was relatively high in 1989, whereas in Germany, Belgium, Italy and the Netherlands, they were both low. In Spain and Portugal, there was a high rate of expiry of fixed-term contracts but low dismissal rates. By contrast, in Ireland dismissals were high, but a below average proportion of job losses was due to temporary work coming to an end.

These results generally correspond with what would be expected given the differences in institutional regimes. The principal exceptions are Belgium and the Netherlands where there is little statutory regulation of fixed-term contracts but where this form of employment adjustment is relatively little used (possibly because it is constrained by collective bargaining, as noted above).

The other exception is the UK where despite the laxity of restrictions, the dismissal rate is low. There appear to be two possible reasons for this. The most plausible is that Spring 1989, when the LFS was conducted, was a period of high economic activity which would have naturally depressed the rate of job loss, especially since the UK dismissal rate is particularly sensitive to variations in activity. In all the other years between 1983 and 1991, the rate of involuntary job loss in the UK was higher. A second possible reason is that a relatively high proportion of job losses may have taken the form of voluntary redundancies which may not be reported as dismissals in the LFS.

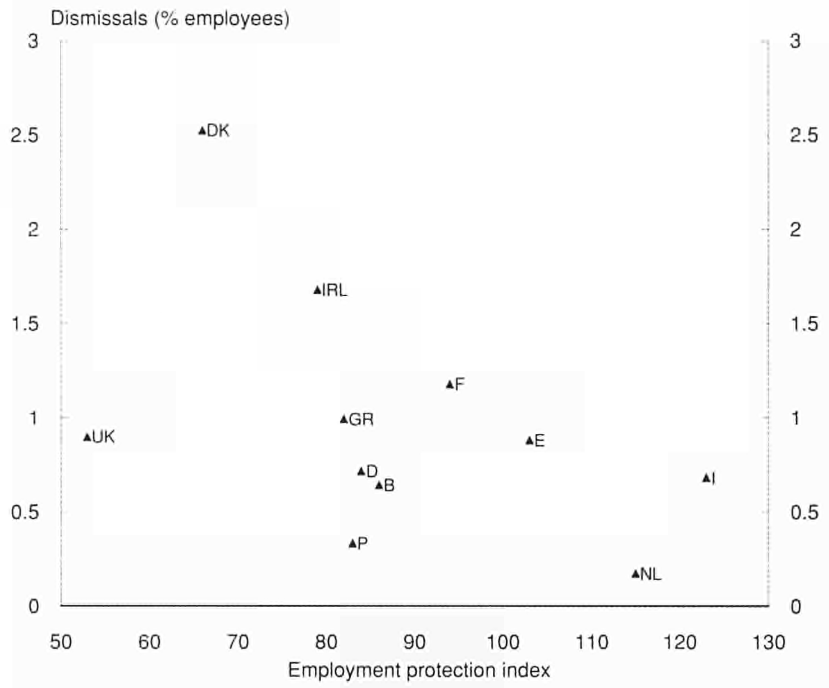
Although, other things being equal, countries with more stringent employment protection regimes, as perceived by employers, might be expected to have lower rates of involuntary job loss, this is not reflected in the LFS data. The picture is slightly different, however, if job losses due to dismissal are distinguished from those due to expiry of fixed-term contracts. While there is no clear association between the severity of employment protection and the latter, a negative relationship emerges between this and the rate of dismissal (Graph 158).

Growth of temporary employment

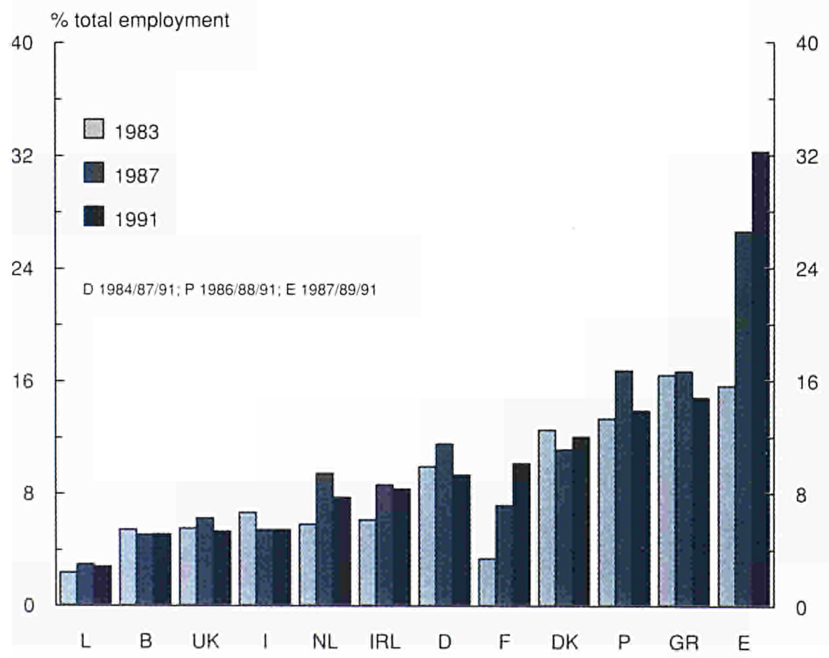
As noted above, those countries which had tended to relax employment protection restrictions in the 1980s, showed correspondingly high rates of expiry of fixed-term contracts in 1989. The impact of deregulation is also reflected in changes in the importance of temporary employment in the Member States.

In a few countries, where restrictions on fixed-term contracts were relaxed, their importance increased significantly over the 1980s. This is especially the case in Spain, where the share of employees in temporary jobs increased from 16% in 1987 to 32% in 1991, and in France, where the rise was from 3% in 1983 to 10% in 1991 (Graph 159). It also seems to be true of Portugal before 1988, though no data exist for the years before 1986 to verify this (the share of temporary jobs rising from 13% in 1986 to 16% in 1988).

