

*Employment in*

# EUROPE



Commission of the  
European Communities



Directorate-General for Employment,  
Industrial Relations and Social Affairs



Commission of the European Communities

**Employment in**  
**EUROPE**  
**1989**

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Employment, Industrial Relations and Social Affairs

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This publication is also available in the following languages:

DE ISBN 92-825-9768-7

FR ISBN 92-825-9770-9

Cataloguing data can be found at the end of this publication

Luxembourg: Office for Official Publications of the European Communities, 1989

ISBN 92-825-9769-5

Catalogue number: CE-55-89-366-EN-C

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*Printed in Belgium*

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# Foreword

by **Vasso Papandreou**

*Member of the Commission of the European Communities responsible for employment, social affairs, education and training, industrial relations, human resources and relations with the Economic and Social Committee.*

Reports of many kinds have discussed employment and unemployment in the European Member States. However, this is the first report produced by the European Commission which considers employment in the Community as a whole. It is a report which will play a central role in developing the social dimension of the Community and which should be read in conjunction with the Economic Report published by the Commission. It is the intention of the Commission to publish such a report once a year and to focus on particular issues relating to employment and the labour market.

The report treats the Community as a whole, albeit a "heterogeneous whole" with great diversity of living standards, as well as a rich variety of cultures. There is, however, a common destiny in a Community that is advancing and converging in promoting 'throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it.' (Article 2 of the Treaty). The integration of the Eu-

ropean economies has proceeded apace and is accelerating under the impulsion of the completion of the Internal Market. That integration, and the supporting policy actions to help the catching-up process of the less favoured regions, will boost employment, but we must ensure that the benefits are distributed fairly to all parts of the Community and to all social groups.

The report is wide-ranging, looking at the global context within which employment developments in the Community are taking place, as well as at sectoral and other trends within Member States. A wide range of policy issues are addressed and wherever possible relevant data are presented and analysed in an attempt to improve our understanding and identify potential courses of action. Nevertheless, the task we faced was vast and this first report could not expect to cover all relevant aspects of employment. Whilst it looks at many aspects of the quantity and quality of jobs being created, it does not cover financial issues - wage and salary policy, or the effects on employment of the way social security systems or continuous training schemes are financed - in any detail. Nor do we

say much about employment policies pursued by companies, or about the role of the social economy and co-operatives. These issues, and wider concerns such as for the environment and their consequences for employment, are ones that we intend to address in future reports.

Three points in particular strike me in this first report. Firstly, despite considerable improvements in the economy and in employment in the recent past, the European Community remains substantially under-employed. I do not refer just to those who are unemployed, although their plight, especially those who have been out of work for more than a year, is particularly serious. I mean also that many more people than those at present in employment would wish to work, if work were available. This is especially the case for large numbers of women. Unemployment remains unacceptably high and the rate of employment in the Community, compared with the number of people of working age, is substantially below that in other industrialised parts of the world, the United States, Japan and the Scandinavian countries. We are the poorer in consequence.

Secondly, it is still the case that unemployment and work opportunities in the Community vary considerably from region to region and from locality to locality. It is unfortunate but true, that a person's chances of finding a job which suits their particular skills and talents depends to an important extent

on where they live or, indeed, on where they happen to have been born.

Thirdly, we know the Community's future depends on the quality of what we produce, but we have been slow to recognise that quality in the market place depends on quality at work. Better jobs = better workers = better products and services. Higher standards - whether they be to do with training, working conditions, or workers' rights - pay off. Jobs do not need to be bought at the expense of working conditions or basic social rights. In this context one can see already some serious mis-matching occurring with respect to the demand and supply for highly qualified people.

This report will be discussed at Community level by representatives of business and trade unions and by government Ministers, and the Council of Ministers will be asked to agree policy guidelines arising from it. However, Community support for employment is both multi-dimensional and interwoven with policies developed at national, regional and local level. Hence, I believe that this report should also be widely read in the Member States by all those concerned with employment. The facts and issues raised, and presented, in this report can be the basis for substantive debate. I hope that the report, and its successors, will make a significant contribution to developing the social dimension of the Internal Market and improving the employment performance of the Community.

Vasso Papandreou

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## Summary and Conclusions

### Introduction

This 1989 Employment in Europe Report is the first of a series which will be produced annually. It is aimed at a broad readership in the Member States covering business, trade unions and interest groups as well as governments.

Employment and its shadow, unemployment plays a central role in the lives of the Community's population. This report takes a broad view, covering many aspects of employment. It aims to provide a sound basis for debate and discussion about the future development of employment in the Community.

In the report, the Community is regarded as a 'heterogeneous whole'. This approach recognises that while the Member States have a great diversity of living standards and levels of economic development as well as a rich variety of cultures, their common stake in the future of a more integrated Europe is paramount. Behind the obvious differences, there are common interests. While cultural diversity will remain, the process of social and economic integration has the potential for raising living standards and opportunities, particularly for the most disadvantaged groups of the population and areas of the Community.

Community employment needs to be analysed as a whole. The inter-relationships between Member States are becoming more import-

ant almost daily. This Report focuses on the effects of this growing interdependency, including the impact on employment of the completion of the Internal Market by 1992. It also considers the effects on employment of the inter-relationship between the Community and the rapidly changing wider world economy.

Employment cannot be viewed in isolation. Policies for employment and the labour market need to be integrated into, and be coherent with, the Community's overall economic and social policies. This Report gives a new emphasis to employment policies and measures throughout the Community. Such policies must build on the existing motors of economic growth - the completion of the Internal Market, better economic co-operation, and continued progress towards economic and monetary union - and they must be grounded in a strengthened Social Dialogue and in the development of the social dimension of the Community and the Internal Market. It is particularly necessary to ensure that the structural policies that have been put into place achieve greater cohesion and the reduction of regional disparities by ensuring an equitable distribution of the benefits of the Internal Market to all parts of the Community and all social groups.

### Achievements

The memory of the crisis in employment of the early 1980s, from which it took the Community several years to recover and from which a high level of unemployment still remains, can easily obscure the very real achievements of the Member States since the inception of the Community. The Community has maintained its position as one of the pre-eminent economic forces of the world. Over the past 30 years, living standards have doubled and there has been a three-fold expansion in its capital base.

Since the full employment days of the 1960s and early 1970s gave way to the recession of the mid-70s and the first half of the 1980s, however, the Community's economic performance has been well below potential. Even in the more successful areas, there has been a failure to translate positive economic performance into sufficient job creation to prevent a sharp rise in unemployment.

The restructuring of the economies forced on the Member States by the increasing competition from both established and newly industrialised nations and by economic recession brought serious losses in industrial employment to the Community. Unemployment rose each year after 1973, most sharply between 1974 and 1977 and between 1981 and 1986. Many major industries went into serious decline, the poorer, often agricultural, areas

saw their hopes of economic advance halted or reversed, and many urban areas suffered serious deprivation. Older workers who lost their jobs found themselves seemingly unemployable ten or more years before they had expected to retire, while the young seeking to enter the world of work had to compete for a trickle of jobs where previously there had been plentiful choice.

Those momentous upheavals, and the social impact that they have had, are the ever present backdrop to the issues raised in this Report. They affect virtually every Member State, every area, every trend and every statistic covered by this Report. They provide the context in which the Report is firmly rooted.

Over the past four to five years the process of recovery has begun - slowly at first but increasing in strength over the last two years. This has made it possible to more than repair the damage to employment brought about by the recession, but it has still a long way to go if it is to bring unemployment back to the sorts of levels which are considered socially acceptable.

It has still not begun to make any impression on the problem of long-term unemployment which has grown in scale over the past five years and it will not of itself eradicate pockets of acute regional or local unemployment.

## Trends

Several important themes illustrating the current state of employment in the Community recur throughout this Report.

Firstly the economic conditions which gave full employment prior to 1973 - at least in northern areas of

the Community - will not recur, at least in the form that they took then. The days when whole economies or regions could be dependent on heavy industry with vast workforces in individual factories are gone. Either the products or the technology of the industry have changed, so that the pattern and content of the work remaining is totally different, or the work is now done elsewhere in the world where the countries are in an earlier stage of development, where labour costs are substantially lower and where plants are often more modern than in the Community.

Replacing these jobs on the scale required has proved difficult. Competition between Member States to attract international investment - such as vehicle production plants - or to win international orders for existing industries by going to the limits of subsidy allowed within Community competition regulations have been one line of attack. Valuable as such investment is, there should be no illusions about the limited extent to which this sort of strategy can compensate for the jobs lost and play a central role in ensuring recovery. Much employment growth in the future will be more home-grown, with an important component coming from new and expanding small and medium-sized businesses. New factories employing 10, 15 or 20,000 people are a feature of China and the Pacific Basin, not of Europe today.

Nor is the long-term decline in agricultural employment likely to be reversed. Increased environmental concerns and the possibility that very different production methods may need to be developed over the coming years could well alter the content and structure of agricultural work, and may even slow the job losses. Answers to the problems of

rural depopulation are not seen to lie very much in this direction, however. Rather there is a need to create more vigorous, diversified local rural economies which can exploit human or physical resources in seeking new employment opportunities.

Secondly, the European Community is currently at an exciting but also uncertain point in its history. Several years of economic growth and three years of slowly declining unemployment have brought renewed confidence and optimism. Indeed the functioning of the Community economy has fundamentally improved. This has been due to a number of factors: the prospects opened by the Internal Market; the structural policies implemented for almost a decade; the increased profitability of investment. But there are now concerns about inflation and about diverging developments in external and budgetary balances between the Member States. These problems will have to be solved rapidly to ensure a continuation and strengthening of the current favourable performance. From the point of view of employment and the reduction of unemployment, the recovery is still in its early stages and care is needed to ensure that it continues and flourishes.

These concerns are balanced by the positive aspect of uncertainty - the impact of the completion of the Internal Market by 1992 and its related social and environmental dimensions. The effects of the Internal Market should be growth-enhancing and job-creating if the correct macro-adjustments are made in order to cope with the increased efficiency that it should bring, but the detailed impact that it will have on different sectors or areas of the Community is less

clear. It should increase the wealth of the Community but it should also be recognised that the benefits will not automatically percolate through to the most deprived countries and regions of the Community. Policies to assist the catching up process of the less developed regions need to be fully implemented in order to ensure that divisions within the Community diminish.

Thirdly, two general and inter-related trends can be extracted from the evidence in this Report - the growth in the relative importance of employment in the service sector or service-type jobs, and the rise in the number of part-time and temporary workers. The service sector now accounts for over 60% of employment in the Community, compared with little more than 40% twenty years ago. While part of this shift is a 'statistical illusion' - the result of industry increasingly contracting-out business services such as cleaning and computing to firms who are classified in the service sector - the changes are far more extensive than this and reflect a major restructuring of the way we live our lives, as well as the way we work. Services - whether these are to households or to businesses - will be the source of new employment growth in the Community in the coming years. This will bring many changes in its wake since the nature of much of service employment is very different from that of industry - there is a greater concentration of small businesses, the skill mixes are different and the work content can change rapidly as technology enters into what are still, in many cases, relatively low productivity activities.

Many of the jobs created as a result of the recent upturn in the Community economy have been part-time and temporary jobs in the service sectors, the majority of

which have gone to women. While this has helped bring greater access to employment for women, the quality of many of these jobs has been questioned. It can also be asked whether they can be seen as a main household income or simply as a supplement, given that many are relatively lowly paid. Moreover, it has not done much to reduce unemployment since many of those new jobs have been out of reach of those, especially men, who lost their jobs as a result of the structural upheavals of the early 1980s. As the maps in Chapter 5 show clearly, the service sector job gains have often been in areas well away from those where industrial jobs have been lost.

Fourthly, the proportion of the population of working age who are actually in employment is markedly lower in the Community economies than in comparably developed countries such as the United States, Japan, and other non-EC European countries. This low overall Community employment both reflects and contributes to the poorer overall economic performance of the Community. Until recently, the rate of employment had declined almost continuously from 1970, with a particularly sharp fall from 1980 to 1984. Since then the Community has started to pull back, but the gap is wide - Community employment rates are currently well below 60%, whereas in the other countries mentioned they are over 70%.

Increasing employment rates, both by bringing the unemployed back to work and by attracting women and possibly older former workers back into the labour force, has a stimulating effect throughout the economy which enhances growth and prosperity. While the importance of the ratio between the number of working and non-working members of

the population seems to have obvious implications for the European economy and society as a whole, this aspect has been largely neglected in previous explanations for the poorer performance of the Community economies. For example, average income per head of population in the United States is some 50% higher than in the Community of 12. Part of that difference can be explained by higher United States productivity and part by the presence of some very poor areas in the Community. However, some half of the difference in income per head of population between the United States and the Community can be explained by the fact that a far lower proportion of the Community population of working age is actually working and generating income.

This relates strongly to the fifth and final point. Demographic trends predict that, by the mid 1990s, the number of older workers retiring each year will be higher than the number of young people entering the labour market. This demographic 'time bomb' has major implications for the labour market and for social policies in general. It could prove a constraint on growth with skills and labour shortages, or it could become a major opportunity to take a more positive approach to expanding employment and incomes and to reducing unemployment, particularly if appropriate training is made available.

## Policy considerations

This Report brings together material from a wide range of sources. From these various strands, a number of lessons can be drawn which should be used as a basis for developing the employment aspects of Community policy.

The Community is a political, economic, social and environmental entity, and membership involves a recognition of common interests and a commitment to pursue common goals for the collective benefit of all Member States. Hence, problems raised by the very different stages of economic development of the Member States need to be tackled. A balance needs to be maintained between the pursuit of high economic growth, the more equitable distribution of that growth, and wider social and environmental concerns. The emphasis on the catching-up process for the poorer countries and regions is intended to ensure that a disproportionate amount of new jobs are created in those areas, but it should be done in a way which does not impose unacceptable adjustment costs on the more prosperous areas of the Community, and which does not involve reducing accepted social standards.

### **Community Employment and the World Economy**

As we see in Chapter 3, European employment is increasingly affected by economic and social developments in the world at large. Factors which are largely out of the control of Member States can be important determinants of the Community's level of activity. Global markets are developing but geographical factors can still play a role. Employment growth in the Community may have been restricted, for example, not only by its own poor economic performance but by that of its geographically proximate trading partners such as the Middle East, Africa and Eastern Europe. The United States and Japan have done comparatively well, in contrast, thanks partly to the increasing importance globally of the Pacific

basin to which they have natural geographical links.

The Community is one of the most important actors on the world economic stage. It plays a key role in achieving economic growth through liberalisation, both in Europe itself and in the world trading system. Employment depends heavily on the competitiveness of industry. To achieve this, the Community aims at creating the most favourable economic conditions. The policy it follows and develops within its boundaries is an important determinant of growth elsewhere, particularly for some weaker and less developed economies. Protectionist pressures which serve to impoverish all sides in the world economy are being resisted, and the Community must exploit the benefits of trade especially with respect to services, and be aware of the implications for Community employment of the world role played by the newly industrialised countries.

### **The Employment Content of Growth**

Employment strategies of companies will, over the longer run, reflect the availability and relative costs of capital and labour. Part of the pressure to cut back on labour during the years of recession came from the continued high growth of real wages but, in recent years, these pressures have subsided. As a consequence of this, and other factors, the employment content of growth has increased substantially.

Chapter 4 demonstrates how labour intensive growth has become a positive force whereas, in the past, it had been linked with concerns about low productivity and competitiveness. Now economic growth of

4% a year is likely result in a 2% rise in employment, whereas the same rate of economic growth would have resulted in employment stagnation 15 years ago. This is a healthy development at the present time since the potential Community labour force is seriously under-employed. Continued moderation in the growth of real labour costs is an essential component for the maintenance of this high employment content of growth.

### **Sectoral Employment Impact of 1992**

Chapter 5 presents a first overall analysis of the sectoral employment consequences of 1992, and shows how the removal of trade barriers should allow the exploitation of economies of scale and strengthen competitiveness. An industry by industry analysis of the impact of the 1992 changes demonstrates that the scope for growth and increased profitability is enormous but that different sectors face different challenges. Half of industrial employment in the Community is in sectors which are potentially sensitive to the impact of 1992. Various categories are identified - the competitively weak industries (which include high technology industries), industries where rationalisation is likely (including pharmaceuticals and drinks) and those (including many consumer goods) where changes in distribution could be considerable.

Preliminary indications also suggest that some service sectors - particularly market services - could be particularly sensitive to the opening of frontiers. Maximising the beneficial effects of the 1992 changes will require positive and sustained action from all parties involved in the economic process,

including efforts to ensure that problems of social dumping which threaten social standards do not arise.

### **Job Quality - For Better or Worse**

An important debate is emerging over the issue of the quality of jobs, outlined in Chapter 6. The shift of employment away from heavy industry with its dirty and unpleasant factories to lighter manufacturing and services can be said to have created more pleasant work environments. However, there has also been an increase in unskilled, part-time and temporary jobs which may be in offices rather than factories, but which may offer little job satisfaction or scope for personal development. It is difficult to get to the bottom of many of these issues because information is limited or patchy. However, the Report points out that the unchecked growth of alternative contractual forms of employment could result in large proportions of the workforce not being properly protected by existing legislation. The Report also brings out the importance of small and medium-sized businesses and of self-employment in total employment.

### **Women's Employment**

The position of women on the labour market, examined in Chapter 7, is still much inferior to that of men. Despite progressive legislation, and 15 years of work by the Community in promoting equality, women remain concentrated in a lower and more limited range of activities, in inferior grades of job and, above all, in part-time work. Yet, demand for their labour has never been higher. To ensure that women are adequately protected in their new jobs, more comprehensive legislation on

part-time and temporary working is needed in many Member States, as are improvements such as better child-care arrangements. The new position of women as an integral part of the labour force, and not just occasional earners of secondary incomes, needs to be recognised by both changes of attitude and legislation.

### **The Demographic Time Bomb**

The analysis of the demographic 'time bomb' in Chapter 8 raises concerns over possible labour shortages in the 1990s and beyond. Falling birth rates, combined with increased longevity of the population, means that the Community population is ageing and the number of net entrants to the labour market could fall to close to zero by the time that the Internal Market becomes a reality. Labour shortages are unlikely to be filled by renewed migration. Large scale labour movements across the Community are a thing of the past - even the extent of the moves from the countryside to the towns has dwindled. Moreover, demographic patterns have changed dramatically. Southern European countries no longer have high rates of population growth and there is thus little likelihood that such countries will want, or be able, to fill labour shortages in the North.

Employers in many Member States, who are looking to expand their labour force in the years ahead, are going to have to adjust to a situation where there will be many fewer young people joining the labour market each year from whom they can pick and choose. They will be obliged to consider other options - recruiting older workers, re-integrating those who have been unemployed for a long time, or seek-

ing to attract more women to work. Companies are likely to have to make much better use of their existing labour force by improving their skills and abilities through training, and to make it more attractive for existing workers to remain with the firm when family or other commitments create pressures to leave, for example by providing child care and other facilities.

### **Vocational training and employment**

Education and training are at the heart of Member States' responses to the structural changes taking place in the Community, as presented in Chapter 9. However, there are serious doubts about the extent to which the current education and training systems are sufficiently geared up to meeting the needs of the 1990s and following decades.

Standards of qualification among school leavers are often low, the Community compares badly with similarly industrialised countries with regard to the numbers of students recruited into technology courses, and much of training is still not adapted to labour market needs.

At national level, many new forms of co-operation between government at all levels and the two sides of industry, and new patterns of financing are developing with the growing recognition that urgent and extensive action is needed. At Community level increasing co-operation between the Member States, particularly within the framework of a series of action programmes and with the support of the European Social Fund, is bringing positive results, both in terms of the scale and quality of vocational training. Despite these develop-

ments, the Community's current rate of investment in its people looks to be well below that needed to match its economic and social aspirations.

### **Unemployment - A Social as well as a Labour Market Problem**

Unemployment, covered in Chapter 10, has been an unwelcome and persistent feature of the European labour market for over a decade. While the long period of increasing unemployment has at last ended, the statistics show that there is a large pool of long term unemployed, effectively excluded from new job prospects because of where they live, their lack of skills or a general inability to cope with the requirements of getting into a new job or way of working. Help is needed to avoid the development of a two-tier society.

The problems of youth unemployment have not gone away just because the unemployment rate has fallen slightly and because fewer young people will enter the labour market in the coming years. Those under 25 have a significantly higher rate of unemployment, generally double those over 25. These people represent a substantial percentage of the Community's future labour force and policies catering to their needs must be implemented, particularly through better educational and training support for both the existing and forthcoming generations of young people.

Unemployment has also contributed to serious problems of poverty among middle and younger age groups in the Community, counteracting advances made in reducing poverty among older people in many Member States through

the strengthening of retirement pensions. A worsening of the income distribution in many Member States is, similarly, a reflection of the divisive effect of the recession on the structure of European societies.

### **Black Economy**

In Chapter 11, the role and growth of the black economy is examined. The previously sharp division between those in work and those out of work, when most people worked for a large employer, is breaking down. The exact definition of 'work' is fuzzier in the context of the new, looser contractual forms of employment and as more people work as self-employed. Labour market flexibility and the growth of these new forms of work pattern have encouraged a new type of black economy. Older forms of black work - especially in economically marginal and agricultural areas - persist, but largely as a survival strategy. More black work seems to be carried out by people already employed, doing a similar job outside working hours or employing some additional skill to earn extra income, than by the unemployed who generally lack the skills and capital to undertake such work, and live in depressed areas where there is little demand for such work anyway. While the black economy is undesirable and socially divisive, it may at times be a response to inflexible legislation (multiple job holding, for example, is difficult to incorporate in many social security systems) and can be an outlet for embryonic entrepreneurial initiatives which may later result in the creation of legitimate, and job creating, business enterprises.

### **Technological Change - A Strategic Challenge for Employment**

Chapter 12 suggests that fears of technological change have been exaggerated. While many workers have been displaced from traditional industries, the overall impact of new technology has been employment-creating. Technological changes have spread throughout industry and service sectors. The impact on the volume and content of jobs has been substantial. Structures of employment at company, sectoral and overall level will continue to need to be adapted. Co-operation between the two sides of industry may need to be strengthened in consequence. The future development of employment in the face of technological change is increasingly dependent on strategic factors such as the competitiveness of European companies in the context of the completion of the Internal Market.

### **New Partnerships in Employment Creation - Local Development**

In Chapter 13, the growth of new types of initiatives to promote jobs is illustrated. Local development strategies have arisen out of the need of localities to reverse their economic decline. While their primary aim is to combat unemployment, they have often focused on new business creation or on economic development as the principal means to that end. Training, including the development of entrepreneurial and managerial skills, has been an important tool in equipping the local labour force to create and develop new opportunities in the face of the drastic changes that have taken place in their communities.

These initiatives have grown in sophistication in recent years and now often involve more formalised links and closer co-operation between the partners in the economic process - local authorities, national government, local industry, the co-operative movement, the voluntary sector and trade unions. Such initiatives are not a low-cost alternative to infrastructure investment, but rather a complement designed to maximise the use and potential of local human talents and resources which, combined with finance and investment, can provide the impetus for recovery in such areas.

## **Mobility and European Labour Market**

Chapter 14 shows that labour market integration and mobility between the Member States is rather low. Less than 2 million Community citizens are working on a permanent basis in another Community country. Yet over three-quarters of the European population sees the possibility of working in another country as an important advantage of being part of the Community. This means that if the right conditions are brought about by the Community, there could be an increase in mobility, although non-legislative barriers such as language and housing remain. The likely outcome is a gradual though progressive increase in the general level of Community wide mobility, led by the more highly skilled who have the most to gain from a move.

## **Commission Objectives**

The Commission wishes to see a European Community with much higher rates of employment, and

much lower rates of unemployment. The achievement of these objectives does not require new policies but it does require a much more effective co-ordination of existing policies around a clearer recognition of the importance of achieving an early improvement in the Community's employment performance, and a recognition of the obstacles that need to be overcome.

Interdependence is growing and greater convergence is being pursued in the Community. Social as well as economic differences need to be addressed together in order to allow a European labour market to become a reality.

The Commission is adopting such an approach with respect to its own responsibilities - the development of the Internal Market including its social dimension; the reinforcement of its role as a partner in world trade; the use of the Community Structural Funds, particularly in the context of the catching-up process of the less developed areas; specific action programmes which pursue certain policy objectives; general policy orientations; information systems.

## **Prospects**

Recent improvements in economic performance are encouraging. For several years economic growth has accelerated year by year to reach more than 3.5% in 1988 with an employment growth of 1.5%. This year, despite some fears regarding inflation, economic growth should also be well above 3% and the employment performance should continue to be favourable. The employment content of growth - the number of jobs created per unit of economic growth - remains high.

The medium-term outlook can be considered optimistic if economic policies can successfully tackle current macro-economic imbalances and build on the underlying structural improvements. Employment growth has become an established feature of the Community's economy and employment now exceeds the pre-recession level. Nevertheless, the proportion of the population of working age which is in employment is still below the level achieved at the end of the 1970s. Furthermore, with the growth of part-time employment, the overall volume of employment has grown much less, if at all. Indeed, many of the new jobs created over the past three or four years have been in the nature of a catching-up by those Member States which lost employment most heavily in the early 1980s. The importance of achieving a sustained improvement in the long-term employment performance cannot be overstressed.

The employment problems of the Community cannot be tackled merely by stronger economic growth. Nor can growth be pursued as an end in itself. Environmental and social objectives need to be respected, and the Community may promote employment and income growth in the developing countries of the world by its trade and external policies.

Structural policies, including training and actions to develop the entrepreneurial capacities of the Community's human resources, have a vital role in ensuring that the opportunities of 1992 are translated into employment benefits. The completion of the Internal Market offers the right economic environment, but this opportunity needs to be grasped and built on.





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## **Part I - Economic and Employment Prospects**

**Chapter 1    Employment in the European Community  
                  Sectoral Changes in Employment**

**Chapter 2    Short-Term Outlook**



## Chapter 1 Employment in the European Community

*Employment has been growing by well over 1 million jobs a year over the last two years. How rapidly will this bring down unemployment? What are the major changes taking place in the structure of Community employment?*

### Introduction

Since its inception, the European Community has maintained its place among the most successful economies in the world. Over the past 30 years, it has doubled its living standards, it has expanded its capital base three-fold and it has used its additional wealth to improve the quality of life through better environmental, health and safety standards.

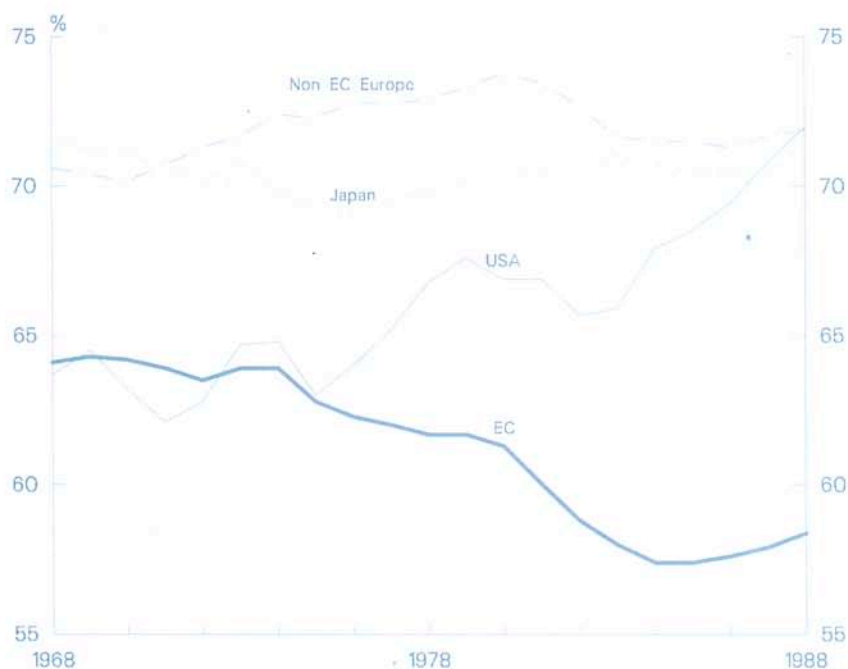
However, the Community's economic performance has for many years been well below its potential. Moreover, it has been less successful than some other countries and economic groupings in translating its economic performance into employment. In the past two years there has been a substantial improvement. However, this progress is still not fully assured and the legacy of the past remains.