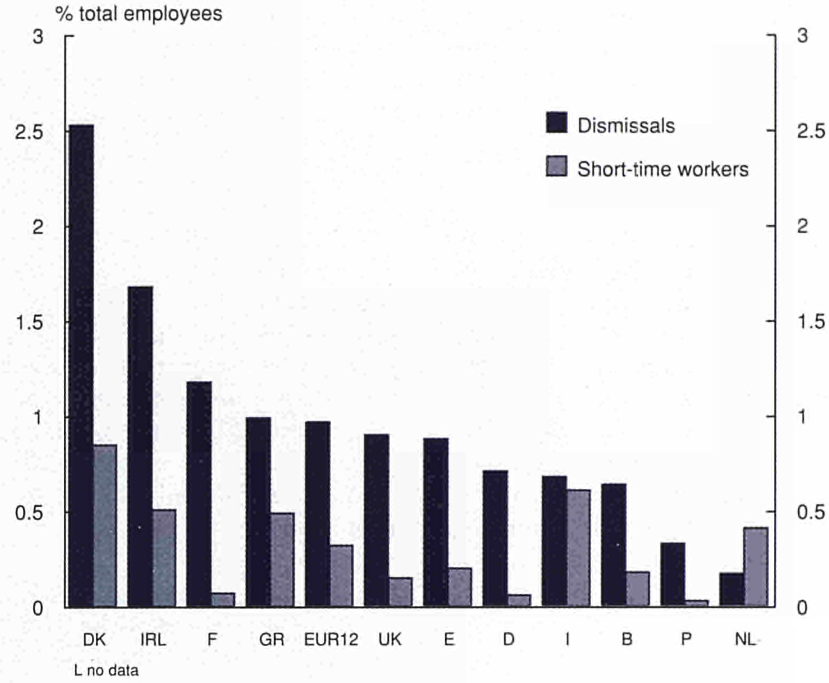
158 Employment protection and dismissals, 1989



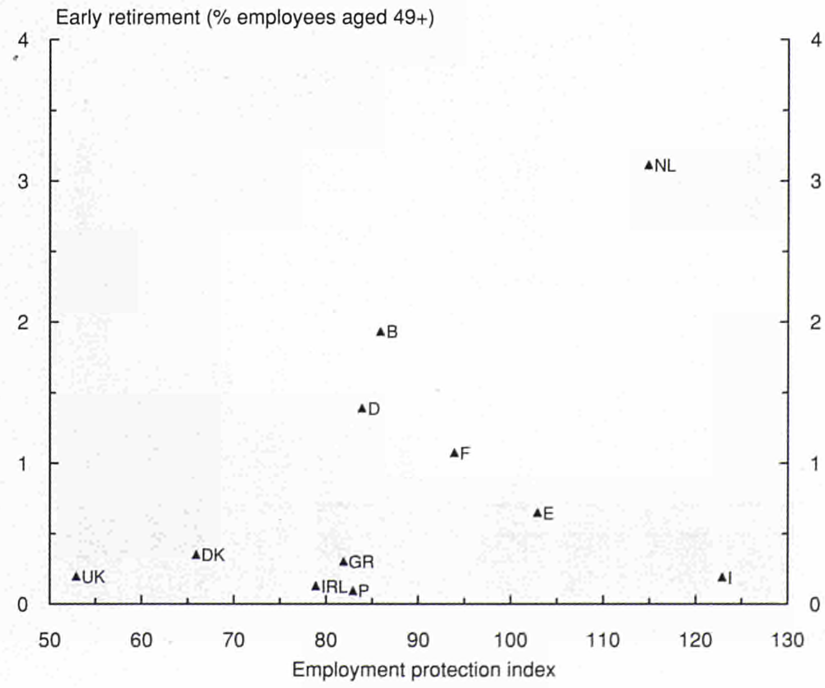
159 Temporary employment in the Member States, 1983-1991



160 Rates of dismissal and short-time working in the Member States, 1989



161 Employment protection and early retirement rates, 1989



Although, with the exception of Spain and to a lesser extent Greece and Portugal (where they represent 14–15% of the total), temporary jobs still account for a relatively small proportion of the total, in a number of Member States — France for example — they have come to be a significant form of entry into employment. (For firms with 50 or more employees in France, most new recruits start on fixed-term contracts.)

Employment protection and labour market policy

Employment protection regulations are just one aspect of labour market policy in Member States and have to be considered in conjunction with measures designed to deal with the problems posed by redundancy (by encouraging workers to retire early, by providing retraining opportunities and so on) as well as with measures designed to avoid them completely (such as by subsidising short-time working).

Short-time working

Most Member States provide support for temporary reductions in working time, whether achieved through short-time working or temporary layoffs. LFS data on the reasons for respondents working less than normal hours provide some indication of the relative frequency and scale of the use of variations in working-time as a mechanism for adjusting employment.

In 1989, when economic activity was high in most countries, only a very small proportion of employees worked less than normal hours as might be expected. Nevertheless, the numbers were significant in relation to the numbers made redundant — in the Community as a whole one third as high and in Italy almost the same (Graph 160).

Early retirement

Since employment protection in many countries is especially significant for older workers, the use of early retirement schemes might be expected to be an important means for firms in these countries to shed labour. LFS data for 1989 on those retiring early indicate some relationship between the numbers involved and the perceived severity of employment protection, though this association seems to be confined to Northern Member States. In the Netherlands, Belgium, France and Germany, where employment protection is regarded as relatively stringent, the proportion of workers taking early retirement was well above that in the other countries (Graph 161). In Spain and Italy, however, where employment protection is also regarded as relatively stringent, early retirement was comparatively unimportant.

Public expenditure on employment adjustment

Examination of the patterns of labour market expenditure in the four largest Member States tends to indicate that the constraints imposed on firms by employment protection regulations are in large measure offset by spending on employment adjustment measures.