The proportion of the potential working population actually in employment in the Community is well below the United States, Japan and many non-EC European economies (Graph 1) and lack of job growth is reflected in continuing high levels of unemployment (Graph 2).

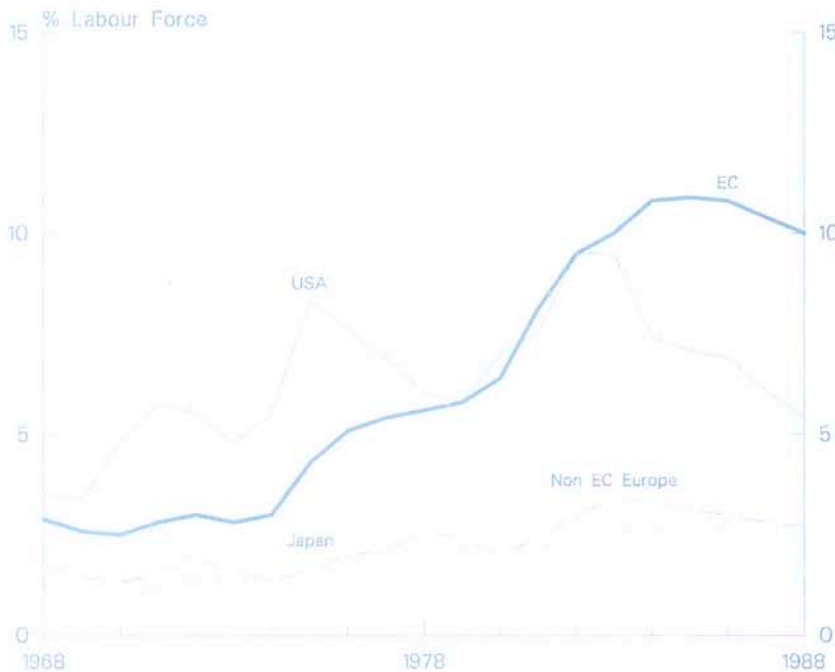
This is both a social and an economic problem. Problems of poverty have been severely aggravated by unemployment and social advances have been halted or even reversed. Low living standards persist in many places, particularly in southern and peripheral areas but also in

many urban communities. Young people in particular have suffered from the lack of job opportunities. At the same time, the output lost due to this under-utilisation of the Community's productive potential and the financial costs of unemployment (in terms of transfers and

### 1 Employment Share of Working-Age Population in the Community and Elsewhere 1968-1988



## 2 Unemployment Rates in the Community and Elsewhere 1968-1988

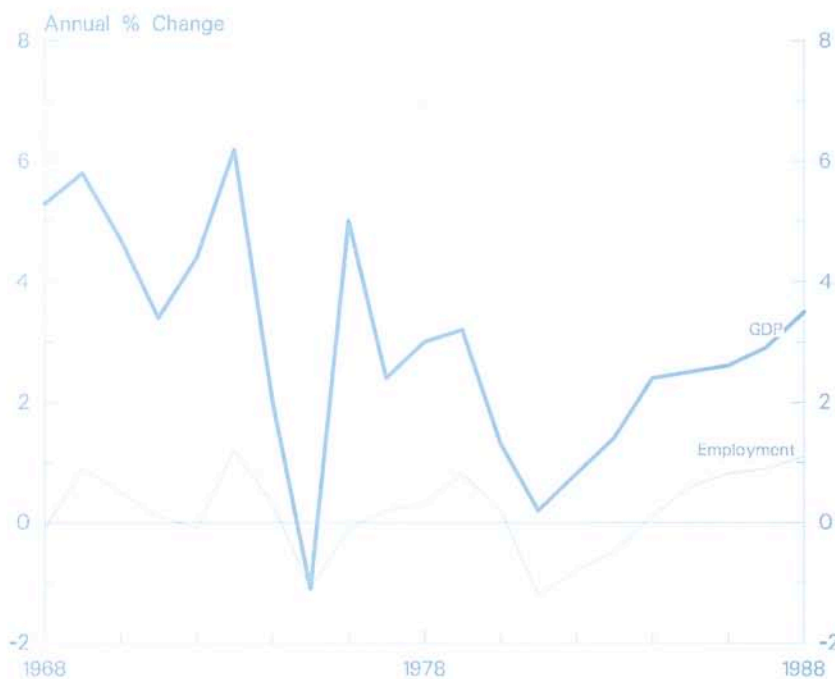


losses of tax revenues and social security contributions) has been a serious handicap for the Community in its economic relationships with the rest of the world.

## Historical Developments

Some countries managed to keep unemployment rates consistently low throughout the 1970s and 1980s (e.g. Japan, Switzerland, Sweden). Others saw unemployment rise quickly after the two oil price shocks but were able to recover sufficiently to be able to reduce unemployment to more or less previous levels (e.g. the USA, Canada, Australia). The Community achieved neither and was unable to prevent unemployment from doubling both in 1974/76 and again in 1981/85.

## 3 Employment and GDP Growth Trends in the Community 1968-1988



The large increase in the number of people - young people and women - entering the labour market in the Community in the late 1970s and early 1980s did not make the task of reducing unemployment any easier but it did not justify the Community's poor performance either. In many other industrialised countries, the labour force increased considerably faster than in the Community, and it did not prevent them from keeping their unemployment low or bringing it back to a low level.

The explanation of continued high levels of unemployment in the Community lies not so much in an excess supply of labour but rather in an inadequate rate of new job creation.

Since the 1960s, both the USA and Japan have consistently created more jobs than the Community. In both countries, in the period since 1973, a major reason has been the

higher rates of economic growth achieved, in the US by internal expansion, in Japan by export success. Both countries managed to increase employment creation per unit of extra output over this period as compared with the earlier post-war years. In the Community a similar trend is evident (Graph 3), but the rate of growth in too many years was not enough to prevent employment from declining.

### Recent Developments

Over the past two years, the labour market situation has improved considerably. The improvement in the economic climate and the expectations created by the Internal Market are bearing fruit.

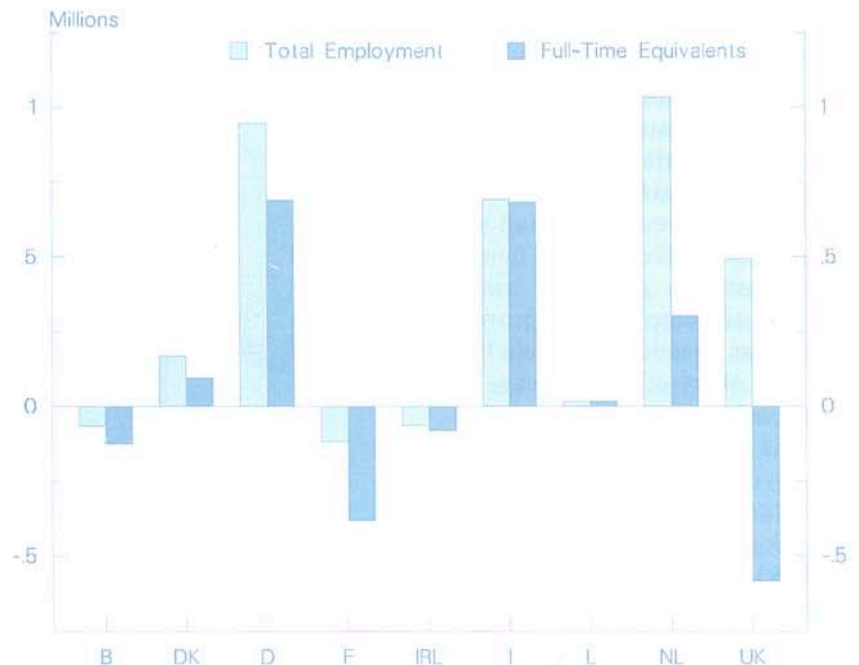
The rate of economic growth in the Community has moved above 3% a year and Community employment - which currently stands at over 125 million - has been growing by almost 1% a year more than could be expected from the past relationship between output and employment (Graph 3).

New jobs and new patterns of employment are developing and there is considerable confidence for the future. While this is a very positive development, its significance should not be over-exaggerated.

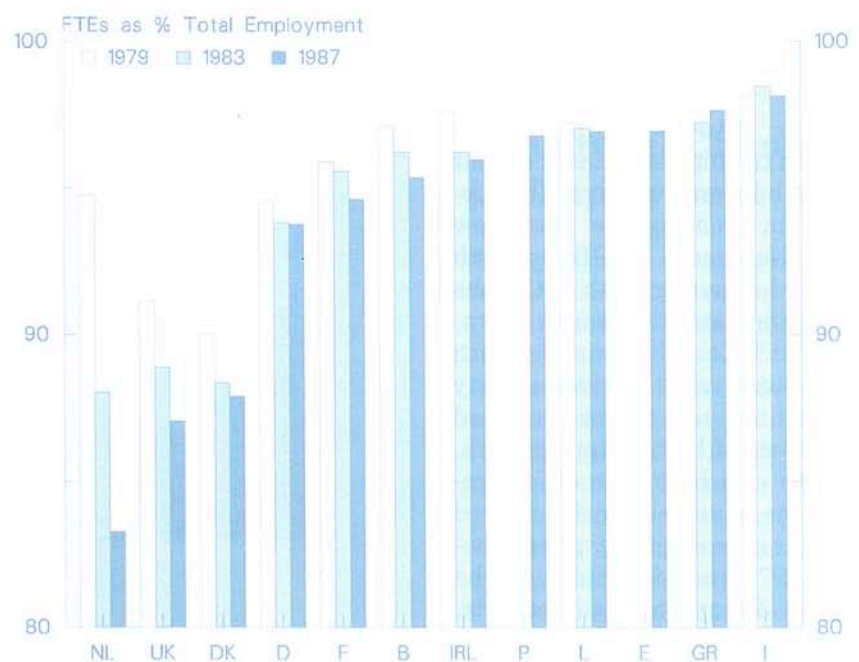
The growth in the volume of employment - number of jobs x average hours - has increased much less than the number of jobs (Graphs 4 and 5) because much of employment growth since 1983 has been in part-time working, particularly in the service sector. With only one or two exceptions, this is a common trend in all Member States.

Graphs 6-9 show the changes in employment, working-age population,

**4 Change in the Number of Persons Employed and Full-Time Equivalents in the Member States 1979-1988**



**5 Volume of Employment - Full-time Equivalents in Relation to the Number of Jobs in the Member States 1979/1983/1987**



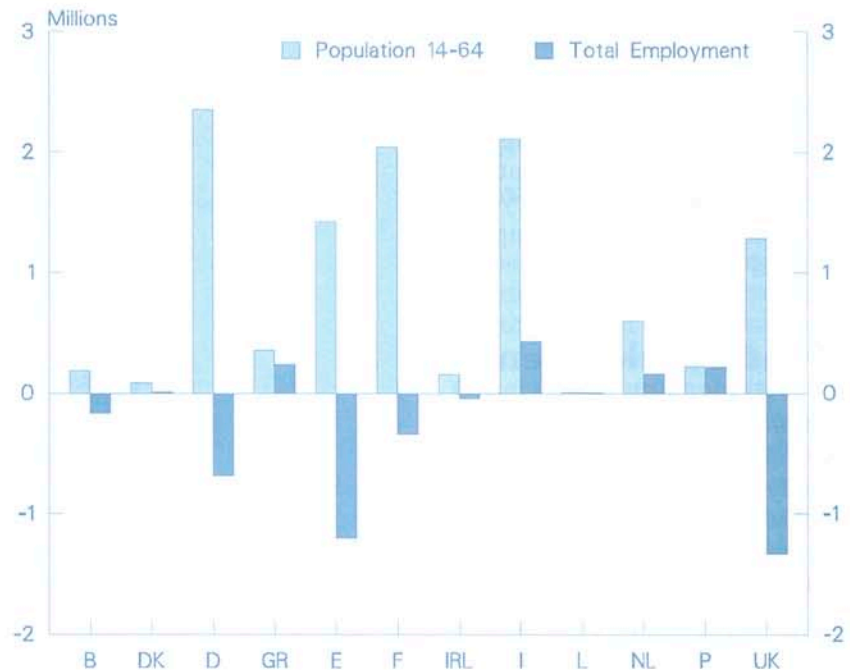
output and productivity in the two periods 1979-84 and 1984-88 in the Member States. No common pattern is evident.

The largest increases in jobs have not necessarily been in countries where the need for more jobs has been greatest because of population growth. In the period 1979-84 when working-age population grew most rapidly, employment fell in half the Member States (Graph 6). Though employment has generally risen since then, the employment growth over the last decade as a whole has fallen well short of the increase in people coming onto the job market which has contributed to the rise in unemployment.

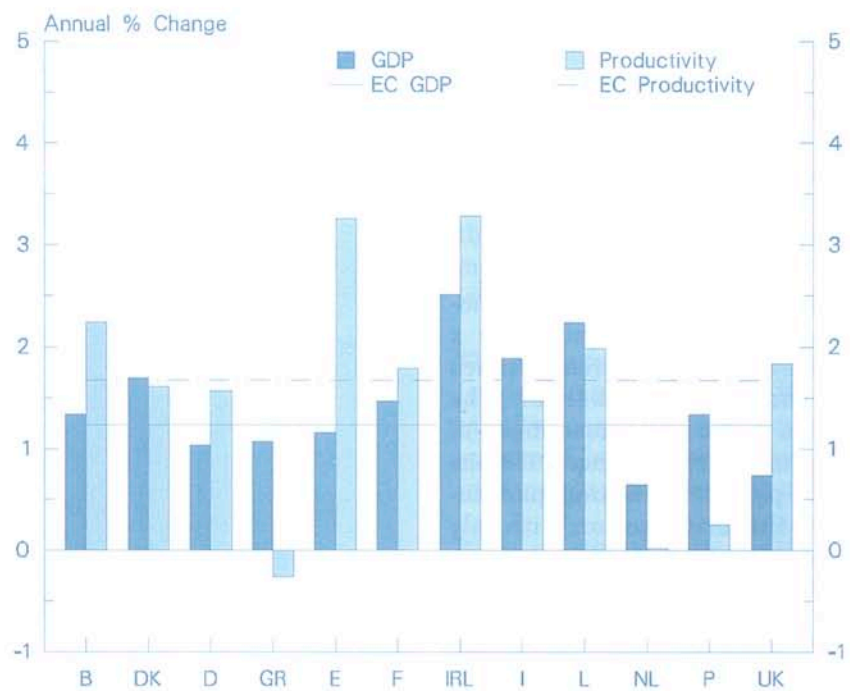
The bulk of employment growth since 1984 is accounted for by three Member States (the Federal Republic of Germany, Spain and the United Kingdom) which have, in effect, been largely making up for substantial job losses suffered in the preceding five years. Those Member States which managed to maintain employment during that period have experienced only a small increase in employment since.

Member States which have achieved the highest rates of output growth have not necessarily succeeded in creating the most new jobs. (The excess of GDP growth over productivity growth in Graphs 7 and 9 indicates the growth of employment.) Equally, countries with the highest rates of productivity growth have not thereby assured themselves of high output growth, still less of a high rate of job creation. The countries which achieved the highest productivity growth between 1979 and 1984 did so at the expense of employment. Similarly, countries which have achieved above average productivity growth

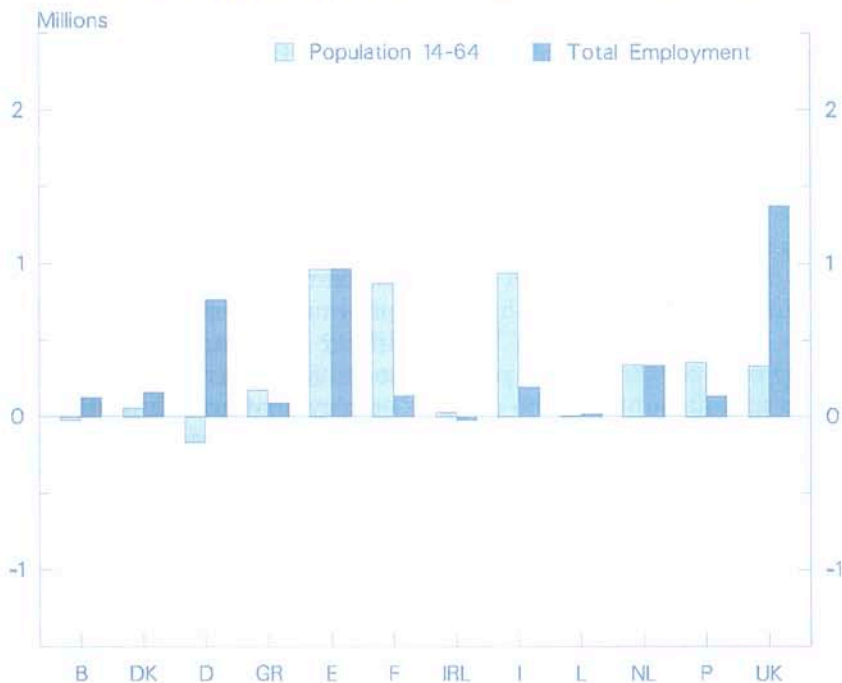
### 6 Employment and Working-Age Population Growth in the Member States 1979-1984



### 7 GDP and Productivity Growth in the Member States 1979-1984



### 8 Employment and Working-Age Population Growth in the Member States 1984-1988



since 1984, Italy, Portugal, Ireland and France, have had among the lowest rates of job creation, the United Kingdom being an exception.

The extent of the Community's unemployment problem should not be under-estimated. Unemployment has become deeply rooted - half the present number of unemployed have been out of work for more than one year. Even if the present economic performance continued into the medium term it would still only bring unemployment down by 0.5% a year, which would mean the unemployment rate in 1995 still being above the 1980 level.

### 9 GDP and Productivity Growth in the Member States 1984-1988



That unemployment is falling at all does, however, reflect a major improvement. It partly results from a significant change in the relationship between economic growth and employment creation. In the 1960s and early 1970s, 4.8% annual GDP growth resulted in an employment increase of only 0.3% (see Graph 3 above and Chapter 4). If the same relationship still applied today's 3% economic growth would be accompanied by stagnation or even reduction of employment.

### Structural Changes in Employment

The past two decades have seen major structural changes throughout the Community.

In the period from 1960 to 1987, employment in agriculture fell steadily from 23% to only 8% of the total numbers in work, while employment in services has gone from 37% to 60%. Employment in industry remained constant at around 40% of the total, but had fallen to 33% by 1987 (Graph 10). A section at the end of this chapter presents

the developments in more detail and looks, in particular, at the Community-wide impact of these changes.

At the same time, there has been an increase in the importance of smaller firms. Although this tendency has sometimes been exaggerated, small firms nevertheless account for a significant and growing proportion of employment across the Community, and a particularly large proportion in some of the smaller economies (see Chapter 6 and Graph 11).

Along with these changes have come other structural changes, in the age-composition of the labour force, in the pattern of hours worked and, most notably, in the employment of women. Fluctuating birth rates have brought uneven population growth of particular age groups throughout the Community.

Equally, trends towards shorter working hours, albeit at a lower rate than often imagined (Graph 12), and shorter working lives, have combined with increasing female participation in the labour market and changing employment practices by firms to change the pattern of working hours.

The number of women in employment has increased in all Community countries (Graph 13). Female participation rates have risen by 6% over the last 15 years. Women now account for 38% of all those in work in the Community, but only some 35% of the total volume of employment (Graph 14). This reflects the fact that many more women than men work part-time.

Indeed, part-time working is largely a female phenomenon, especially in older age groups and among women

with children. For many it represents an opportunity to work hours that suit them. For many others it reflects a failure to find a full-time job. The EC Labour Force Survey suggests close to 30% of those working part-time are doing so because they cannot get full-time work (see Chapter 7).

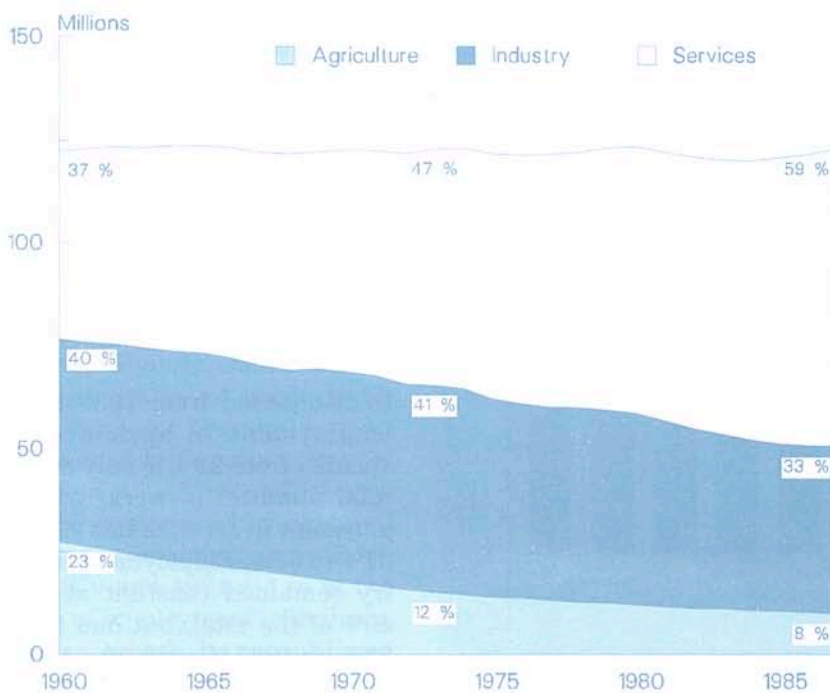
As far as future labour supply is concerned, wide divergences in the pressure of population growth are likely to remain between Community countries. In a number, employment growth is still insufficient to compensate for the growth of working-age population and the rise in activity rates.

Though far removed from immediate concerns about there being too many people in relation to the jobs available, demographic trends are set to change in the longer term causing quite different kinds of problem. In the northern parts of the Community, the working population is likely to decline over the next 30-40 years, but since little growth is foreseen in the south, countries like the Federal Republic cannot look to southern countries to be a source of labour to compensate for their own prospective shortfalls.

The content of the jobs being created, the context in which they take place, the sort of people who perform them and the type of goods and services which are produced have also varied considerably.

These movements are less easy to analyse statistically. Because of the speed of change in economic life and/or relative slowness in understanding, conceptualising and describing such changes, there is little hard data about new areas of employment growth or new types of jobs compared with the wealth of material on older and declining ac-

## 10 Sectoral Employment Trends in the Community 1960-1987





tivities. Statistics on employment in the coal and steel industry, for instance - which now only employs 650,000 people - are far more detailed than those for business services which employ over 4 million people within the Community.

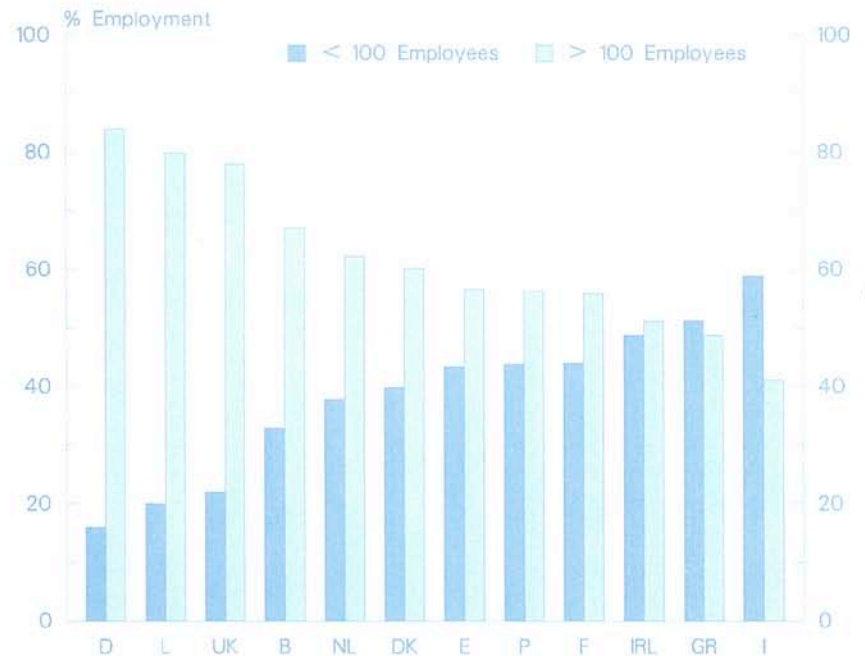
It is important to develop better data on such matters as job quality (Chapter 6) and also to seek to examine the more fundamental changes taking place both in the European Community and in the rest of the world (Chapter 3). Since the Community is such an important part of the global economy, it is necessary to consider prospective developments in a wider context.

## Unemployment and Equality

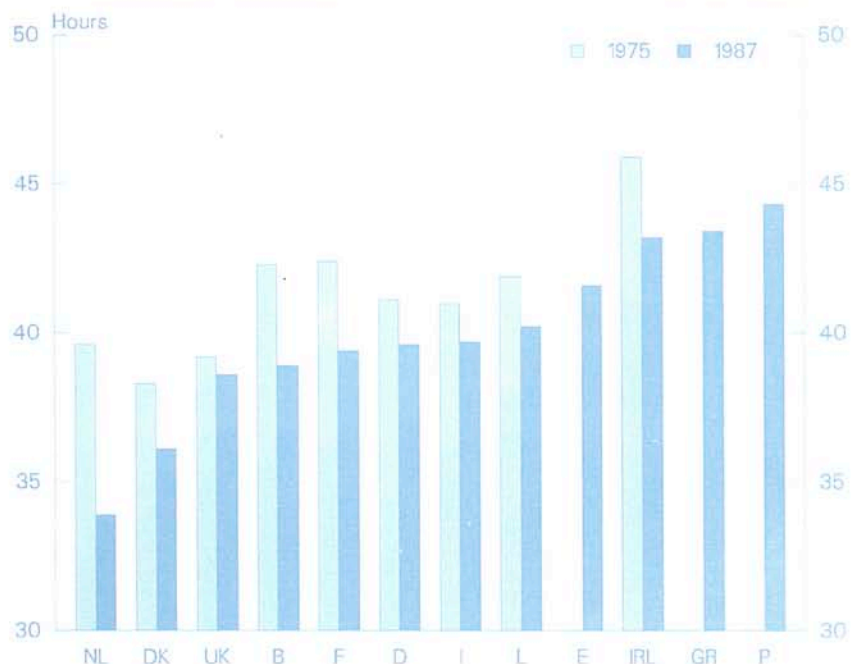
Insufficient economic growth accompanied by continuing structural change, has had a very uneven effect on European society. Unemployment has become increasingly concentrated and it has been accompanied by a significant worsening of the distribution of income and of economic opportunities. Those at the bottom of the social ladder have often borne the brunt of the adjustment in the form of lower incomes, less access to good jobs, less opportunity for upward mobility and increasing periods of unemployment. Many of them - notably the unskilled and the young - have found themselves outside, or on the margins of, the legitimate labour market.