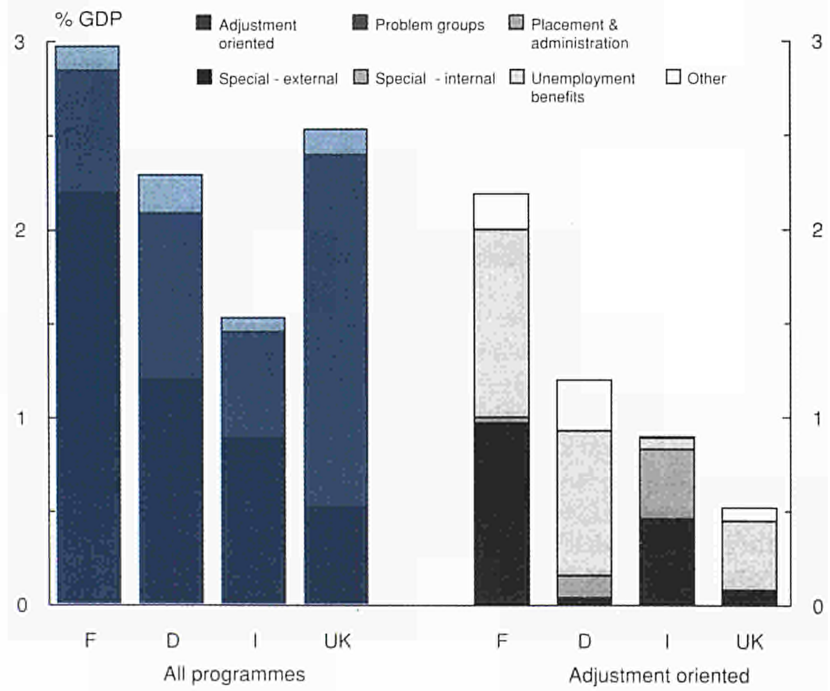
This is particularly true of France where such expenditure over the period 1985 to 1988 was both higher than in the other three countries, at over 2% of GDP, and accounted for a much larger share of total labour market spending (74%) (Graph 162). Support for firms and industries undergoing restructuring was especially important, exceeding expenditure on other active measures by more than five to one, and taking the form predominantly of early retirement.

While labour market expenditure in Italy was below the Community average in this period, at 1% of GDP (largely because of the small amount of spending on unemployment benefits which are funded in a different way to the rest of the Community), a relatively high proportion was directed at employment adjustment and, in particular, at firms and industries in economic difficulty. This took the form largely of temporary or short-time working as well as special income maintenance and help for workers losing their jobs to find new ones.

The UK had the lowest level of expenditure on employment adjustment in relation both to GDP (½%) and to total labour market spending (20%), with correspondingly relatively high expenditure on problem groups. There is, therefore, in the UK a lack of both standard labour market schemes — almost all resources being concentrated on problem groups — and special support for restructuring. Moreover, the UK is the only country of the three without a short-time working scheme to help firms restructure internally and avoid having to lay people off.

In Germany, the ratio of expenditure on employment adjustment to that on problem groups was lower

162 Labour market programmes for displaced workers, average 1985-1988



than in France or Italy. Moreover, unlike in the other three countries, expenditure on standard active labour measures exceeded that on support for firms and industries undergoing restructuring (by more than two to one), subsidies for short-time working being the main component of the latter.

In the four countries, therefore, there is a positive relationship between the severity of employment protection regulations and public expenditure to support employment. The UK, with the weakest regulations, had by far the lowest expenditure and the least concentration on special support measures. By contrast in Italy, where employment protection regulations were most restrictive, labour market expenditure was most concentrated on supporting employment restructuring.

General conclusions

Although regulations differ in detail between Member States, there is a broad similarity in the systems of employment protection across the Community. All Member States provide statutory protection against unfair dismissal and the procedures relating to collective redundancies are fairly uniform, partly as a result of Commission directives.

In practice, the Member States can be divided into three groups in terms of the restrictions on firing workers, with Denmark, Ireland and the UK having the least restrictive regulations, Greece, the Netherlands, Portugal, Spain and Italy having the most restrictive and Belgium, France and Germany in between the two. This division is also consistent with evidence from surveys of employers' perceptions of the degree of restriction applying to them.

It is noteworthy that the group with most restrictive regulations includes all the Southern Community countries, where labour costs are lower than in other Member States — in some cases, by a considerable way. Moreover in three of these countries, Italy, Spain and Greece, the costs imposed on firms by statutory periods of notice and severance requirements are also relatively high.

Regulations on unfair dismissal and collective redundancy were relatively unaffected by the trend towards deregulation in the 1980s. The main exception is the UK, where the proportion of employees entitled to claim unfair dismissal has been greatly reduced. In Italy, by contrast, the proportion has been increased by extending the coverage of regulations to small companies. On the other hand, in six countries — France, Germany, Italy, Spain, Portugal and the UK, it was made easier for firms to employ workers on a temporary basis. These differences in regulatory regimes are in some degree reflected in the data on involuntary job losses and the form which they take.

In most parts of the Community, employment protection policies tend to be complemented by active labour market policies, which in the form of support through public expenditure, of employment adjustment and restructuring, go some way to compensating for the constraints and costs imposed by regulations.

Increasingly the role of government in regulating the employment policy of firms and their working arrangements is likely to come into question in the Community, if the pressure for adaptability resulting from ever-increasing competition on world markets continues unabated. Job security has declined in virtually all sectors of the economy and even very large, established companies now find it difficult, if not impossible, to guarantee stability of employment. In countries like Italy and Spain, where there are extensive restrictions on the ability of firms to adjust their labour force, there are growing indications of concealed structural problems.