Female access to employment may have increased considerably but progress in achieving equality, both in access to particular types of jobs and in ensuring equal treatment at work has been slow.

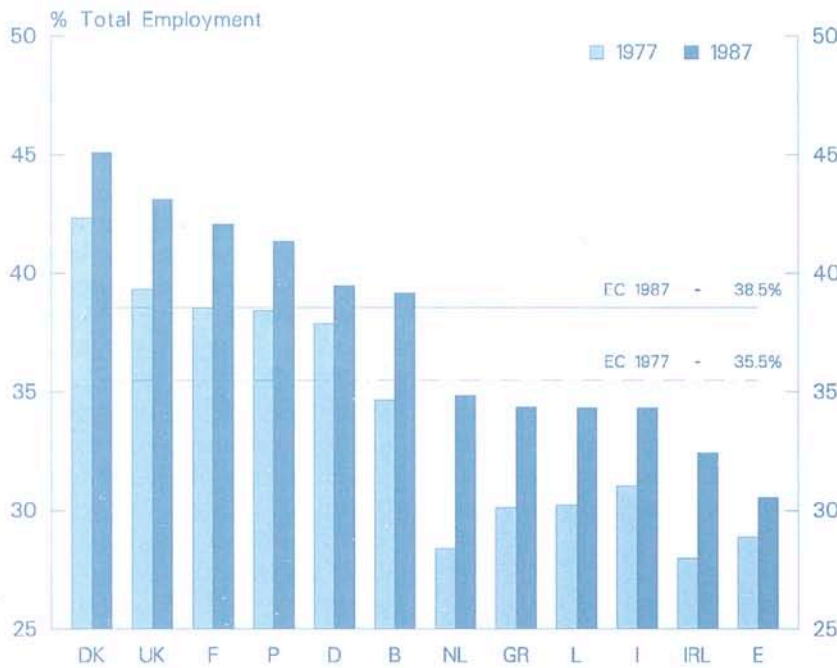
### 11 Distribution of Employment in Manufacturing by Size of Firm in the Member States (circa 1980/83)



### 12 Change in Usual Weekly Working Hours in the Member States 1975-1987



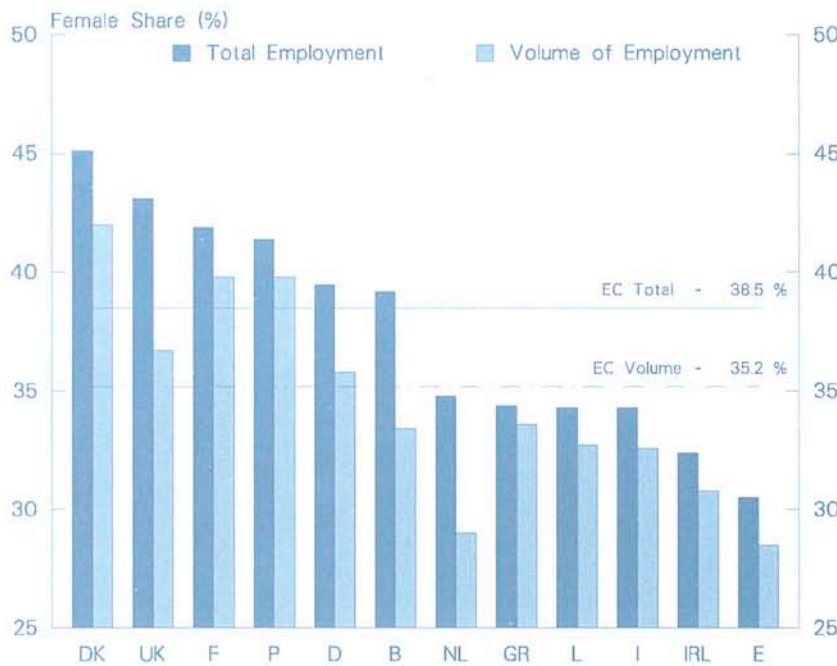
### 13 Changes in the Female Share of Total Employment in the Member States 1977-1987



Unemployment remains a serious problem and is still over 9% of the labour force across the Community as a whole. Over half those now unemployed have been without work for longer than a year and over 30% for more than two years (Graph 15). Prospects for improvement will depend largely on reducing overall unemployment and the effectiveness of specific measures.

Unemployment rates among young people below the age of 25 have declined from their 1984 peak. However, although unemployment is falling more rapidly among young people than in the labour force as a whole, and may be expected to continue to do so in the short term, unemployment rates for this age group still remain high relative to those adults (Graph 16).

### 14 Female Share of Total Employment and of the Volume of Employment in the Member States 1987



There are wide divergences in youth unemployment rates between Member States, more now than when they were at their peak. In May 1989 unemployment rates for young people were in excess of 30% in Italy, Greece and Spain and around 20% in Belgium, France and Ireland. In the Federal Republic of Germany, however, the unemployment rate for young people, at 5.5%, is now lower than the overall rate, and those aged under 25 now account for only 17% of the unemployed compared with over 45% in Italy, Spain and Portugal.

The failure to reduce unemployment has been the cause of considerable tension and much debate in the Community about alternative strategies and policies. There remains an urgent need to adapt and equip the Community labour force with the skills necessary to face the challenge of the coming years.

As the pace of economic growth has quickened, progress in reversing

these trends has begun but many of the benefits have not gone to those most in need. Much more effective action ranging across the breadth of society will be needed if many of those hit hardest by economic recession are not left behind in the recovery process.

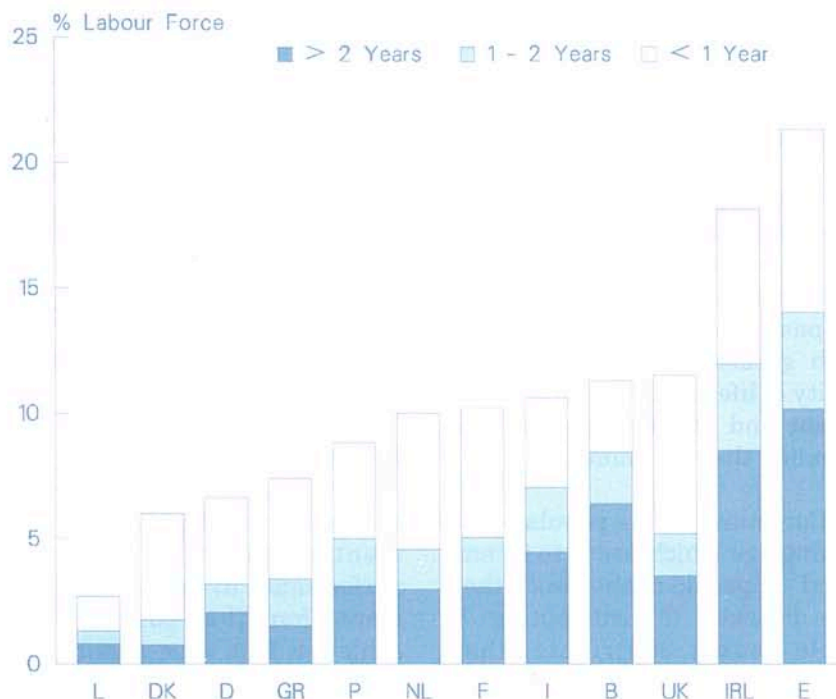
## Opportunities and Challenges

All Member States of the Community, and all citizens in Member States, must be able to see potential benefit from the opportunities which now exist and from responding to the challenges they face if they are to make the necessary efforts to adapt and grow. Unfortunately, the long periods of recession or slow growth during the past decade or more have not made this easy.

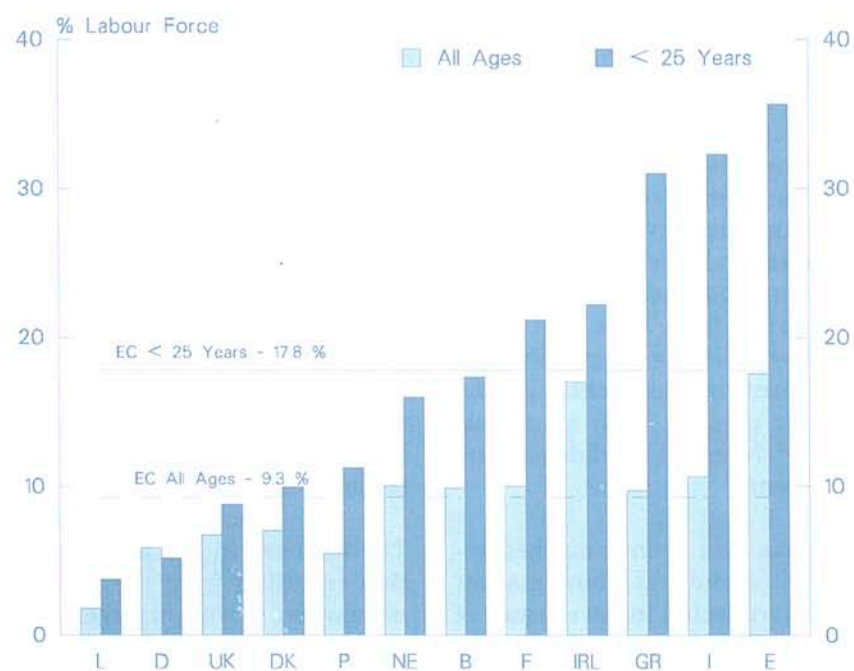
Despite these negative aspects, much was achieved in the difficult years of the early 1980s - through both collective negotiation and legislation - in bringing greater adaptability to the Community's economy and to its labour markets. Many of the changes achieved were overdue and are to be welcomed. However, change has often taken place in a haphazard and erratic way.

The new, more 'employment-intensive' pattern of growth that is emerging in the Community will need to be strengthened. Dealing with run-downs and closures in the 1970s and early 1980s has left behind attitudes towards the use of human resources whereby labour saving economic growth had become enshrined as a good thing. Such attitudes are inappropriate for facing the future.

### 15 Long-Term and Very Long-Term Unemployment in Relation to Total Unemployment in the Community 1987



### 16 Youth Unemployment and Total Unemployment in the Community (Seasonally Adjusted) May 1989



Certainly, the process of capital expansion and technological development must continue since this is the basis for much economic advance. However, this process has been distorted in the past by a lack of adjustment of wages, by financial subsidies to capital, and it has been dominated by short-term thinking.

Such attitudes overlook the new patterns of growth that are emerging, which will be very different from the mass production models of the past, and which will reflect much greater concern about the quality of life, about cultural development and about respecting and defending the environment.

The Community has a population of working age which needs to be employed - if people cannot work they have difficulty in contributing. If people cannot contribute, they become an economic cost to European society. Minimising that cost by a gradual erosion of unemployment and social security benefits is not a positive response to the challenge that Europe faces. Europe needs to invest in such people so that they can contribute to their maximum ability and not be written off.

The fundamental conditions for growth and employment creation in the Community have improved. The economic and social policies developed and pursued in recent years are bearing fruit. The past three years have shown a progressive and significant improvement in the economic climate, with an atmosphere of renewed confidence and investment.

There has also been a marked reduction in social and labour market tensions, reflected in lower rates of inflation. The consensus on the objective of monetary stability and on

the pursuit of policies to achieve this have strengthened, a process to which the European Monetary System has contributed considerably. Budgetary policies directed towards reducing public deficits have been largely, but not wholly, successful. The rate of return on capital has recovered significantly, boosting investment although the Community average is still well below its 1960s level.

### **Possible Scenarios for Future Economic and Employment Growth**

A faster reduction in unemployment requires an even better performance in increasing employment than that currently being achieved. If it were possible to increase employment by 1.5% a year, for example, it would make it possible both to absorb the expected increase in the labour force - arising from the increase in the population of working age and to the probable rise in the participation rates - and to reduce unemployment significantly.

The implications of seeking to achieve a net 1.5% a year increase in employment are illustrated in Table 1. This provides an extrapolation of present trends - employment growth of 1% a year (example 'a') and an alternative scenario of employment growth of 1.5% a year (example 'b'). On the former basis unemployment would be down to 7% by 1995. On the latter it would be down to 5%.

The increase in the active population resulting from the growth of population of working age is likely to slow down from its current rate of 0.7% a year to 0.1% a year in the

first half of the 1990s. The demographic pressure on the labour markets will thus be slightly reduced.

On the other hand, a more favourable economic and employment scenario will probably result in further increases in participation rates. It could turn out, for example, that the increase in the labour force attributable to a higher participation rate is around 0.5% a year in the first half of the 1990s, instead of 0.3% a year in the period 1980 to 1990.

Compared with the USA, Japan or the Scandinavian countries, the average participation rate in the Community - especially of women - is still low. There therefore remains a potential for large increases in the participation rate in the coming years.

If this were the case, an unemployment rate of 5% by 1995 could still be achieved even with Community labour force growth of 0.6% a year (0.1% due to growth of population of working age plus 0.5% due to increased participation) if employment grew at around 1.5% a year.

An increase in net employment of 1% a year between 1990 and 1995 would mean 6.5 million net additional jobs, whereas an employment increase of around 1.5% a year would create 10.5 million net additional jobs.

An increase in employment of 1.5% a year would seem to be necessary therefore in order to reduce unemployment significantly during the next few years. If it were achieved, it is likely to mean higher growth, increasing wealth and a reduction of the burden on public budgets and social security systems.

In this scenario, the dependency ratio (the ratio of inactive people of all ages including the unemployed, to the total in employment) would revert to the level of the 1960s (Table 1). This would help the Community cope with the pressures on social security from an ageing population, although the greater proportion of part-time workers in total employment would reduce the beneficial effects of a fall in the dependency ratio.