Such problems do not necessarily imply that government regulation of employment should be abolished. They do imply, however, that the extent and nature of regulations need to be continuously evaluated in the light of current economic and labour market realities so that they do not unduly inhibit changes in working arrangements which might be desirable.

They also imply a need to review other aspects of government policy which affect employment behaviour and which impinge on employment protection regulations. In particular, in countries where extensive, well-developed systems of social protection exist, firms are more able to adjust their labour force in response to market fluctuations knowing that the government will provide income support and assistance. In countries where social protection systems are less well developed — such as in the Southern Member States — firms, on the other hand, have been expected to provide substitute social support by retaining labour during periods of market decline, and the restrictions imposed on employers are rationalised in these terms.

These might simply be regarded as two alternative ways of dealing with the social consequences of fluctuations in economic activity. The increasing pace of structural change, however, has highlighted the potential drawbacks of relying on employers effectively to provide income support — not least because it has tended to increase their reluctance to recruit other than on a temporary basis.

Chapter 8 The Community Employment Framework

A primary policy aim of the Community is to create jobs. Much can be learned from the diverse experience of Member States in generating employment, though any common approach has to accommodate national differences in social, fiscal and labour market characteristics.

Reducing unemployment to more acceptable levels is the major economic and social challenge facing the Community in the 1990s. As described in Chapters 1 and 2 above, the average rate of unemployment has climbed above 10% and is set to continue increasing at least up to the second half of 1994. On present forecasts, the medium-term prospects for any quick and significant reduction are not good and there is a serious risk that, without positive action, unemployment could remain at or above 10% for the remainder of the decade.

The problem is not just to create enough jobs to provide work for the millions now unemployed. No less important is the need to generate employment opportunities for the even larger numbers who would like to work but do not enter the labour market at all because of the acute shortage of jobs.

The scale of this underemployment was revealed in the 1980s when the creation of over 9 million additional jobs between 1985 and 1990 — more than at any time for 30 years — resulted in the numbers of unemployed falling by only 3 million, still leaving over 12 million people, over 8% of the workforce, out of work. Most of the new jobs during this period, therefore, went to people — notably women — either coming onto the labour market for the first time or returning after a spell of inactivity, attracted by the prospect of being able to find work.

Comparisons of rates of employment between different parts of the Community, especially between the North and South, and between the Community and other developed parts of the world, show clearly that this potential workforce is still of sizable proportions (as shown in Chapter 1). If the numbers in employment in the EFTA countries or the US or even in the more developed parts of the Community are any guide, then there could be 20 million or more people — most of them women but also including many men — who would like the chance of working. This is in addition to those officially recorded as looking for a job.

The challenge is not just about creating jobs *per se*. It is also about improving both the balance of employment opportunities between people who happen to live in different parts of the Community and the access of disadvantaged social groups to jobs. It must also include improving the quality of the jobs which are created and eliminating the spectre of the working poor, which has never left some areas of the Community and which has returned to others.

Although, as shown in Chapter 5, the period of strong growth in the second half of the 1980s was accompanied by some convergence in income levels between the richer and poorer regions, this was not matched by a similar convergence in employment opportunities. On the contrary, the net addition to jobs over this period was less, on average, in the poorer, less developed regions than elsewhere in the Community.

The Community fared little better in improving the position of disadvantaged social groups. The distribution of income seems, indeed, to have become more, rather than less, unequal along with employment opportunities, so that problems of social deprivation and exclusion were intensified. At the same time, many of the jobs created carried low rates of pay and poor working conditions.

The Member States have sought, through common action at Community level, as well as through national action, to combat the common problems of inadequate and unbalanced economic development, lack of jobs and high and rising unemployment.

The Single Market programme, through the removal of barriers to internal trade and competition, aims to strengthen economic performance and enhance the potential for job creation. The moves towards monetary unification are intended as a further step in this direction.

The creation and progressive expansion of the Structural Funds and the introduction of the new Cohesion Fund were conscious attempts to achieve a more even distribution of growth and jobs across the Community. These actions were an explicit recognition of the responsibility of the richer nations to assist the more disadvantaged areas to resolve their problems — an acceptance that the Community must act as a cohesive entity.

The Community still has some way to go, however, if it is to meet the enormous challenge on jobs which it faces (as shown in Chapter 4). It has both to secure a higher, more stable and more sustainable rate of economic growth and ensure that this is more effectively translated into job opportunities in all areas.

This chapter reproduces the Communication which was adopted by the Commission on 26 May 1993 and which provides a framework for addressing the employment and unemployment problems of the Community. This Communication is an attempt to respond to the nature and scale of the problem as described in this report, taking account of the diversity which exists across the Community and the consequent need to tailor policy implementation to differences in local circumstances. In addition, the heads of state or government, meeting in Copenhagen, requested the Commission to prepare a White Paper on the issues of employment, growth and competitiveness. These two initiatives are complementary.

The purpose of this employment initiative is to put in place a framework and strategic process for more concerted and collective action — by all the Community institutions and the Member States — towards more employment-intensive growth. The aim is to focus on the employment problem, not just the unemployment problem. It is not only a strategy to help those without work to enter or re-enter the labour market, although this is a major element of the initiative. It is also a strategy to provide jobs for all those who would otherwise like to work.

The fundamental thrust of the Employment Framework is to promote and develop a more employment-intensive pattern of production in the European Community, in order to increase the numbers of people employed, at whatever rate of economic growth the Community can achieve.

The Employment Framework sees employment-intensity in a double sense. Firstly, it focuses on the scope for widening access to available employment, along the lines of certain Member States' experiences. Such changes effectively involve a re-distribution of income, as well as a redistribution of jobs. This is a static and a dynamic concept. As the economy develops, it is expected that economic growth will result in a widening of employment opportunities rather than merely increased incomes for those in employment.

The second aspect concerns not only the redistribution of employment opportunities, but the possibility of developing a more labour-intensive pattern of production, at least in certain parts of the economy, in order to employ potential labour resources more fully.

The labour market — like all other markets — embodies a series of institutional and structural features which influence its workings. Firstly, there are constraints on what can and cannot be done in respect of particular categories of people — young, older people and, to some extent, women. This is often enshrined in government legislation setting minimum standards for a variety of factors concerned with the safety, health and welfare of those at work.

In addition, there are the traditions regarding the way economic life is organised. While some of this may be set out in agreements negotiated between employers and employees, the culture of work in different economies and societies extends far beyond the issues generally addressed in collective bargaining.

There are also the financial factors. Labour costs relative to the value added produced by employees is clearly the major factor influencing employers' hiring decisions. However, such costs include not only wages, but also the taxation and other costs commonly imposed on employers to fund social insurance schemes — unemployment, pensions, sickness etc — or to contribute to the general funding of government expenditure. The cost of other welfare provisions by firms can also be significant.

At the same time, actual and potential employees will be influenced in their attitudes to jobs and employment generally by a variety of factors — in particular, by the effect of taxation on their gross pay, by any alternatives to paid employment open to them, and by their family circumstances.

Many people are currently inactive through no wish of their own. For some, leisure activities or doing unpaid work for themselves or others are alternatives to work. Insofar as systems of social protection allow, some others — notably those with low earning capacity, those with dependents, or those with very low income aspirations — may become, or remain, reliant on social transfers as a source of primary income instead of seeking paid employment.

The overall result is that both employer and employee decisions with respect to job offers will be significantly influenced by:

- the legislative environment
- the cultural and social environment
- the financial environment.

The Employment Framework seeks to address all three kinds of issue. It is recognised that, while employment is the primary goal, it can never be pursued at all costs. And, of course, longer term objectives — to achieve a sustainable pattern of economic development with adequate job opportunities for those who want to work — need to be balanced against the short-run objectives of reducing unemployment as quickly as possible.

The Employment Framework is therefore directed, not only at the incentive structures that exist in and around the labour market, but also at other factors which can influence the effectiveness of the labour market.

These include:

- the extent and quality of information available to employers, employees and the managers of the education and training systems on the kinds of new jobs that are being generated by economic progress and changing needs;
- the implications of an increasing desire for the devolution of decision-making — accommodating variations in local circumstances and local aspirations — for the establishment of a stronger Community economic, monetary and social framework aimed at achieving employment growth, as well as other objectives;
- the extent to which institutional structures assist in finding efficient solutions to the problem of matching demand and supply, of supporting the processes of change, and of pursuing higher levels of employment.

Many of these issues are inter-related and the programme of work in the Employment Framework reflects this, by setting out a number of specific issues, or aspects, of the overall problem which need to be addressed in greater depth. The analyses and proposals which will be prepared as part of this programme of work are designed to point us towards the main ways in which the fundamental changes required in order to achieve a more employment-intensive pattern of growth can be effectively pursued across the Community.

Community-wide framework for employment

1. Introduction

A high level of employment across all Member States and regions is a fundamental objective of the Community. Directly or indirectly, Community policies — the Internal Market, economic and monetary integration, the policies developed through the Structural Funds and the successive research and development framework programmes, co-ordinated policies in some areas, the pursuit of common objectives in others — have all made significant contributions to the goals of competitiveness, economic growth and employment.

Unfortunately, while the Community has grown in economic strength with increased integration and cohesion, progress on employment and unemployment has been less satisfactory, particularly in the last two years. Concern about the issue has been expressed through a number of political positions which have been taken up at Community level. In particular:

- the Council of Employment and Social Affairs Ministers passed a resolution in December 1992 on Action against unemployment;
- the European Parliament produced a report on the post-1992 European Labour Market in 1992;
- the European Social Partners have agreed a series of joint opinions in support of economic growth and improvements in the labour market, notably that of July 1992 on a Joint Cooperative Growth Strategy.

Most recently, the ECOFIN Council has supported the Commission's economic growth initiative — promoting economic recovery in Europe — launched at the Edinburgh 1992 Summit. The growth initiative ranges across a series of areas — public expenditure, private investment, support to small and medium sized firms, additional training, wage moderation and structural reforms.

The Commission has also prepared a major revision of the European Social Fund in order to strengthen its role in the fight against unemployment, and has continued to improve its analysis of employment issues through the annual Employment in Europe reports.

In the Informal meeting of the Ministers of Employment and Social Affairs on 3 and 4 May 1993, the Presidency of the Council expressed the need to strengthen the Community approach to combating unemployment. While recognising that responsibility for employment actions lies primarily with themselves, the Ministers underlined the need for supplementary coordination and action at Community level in order to address the common problems of employment and unemployment.

Council members supported the presentation by the Commission of a proposal which would provide a framework for actions at all levels within the Community. It would also encompass the role of the Community in various ways in relation to employment.

This Communication responds to the Council request. It is based on four key observations:

- The current high level of unemployment is unacceptable. It is damaging both to the Community's competitiveness, and to the cohesion of its societies.
- Stronger economic growth is required, but the employment problem cannot be resolved by economic growth alone. A more employment-intensive pattern of growth is needed if employment needs are to be met.
- An integrated policy response is needed, mobilising all actors involved in employment matters.
- Primary responsibility for action lies with, and within, the Member States, but closer co-operation at the level of the Community is necessary — economically and politically — in order to ensure the maximum impact of national actions.

This Communication sets out the Commission's proposals for a framework within which a process of analysis and exchange of experience can be pursued in a structured and co-operative manner, between all the actors concerned, with a view to co-ordinated action. Procedural proposals are made, together with an outline timetable.