Achieving a medium-term growth of employment of 1.5% per year may

not be easy, however. Labour productivity is currently increasing at a trend rate of around 2% a year in the Community as a whole. This rate could increase to say 2.5% a year during the next few years as a result of the completion of the Internal Market (Chapter 5) and an accelerated catching up of the Community's less favoured countries and regions. In that case, a medium-term GDP growth rate of 4% or higher would be needed in order to give a 1.5% growth in employment.

Table 1

### Population, Active Population and Employment in the Community

Average annual % change	1960 1970	1970 1980	1980 1990	1990 1995	a	b
Population	0.8	0.5	0.3	0.2	0.2	0.2
Active population	0.2	0.6	0.8	0.4	0.6	0.6
- due to the increase in the population of working age	0.5	0.7	0.7	0.1	0.1	0.1
- due to the change in the participation rate	-0.3	-0.1	0.1	0.3	0.5	0.5
Employment	0.2	0.2	0.3	1.0	1.6	1.6
Levels	1960	1970	1990	1995		
Unemployment rate	2.5	2.0	10.0	7.0	5.0	
Dependency ratio	1.32	1.46	1.51	1.41	1.34	



## Sectoral Changes in Employment

Throughout the last two decades a series of basic structural changes have taken place in the Community economy. These are in line with similar changes in other industrialised countries.

Employment in agriculture has declined almost continuously - although it still accounts for 8% of total employment in the Community and up to half of employment in many rural areas. Map 19 shows the distribution of agricultural employment across the Community. It is heavily concentrated in the southern zones - Greece, southern Italy, northern Portugal and Spain, but also well represented in southern Germany, the Netherlands and north-west France.

Industrial employment has also declined, although in this case the fall only began in 1973. Before then, there was a small rise during the 1950s and 1960s. Since 1973, however, it has declined from over 40% to some 33% in 1987 although over the past two years it appears to have stabilised and even shown some modest growth. Within this overall picture, the decline in some traditional sectors (such as coal, steel, shipbuilding, textiles) has been particularly strong. Employment in the coal and steel industries alone, for

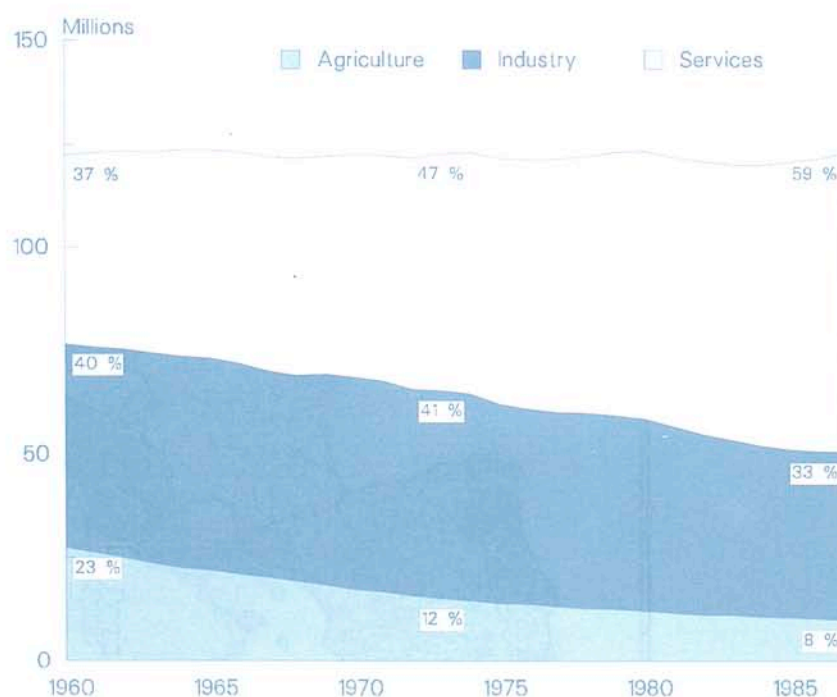
example, has fallen by around 1 million since the early 1970s.

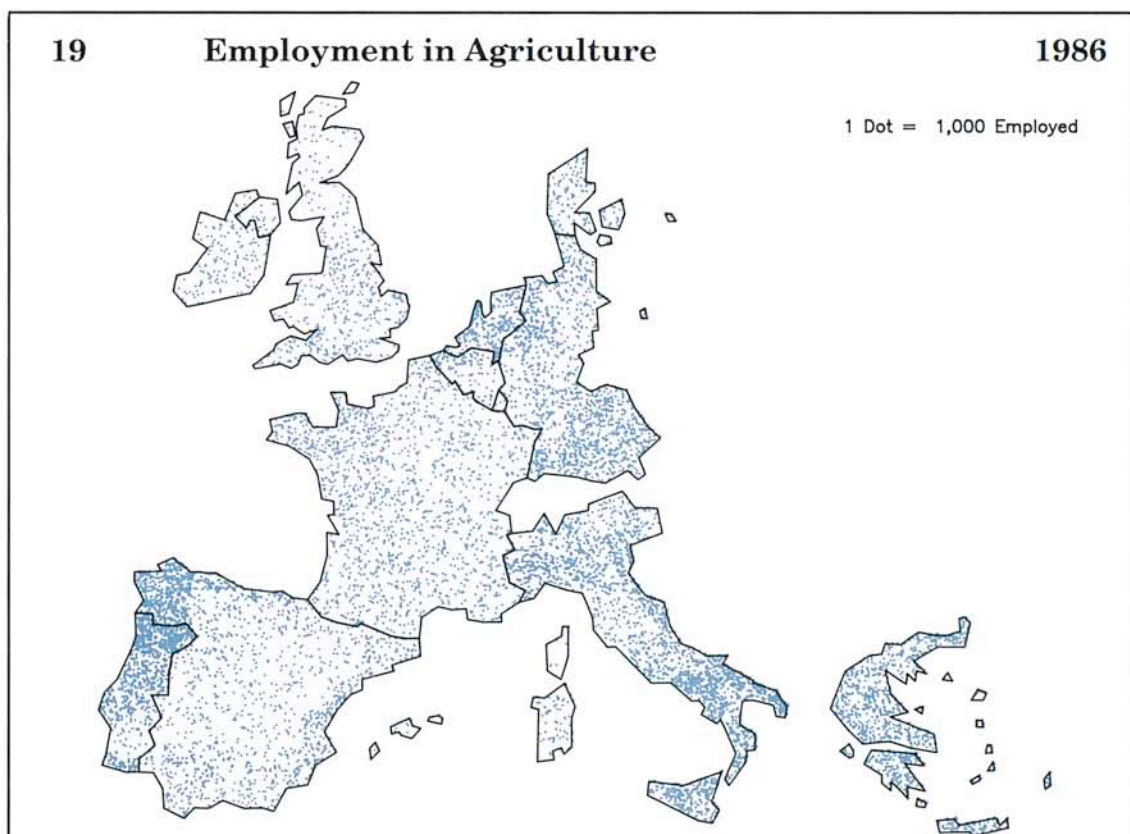
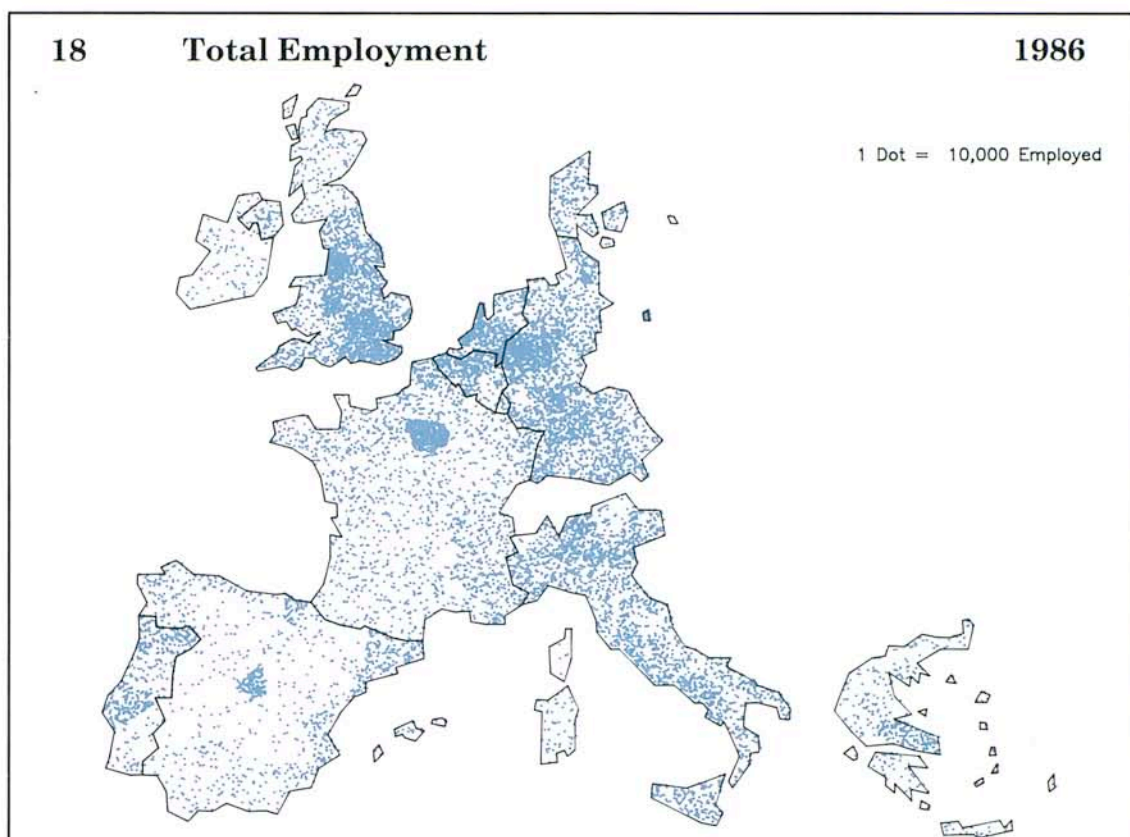
The decline in agricultural employment since 1960 and in industrial employment since 1973 has been offset by the growth in employment in the service sector. Services encompass a wide range of activities from business services - essentially services to industry or to other parts of the service sector - services to

household and personal services as well as banking and insurance and health care.

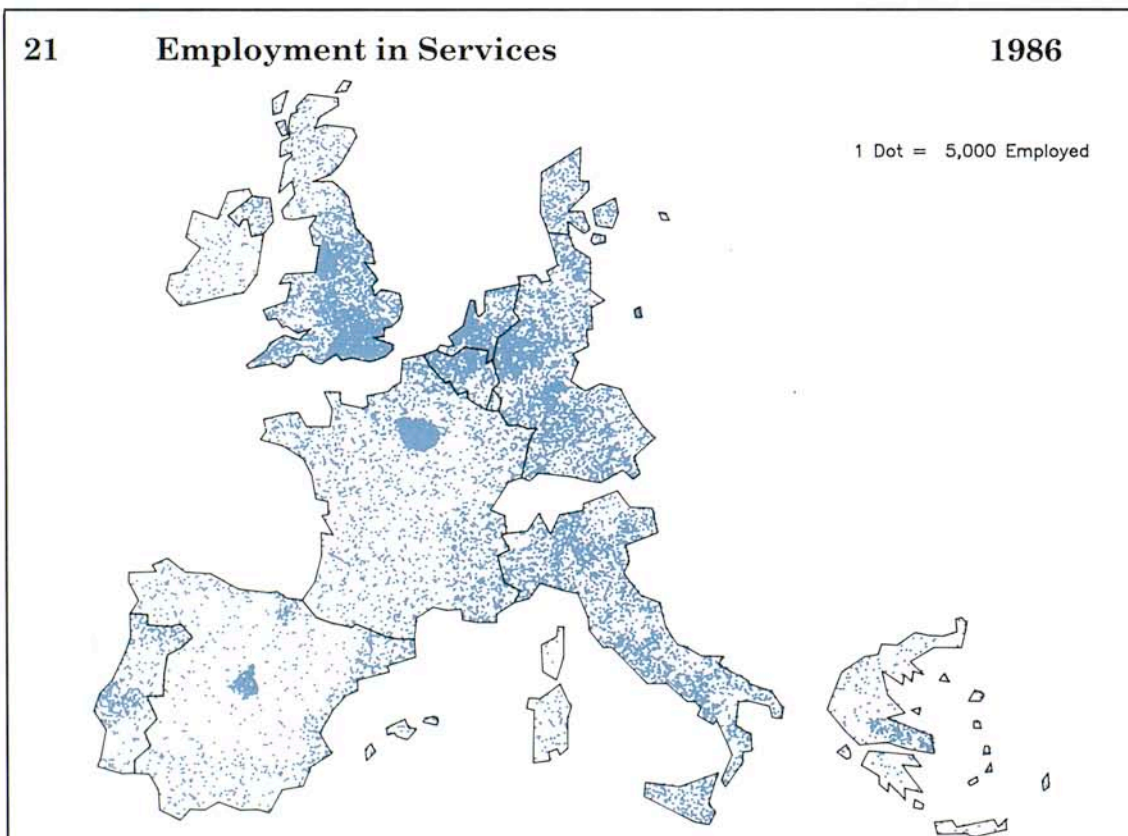
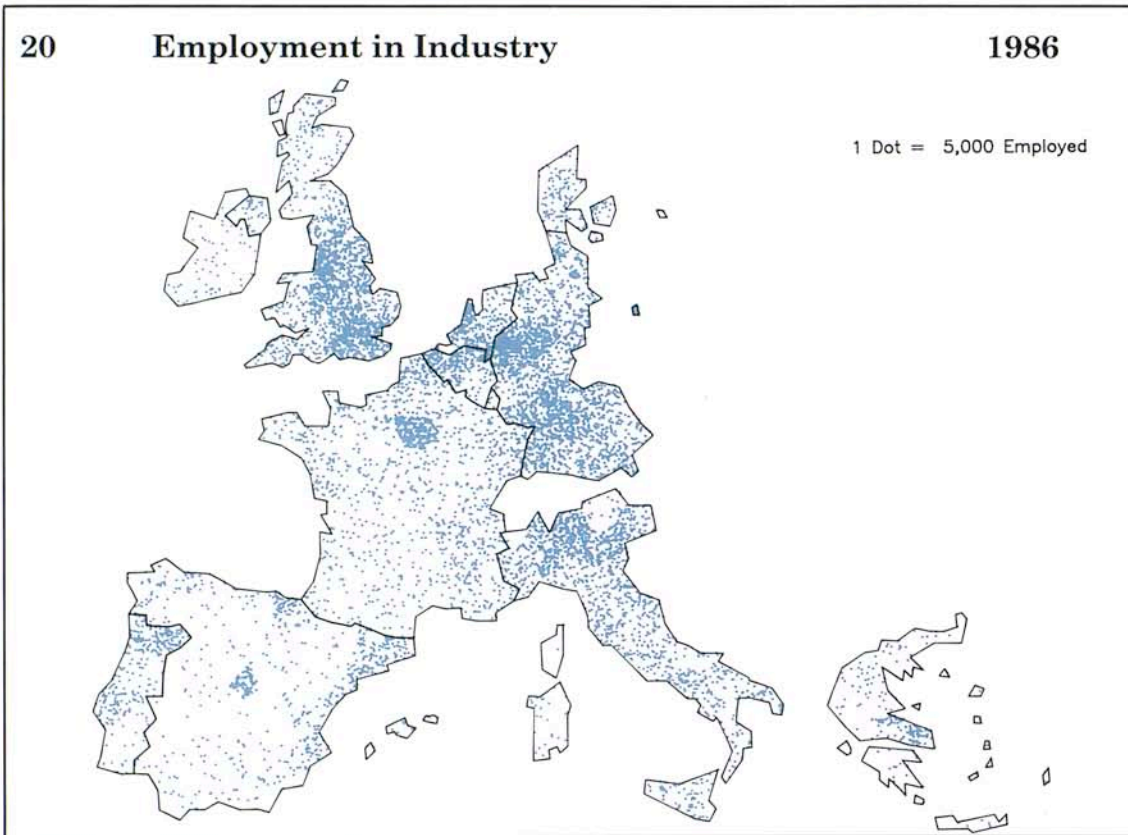
In common with other industrialised countries, the European Community has seen the share of service employment grow from less than 40% in the early 1960s to around 60% of all employment.