2. The scale and nature of the employment problem

2.1. Unacceptable levels of unemployment

Over the past two decades, the rate of economic growth has averaged around 2% a year — much lower than in the two decades which went before. Employment creation has been insufficient to meet the growing demand for jobs and unemployment has shown a persistent and disturbing upward trend. While falling during the period of recovery in the latter part of the 1980s, it has risen by even more during the current period of recession.

Unemployment has once more climbed above 10%. Over 17 million people across the Community are now out of work. Almost half have been out of work for more than a year. On current forecasts, unemployment will continue to increase during the rest of this year and next. If current trends persist, by the end of 1994, it will be some way above the record level of 10.8% reached in 1985.

At the same time, progress has been limited in achieving convergence between regions in terms of employment levels, and in ensuring equal opportunities as regards access to the labour market. Many people — especially women — are effectively excluded from the labour market altogether.

2.2. Low rates of employment

The Community has a low rate of employment compared with other industrialised parts of the World. Less than 60% of the Community's population of working age are in work, compared with over 70% in the United States, EFTA and Japan.

The counterpart of such a low rate of employment is, not only high unemployment, but a large hidden labour supply. Thus, even when employment increases, unemployment remains high as new people enter the labour market. In the late 1980s, the creation of over 9 million new jobs only reduced unemployment by 3 million.

The consequence is that, in order to get unemployment down from current levels of over 10% to more acceptable levels — say 5% — the Community will have to create extra jobs on a scale large enough, not only to absorb the currently recorded unemployed, but also to meet the demands of those who will enter the labour market.

Job creation on that scale cannot be achieved on the basis of growth alone. Given the increased numbers wishing to work, 3.5% economic growth, with 2% productivity growth — the experience of the second half of the late 1980s — sustained over the rest of the decade, would still leave the Community well short of a target such as 5% unemployment.

3. The employment-intensity of growth

3.1. Comparisons within and outside the Community

Levels of employment depend, not only on the rate of economic growth, but on the employment-intensity of that growth. Employment-intensity is determined, not only by the relative use of capital and labour — which determines the volume of employment for a given volume of output — but also by the way in which a given volume of employment is divided up between numbers of jobs and hours of work.

In this latter respect in particular, experience between the Member States varies. For example, while Belgium and the Netherlands have similar levels of labour productivity, the Netherlands provide jobs for 10% more people of working age than Belgium. Equally, Denmark — with a lower level of income per head (measured in PPS) than the western part of Germany — has a much higher proportion of its population in work.

Comparisons with other industrialised countries are also revealing. In Scandinavia, the rate of employment has been at over 70% since the beginning of the 1970s. The main difference relative to the Community is in terms of activity rates of women. Indeed, activity rates of women in the Community, although growing, are still lower than in most of the economically developed world.

Over the past decade, the United States has sustained a similar rate of growth of GDP to the Community — around 2% a year, once allowance is made for changes in the growth of population. During this period, however, the rate of income growth per worker has been lower in the United States than in the Community — 1% as opposed to 2%. On the other hand, the United States' rate of employment has continued to rise during this period to a level of 70% today — 10 percentage points above the Community level. Thus, while the overall growth of incomes has been the same in the Community and the United States, a larger proportion of the United States population has had access to paid employment.

Japan has also succeeded in achieving higher rates of employment than the Community. In common with other industrialised countries, including the Community, a competitive traded goods sector with high productivity has been a means of generating income to create jobs in the service sector. The main difference is, however, that Japanese productivity in the service sector is lower than in the Community — thereby generating more employment — even though earnings in industry and services are much the same in both cases.

While a more employment-intensive pattern of growth inevitably implies a wider spreading of paid employment, the effect on the distribution of income depends on the economic, social and cultural situation in the countries concerned. For example, in Scandinavian countries, and in Japan, a high level of employment has been achieved with an income distribution narrower than that in the Community. The United States, however, has seen a widening in income distribution as its rate of employment has increased.

While experiences are not necessarily easily transferable from one Member States to another, or from outside the Community to inside the Community, such differences as exist are sufficiently wide to warrant more detailed analysis in order to identify what approaches are both adaptable to the Community, and compatible with its overall economic and social aims. In particular, the Community would need to ensure that any changes to existing policies were carried out in ways that do not exploit workers in a weak position in the labour market, or inhibit the development of the high value-added knowledge-based jobs which will be the key to future competitiveness.

3.2. Government actions and employment-intensity

In the face of high levels of unemployment, and long-term unemployment, governments have increased their expenditure on a range of policies and instruments designed, in general, to alter the incentive structures in the labour market in ways which can encourage a more employment-intensive pattern of growth, particularly in favour of the unemployed.

These measures have generally sought to make unemployed people more attractive to employers by reducing the costs of employing them, by increasing their value as employees through training or other help, or by addressing problems of mis-match or transition, for example between school and work. Thus, Government support measures have take the form of grants, loans, tax incentives and subsidies to the unemployed and to potential employers, as well as the direct provision of counselling and training services. Governments have also sought to change the legislative environment in ways which encourage greater labour market adaptability.

Programmes targeted on the unemployed demonstrate that changes in the structure of incentives operating in the labour market can be used to assist particular groups or individuals. In general, however, such policy actions have tended to take the form of derogations to existing national rules — for example, to reduce social security charges for the recruitment of the unemployed — or to have been directed at specific issues — such as the development of part-time work.

A broader lesson has to be drawn — namely that changes in the overall incentives structures might be pursued so as to bring about a more employment-intensive pattern of growth across the economy as a whole. This could have important benefits given the variations in incentive structures which currently exist within and between Member States.

For example, while employers' social contributions average 15% of wages and salaries across the Community as a whole, this varies between Member States — from virtually 0% to over 20%. The overall effects of such differences on employment can only be judged in the context of the taxation systems in each Member State. However, it is possible that the employment intensity of different sectors of activities, or the potential for employers to offer different types of jobs, may be affected by the incidence, or structure, of taxation.

The employment-intensity of production in the economy as a whole, in different sectors, or in different types of firms can be affected by the legal environment developed by governments in order to regulate the workings of the labour market. It can also be affected by other factors — the forms of work organisation and types of jobs developed within firms, the preferences and attitudes of those seeking to enter the labour market, or wider social and cultural changes regarding work, employment and life-style.

3.3. Community support

The Community's employment objectives have been supported at Community level by a wide range of policies and activities — economic, industrial, technological and scientific. In addition, however, the Community has focused on employment and related human resource issues through a variety of more specific activities.

These have included analysis and research, experimental action-research and pilot project programmes, the dissemination of best practice, as well as funding from the Community's structural funds, notably the European Social Fund — which encompasses both mainstream funding and specific Community Initiative programmes.

Analysis and research has, over the past 5 years, been exploited through the Commission's Employment in Europe reports which, on the basis of Community-wide comparative analysis, and exploiting the Community's labour force survey, has deepened understanding of the structure of the Community's labour markets and the relationship between employment and other economic and social developments.

Experimentation and evaluation has been pursued through action-research programmes — such as the local employment development action programme LEDA and the action programme against long-term unemployment ERGO, as well as through pilot project programmes on employment creation — notably the ILE programmes for businesses run by women, and the SPEC programme on innovative local employment actions in response to changes brought by the Internal Market.

Larger-scale pilot project actions have been undertake within the framework of the European Social Fund's Community Initiatives — which encompass EUROFORM on new qualifications and new jobs, NOW on the employment of women, and HORIZON on the employment problems of the disadvantaged — as well as through relevant parts of the Poverty programme.

A series of related actions on vocational training and on the integration of young people into the labour market have also been pursued through the Community's programme on education and training for technology COMETT, the FORCE programme on continuing training in Europe, the EUROTECNET programme of training linked to new technologies, the PETRA programme on training for young people, and the IRIS programme on improving the access of women to vocational training.

The exchange of experience has been pursued through the Employment Observatory system which provides a structure for the collection, analysis, presentation, dissemination and discussion of Member State experiences covering both trends and structural changes in the labour markets, and the development of Member State policies.

In particular, the Community has developed, over a 10 year period, the Mutual information system on employment policies, MISEP, which provides a full documentation of government policies and structures for their implementation, including a growing volume of evaluations. This is now supported by SYSDEM — which reports on research and analyses on employment and labour market issues within the Member States and provides a framework for discussion between policy makers and researchers at both national and Community level.

Policy development has been reinforced through funding from the European Social Fund which now contributes some 6 BECU towards active manpower measures undertaken by national governments within the structure of Community Support Frameworks — some 13% of total expenditure by Member States, and a significantly higher proportion in priority regions of the Community.

That support has been targeted on the long-term unemployed and unemployed young people, and on the needs of less developed regions in the Community. The bulk of the support is for vocational training, although some support is provided for employment subsidies to encourage recruitment and, in the less developed regions, for vocational education in schools.

4. New framework for action

From the above analysis, three main conclusions can be drawn:

- The scale and nature of Europe's employment problem are cause for major concern. Action is needed if the problem is not seriously to impair the Community's economic competitiveness into the 21st century, and to inflict considerable damage to the fabric of our societies;
- There is sufficient evidence and experience to suggest that ways of, at least, improving the situation can be found — over and above those which can result from higher levels of economic growth — by Governments adopting policy mixes which favour a more employment-intensive pattern of growth;
- Although the main instruments lie with, and within, the Member States, the Community has an important role to play as a catalyst, as a forum for coordination, and as a support through the use of Community level policies. Action at the level of the Community is also necessary for reasons which are both economic (because the growing interdependence of our economies requires active cooperation across all policies) and political (because it is vital that the Community take an active interest in an issue of such importance for the well-being of the citizens of Europe).

4.1. Objective

What is proposed, therefore, is that the Community institutions and the Member States commit themselves to a structured, cooperative and systematic, process of analysis and policy reflection on possible solutions to the employment problem with a view to concerted policy action, centred principally around the need to create a more employment-intensive pattern of growth in Europe.

4.2. Means

This needs to be a genuinely collective process, in which the Commission certainly has its role to play, but where individual Member States, groups of Member States, or groups of interests from within Member States will also wish to contribute ideas or analyses. Suitable means of involving the other Community institutions, such as the European Parliament and the Economic and Social Committee, need to be explored, as do appropriate mechanisms for associating the Social Partners.

The key starting point is the establishment of an agenda and a timetable, aimed at arriving at some operational conclusions over an eighteen month period between now and the end of 1994.

Given the complexity of the employment issue and, in particular, the fact that responsibility for employment matters in the fullest sense is often widely spread, a means of ensuring real coordination of the process is crucial.

In this context, a new, wider and more active role could be considered for the Standing Committee on Employment, which does bring together many of the main actors, though the question of inter-face with other fora would require careful attention.

4.3. Commission role

The Commission undertakes to underpin this process as well as to contribute analyses and suggestions for coordinated action. But this would in no way preclude others from doing the same.

In addition, the Commission will seek to promote the transformation of successful Community pilot experiences into mainstream policies, on the basis of a systematic evaluation of successful experiences and measures, such as those described in section 3.3 above.

More generally, it is the Commission's intention to apply its financial support in ways which can contribute to the overall objective of employment expansion. The proposed reform of the European Social Fund — which aims to increase the flexibility of the Fund, to anticipate labour market developments and to link the Fund more with policy-driven objectives — is a step in this direction. In particular, however, the Commission intends that any future Community initiatives in this area will be able to support experimentation and innovation on a trans-European basis.