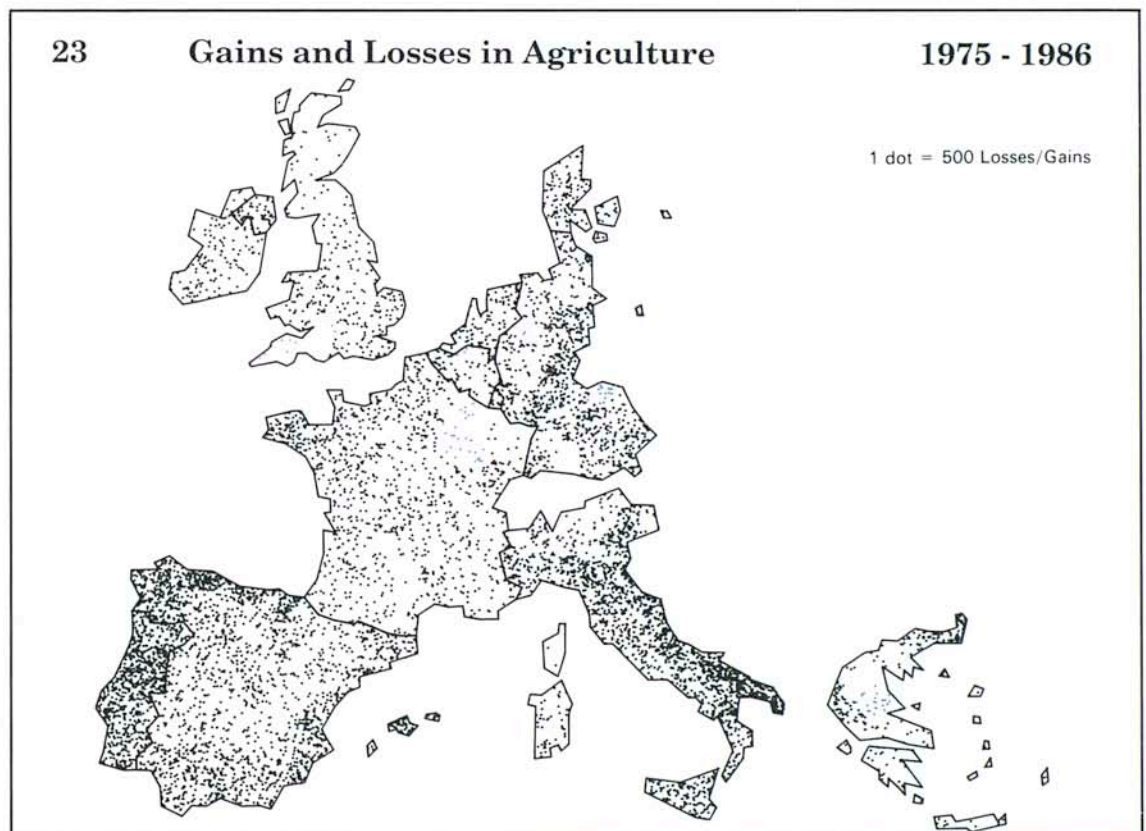
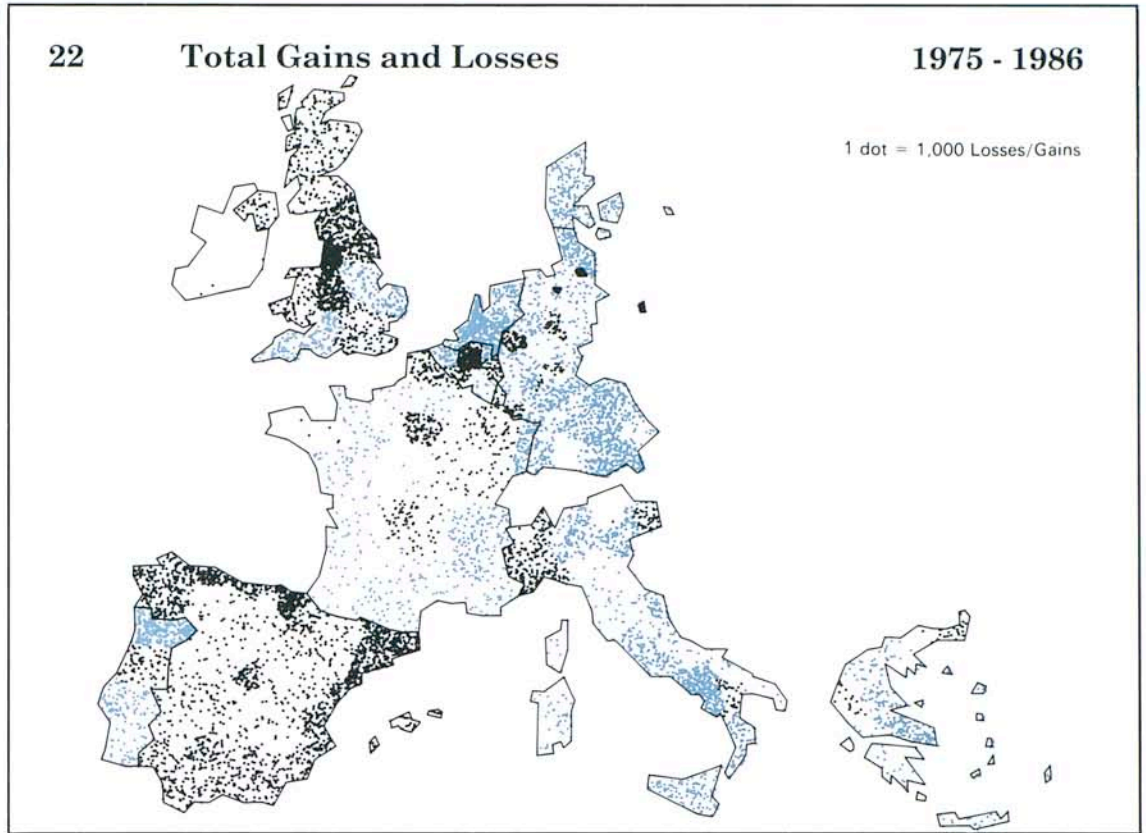
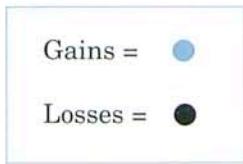
### 17 Sectoral Employment Trends in the Community 1960-1987

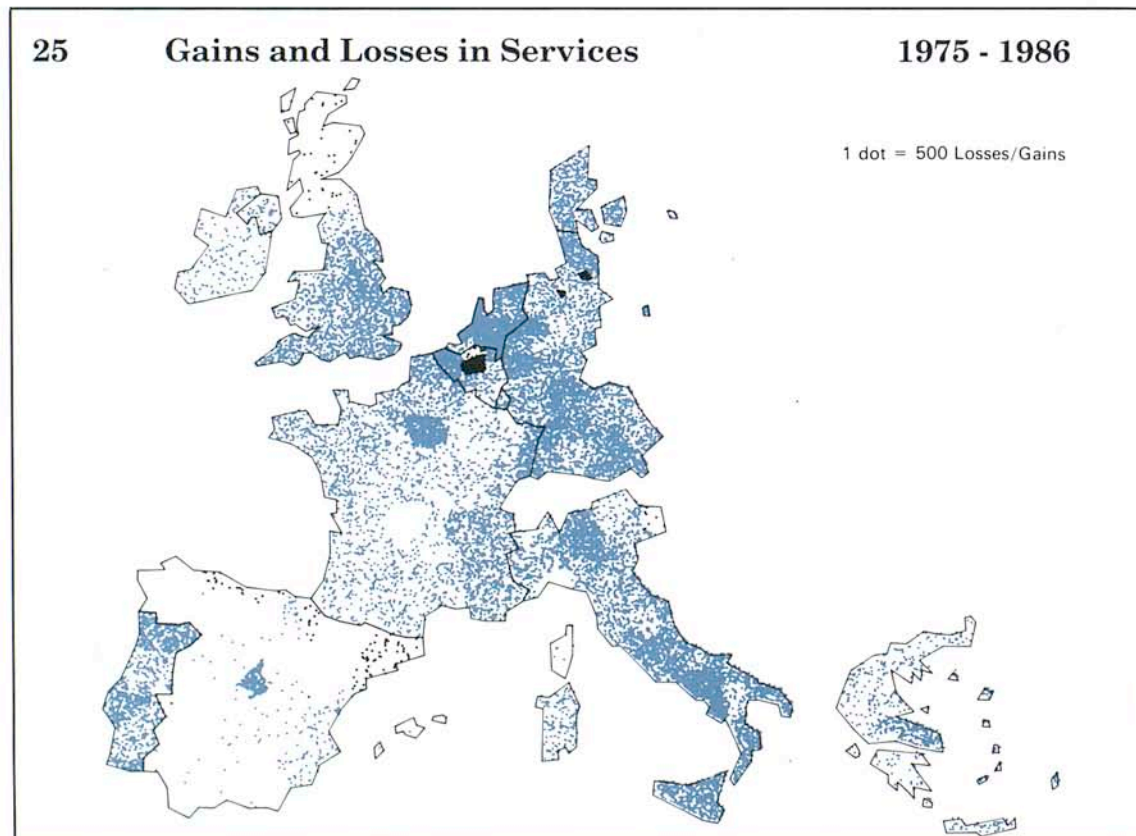
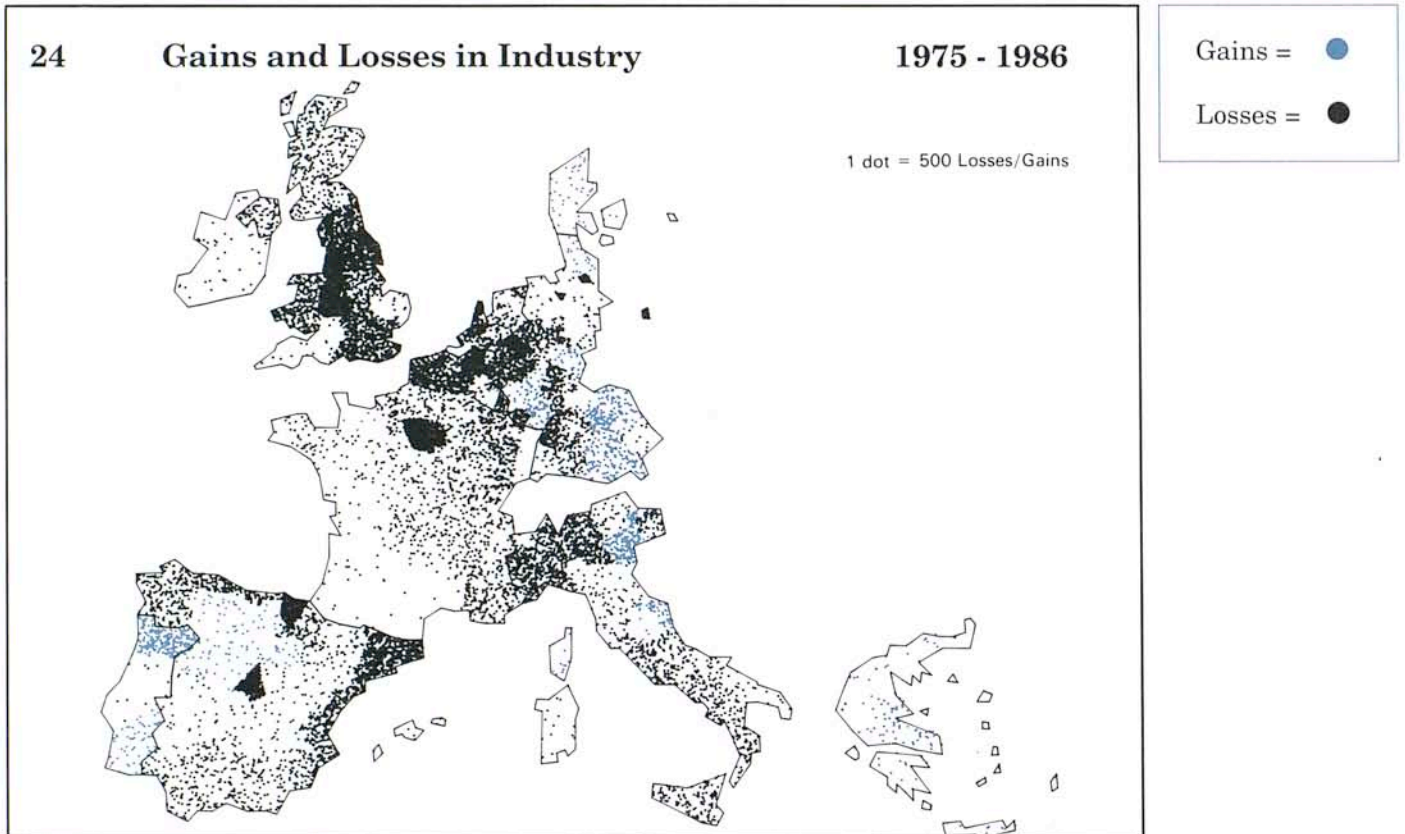