4.4. Issues for analysis and action

The Commission intends to present analyses and suggestions for co-ordinated action in a number of different areas. As far as specific issues are concerned, the Commission has identified, in particular, the following:

- adaptability at the workplace, and the potential for developing new forms of employment based on new forms of work organisation
- the development of new working time structures able to expand employment opportunities;
- the development of training systems and qualifications able to improve integration into the labour market, and anticipate structural change
- investigating the scope for reducing labour costs and increasing employment-intensity, notably by modifying the incidence of taxation systems;
- the exploitation of the employment growth potential of new areas of work — the environmental industries, the arts, household services etc;
- the creation of employment through small businesses, and self employment, and the role of SMEs generally;
- the role of local initiatives and local economic and employment development in strengthening the capacity of areas to create employment;
- the role of different agencies and partners in developing efficient external labour markets.

4.5. Procedures and organisation

The Commission intends to establish the necessary internal procedures in order to implement and follow-up the programme of actions outlined in this Communication.

Discussions on current employment concerns have already begun in Informal meetings of Ministers — not only of Employment Ministers but of Economic Affairs Ministers and Environment Ministers. Other Ministers potentially concerned can be encouraged to address these issues, initially on the basis of this document.

The question of how best to orchestrate this complex process will need careful attention.

5. Conclusions

The Commission requests that the Employment and Social Affairs Council:

- Agrees the need to develop a Community-wide framework within which the Member States and the Community can conduct a process of comparative analysis with a view to promoting a more employment-intensive pattern of growth in a co-ordinated way;
- Notes the need to urgently consider how best to associate all those with responsibilities which indirectly or directly affect employment — including other Council members — in addressing employment concerns, and in exploiting employment opportunities, within the Community-wide framework;
- Accepts the Commission's proposal to present a rolling programme of work, to the end of 1994, based on the approach of this paper;
- Agrees to associate all relevant partners at local, national and Community level, notably the Social Partners, in the development of appropriate responses.

Graphs

Maps

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 1991 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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200 rue de la Loi
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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.

PPS: References to PPS relate to Purchasing Power Standards which 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 tersm 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 1: Table 1 is produced from the following sources: Eurostat: National estimates of population and employment and Unemployment rates for comparison between Member States. 1992 results are provisional. 1965 data: OECD Labour Force Statistics 1968–88.

Chapter 3: The section on Central and Eastern Europe is based on *Employment Observatory, Central & Eastern Europe No. 4*, published by the Commission.

Chapter 6: The section on teaching is based on a report prepared by Jill Rubery and Colette Fagan for the Commission's Network of Experts on the situation of women in the labour market.

Chapter 7: This chapter is based on a study carried out for the Commission by the Wissenschaftszentrum, Berlin.

Graphs

1–3	OECD Labour Force Statistics (1991, 1992 growth rates OECD Economic Outlook December 1992); Eurostat, Community Labour Force Survey (1991, 1992 growth rates OECD Employment Outlook July 1992)
4–8	GDP: OECD Quarterly National Accounts 3 1992; European Economy, December 1991, Tables 5 & 10; Employment: Eurostat, Community Labour Force Survey, supplemented by National Accounts and OECD Labour Force Statistics
9–11	GDP: European Economy, December 1991; Employment: Eurostat, Community Labour Force Survey and National Accounts
12	National Accounts; OECD Labour Force Statistics (1991 growth rates from Economic Outlook Dec 1992 and Employment outlook 1992)
13–15	Eurostat, Community Labour Force Survey
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21	Eurostat, Community Labour Force Survey
22, 23	Eurostat, Community Labour Force Survey; OECD Labour Force Statistics
24–32	Eurostat, Community Labour Force Survey
33–39	Directorate General for Economic and Financial Affairs (DGII),Economic Forecasts 1993–1994
40–43	United Nations, Trade Yearbooks and Monthly Bulletin of Statistics
44	Directorate General for Economic and Financial Affairs (DGII), Economic Forecasts 1993–1994
45, 46	United Nations, Trade Yearbooks and Monthly Bulletin of Statistics
47	International Monetary Fund Balance of Payments Statistics Yearbook
48	National Accounts (ESA); Eurostat, Community Labour Force Survey
49–52	Eastern European correspondents
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58	Eurostat, General Government Accounts and Statistics, 1979–1990
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83	Eurostat, Community Labour Force Survey
84	Eurostat, REGIO database — series CHOM3HARMONI
85–87	Eurostat, Community Labour Force Survey
88	Eurostat, REGIO database — series CHOM3HARMONI
89–110	Eurostat, Community Labour Force Survey
111–116	Eurostat, Structure of Industry survey
117	Eurostat, Community Labour Force Survey
118	OECD, Employment Outlook July 1992; Eurostat, Community Labour Force Survey
119, 120	Eurostat, Community Labour Force Survey (1983 E & P obtained using OECD Labour Force Statistics)
121, 122	Eurostat, Community Labour Force Survey
123–134	ILO, Yearbook of labour statistics; Eurostat, Community Labour Force Survey
135–152	Eurostat, Community Labour Force Survey
153	National reports; Eurostat, Community Labour Force Survey
154, 155	MISEP; European Industrial Relations Review; various national sources
156	European Economy No 27 (March 1986) and No 47 (March 1991)
157	Eurostat, Community Labour Force Survey
158	Estimates based on 1989 Community Labour Force Survey
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160, 161	Estimates based on 1989 Community Labour Force Survey
162	OECD, Labour Market Policy expenditure data (1990)

Maps

1,2	Eurostat, REGIO database — series CHOM3HARMONI
3	Eurostat, REGIO database — series CHOM2LTU
4, 5	United Nations, Sex and Age distributions of population — Population Studies No 122
6	United Nations Development Programme, Human Development Report 1992
7, 8	World Bank, World Development Report 1992; United Nations Development Programme, Human Development Report 1992
9	Eurostat, REGIO database — series EFDT3POP and EFDT2EMPL
10	Directorate-General for Regional Policy (DGXVI)

The following topics were analysed in previous issues of the *Employment in Europe* Report:

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