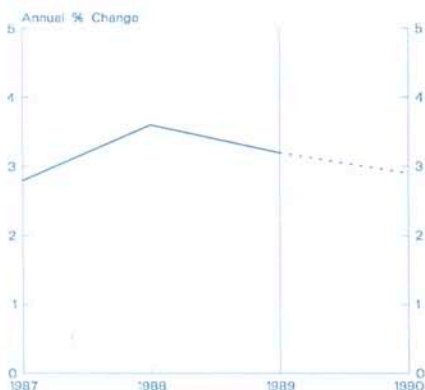
## Chapter 2 Short-term Outlook

### The Economic Outlook

#### Economic Growth

Growth of real output in the Community in 1988 at 3.7% was the highest for 12 years. With the exception of Denmark, where GDP actually fell slightly, and the Netherlands, growth rates in Member States were between 3% and 5%. In 1989, growth seems to be easing off slightly but is still likely to be over 3% for the year. The Commission's services estimate that the short-term prospect is for some further moderation to 2.5 - 3%, with Spain, Portugal and Ireland, three of the poorest Member States, showing the strongest performance (with growth at around 4%) and Denmark and the United Kingdom the weakest (with growth at around 2%).

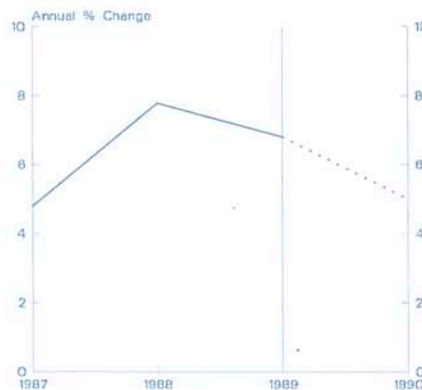
#### 26 GDP



#### Investment

Investment has picked up over the last few years, contributing significantly to the higher growth in GDP. While investment growth may slow down this year and in the short-term, it is forecast to remain relatively strong as compared with the performance over the past 15 years, especially in new equipment. As with GDP growth, Spain and Portugal seem to be showing the largest increases and the United Kingdom and Denmark among the smallest, with expenditure on construction being especially depressed.

#### 27 Investment



#### Inflation

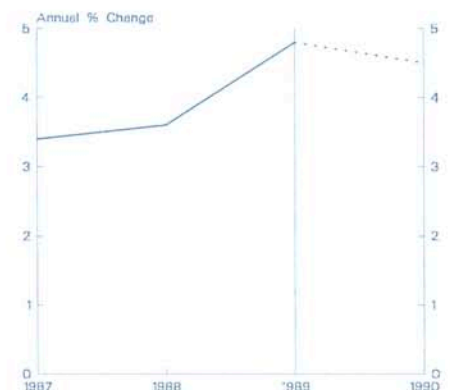
Higher growth rates in the Community have been accompanied by some rise in inflation, stimulated by increases in import prices as global demand for primary products has revived and European currencies have fallen against the US dollar. External factors, in the shape of commodity market conditions, the

depressed state of which made a major contribution to low inflation in the recent past, are now exercising the reverse effect, boosting growth by adding to export demand from primary producing countries but pushing up prices at the same time.

Labour costs are also edging up, though at a slower rate than prices, with little sign as yet of any resumption of the wage-price spiral which was a pronounced feature of the period of high inflation in the 1970s and early 80s.

While inflation is rising in most Member States, current annual rates are little different from their level in the 1960s, at around 3 to 4%. The exceptions are Greece and Portugal, where inflation has remained in double figures throughout the 1980s (except in the case of Portugal for a brief period recently) and the UK, where inflation has risen sharply over the past year.

#### 28 Inflation



The present rise in inflation is forecast to moderate in the short-term in almost all Community countries, as growth of internal demand and output slows down. Apart from unexpected external developments, which the Community can influence but not control, the main risk is of an upsurge in wage costs since the labour market is expected to tighten further, though not by much.

### External Balance

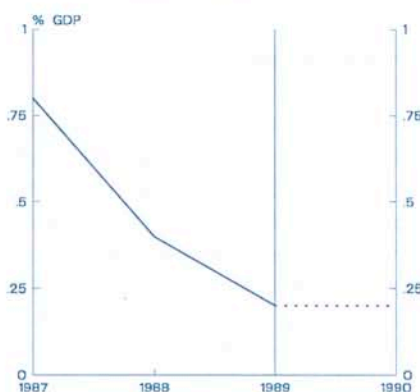
The trade balance of the Community with the rest of the world, which registered a surplus of over 1 per cent of Community GDP in 1986, has deteriorated over the past three years, but is still expected to be in small surplus in 1989. It is forecast to remain in small surplus in the next two years, the more so if GDP growth falls by more than predicted.

The major potential external constraint on growth in individual Member States comes not from a deteriorating balance with countries outside Europe, but from a widening trade imbalance within the Community itself. The risk is that the German surplus, already over 6% of GDP, will increase further, making it more difficult for other Member States to sustain present growth rates although a certain external surplus may be natural for highly developed areas.

A further problem for some countries is the continuing high level of government borrowing required to finance budget as well as trade deficits. In the case of Greece and Italy, in particular, where government borrowing has exceeded 10% of GDP for some time, this severely limits the scope for demand expansion. Indeed, the liberalisation of

capital markets planned as part of the 1992 programme puts added pressure on these countries to cut deficits and reduce borrowing.

**29 Trade Balance**

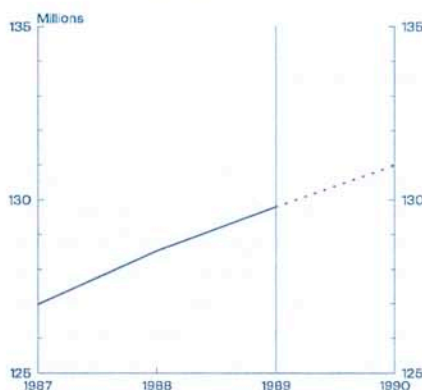


### Employment Outlook

#### Employment

With higher output growth, new jobs have been created in the Community and employment has been rising. It is likely to go on increasing this year and next, at a rate of around 1% a year, so long as GDP grows at the rate forecast. If this happens, some 2 to 3 million new jobs will be created in the two years 1989 to 1990, adding to the similar number created over the past two years. Only in Denmark are the

**30 Employment**



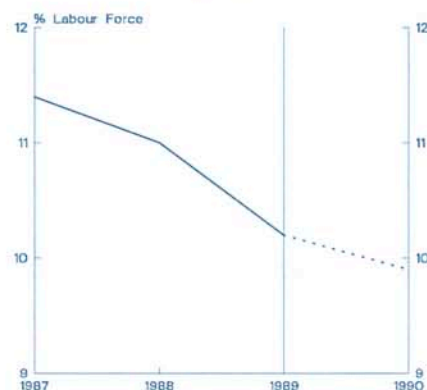
numbers in work not going up at the present time, though in most countries the rate of increase along with GDP growth is tending to slow down.

#### Unemployment

As employment has increased, so the numbers unemployed in the Community have come down gradually, from nearly 11% of the labour force in 1986 to 10% in 1988 and to 9.3% in mid-1989. This fall has been assisted by demographic factors as the number of young people coming onto the labour market each year has declined. Nevertheless, the unemployment rate remains at around 18% in Spain and Ireland and over 14% in Italy, and in all countries, apart from Luxembourg, the rate is still several times greater than the levels experienced in the 1960s.

The forecast is for a continuing fall in unemployment over the short-term, though at a slower pace than during the past two years if GDP growth moderates as expected. The prospect is for the rate across the Community as a whole to remain close to 10% of the labour force at the end of 1990, on the basis of national definitions (see Box page 125).

**31 Unemployment**



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## **Part II Structural Employment Issues**

- Chapter 3     Community Employment and the World Economy**
- Chapter 4     The Employment Content of Growth**
- Chapter 5     Sectoral Employment Impact of 1992**
- Chapter 6     Job Quality - For Better Or Worse?  
                  SME and the Self-employed**
- Chapter 7     Women's Employment**
- Chapter 8     The Demographic Time Bomb**
- Chapter 9     Training and Employment**
- Chapter 10    Unemployment - A Social as well as a Labour Market Problem**
- Chapter 11    Black Economy**
- Chapter 12    Technological Change - A Strategic Challenge for Employment**
- Chapter 13    New Partnerships in Employment Creation - Local Development**
- Chapter 14    Mobility and the European Labour Market**





## Chapter 3 Community Employment and the World Economy

*Employment in the Community is significantly affected by the growth of world trade, the buoyancy of geographically proximate markets and the strength of competitors. What does the future hold in store?*

The prospect of completing the Community's Internal Market in 1992 has brought greater awareness of the Community's place in the world economy. It has also drawn attention to the interaction between the level and structure of employment in the Community and external developments in world markets.

Though economic growth in the European Community has slowed down appreciably since the early 1970s, there has been a substantial improvement in recent years and it remains one of the richest parts of the world. It accounts for 18% of total global income and output, yet only 7% of the world's potential labour force - those people aged between 15 and 64 - live in Community countries. Though the average level of income per head in the Community is only two-thirds that of the United States, it is nevertheless three times higher than in Latin America and ten times higher than in the developing countries of Africa (see Maps 32, 33 and 34).

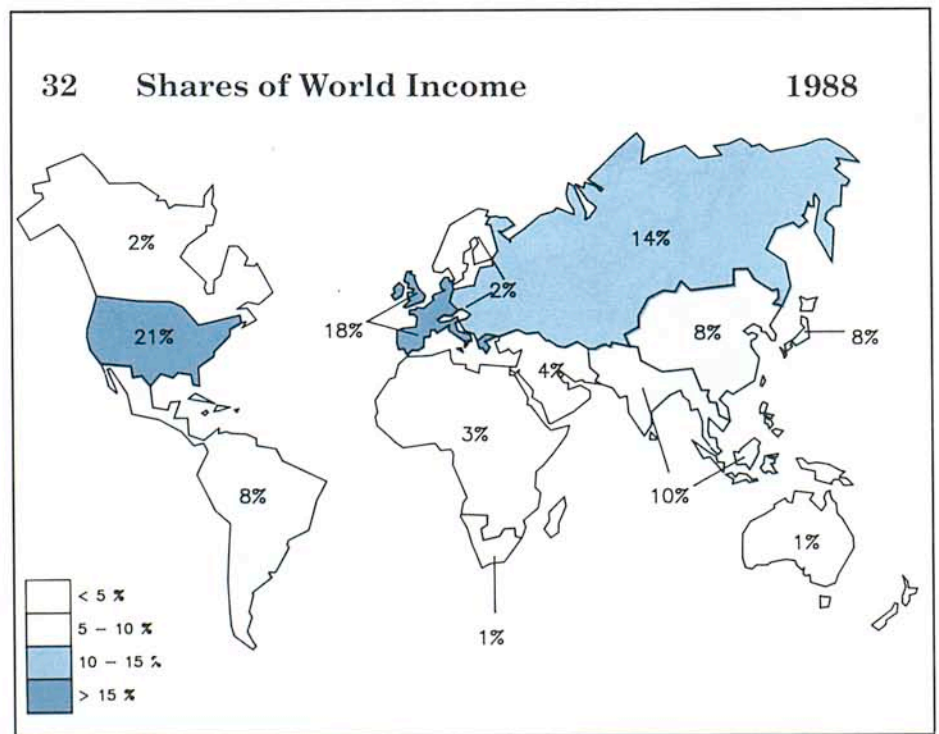
The Community's importance in world trade is even greater. It accounts for over 35% of total world exports and imports, or for some 20% excluding trade internal to the Community - far in excess of either the United States or Japan. In

manufacturing, which is by far the largest element of trade, its share of world exports is some 27%.

While the Community has declined in importance as a manufacturing zone since the early 1970s, it still produces around 25% of all industrial goods produced by the world economy and exports a similar share of these (Map 35). For motor cars, the production of which is a major indicator of economic advancement, the Community

remains by some way the world's leading manufacturer, accounting for 35% of all cars produced (Map 36).

Some 10% of the Community's output of goods and services goes to world markets. A similar percentage of employment in the Community depends directly on this external trade and more is indirectly dependent upon it.



Changes in the pace of economic activity in the rest of the world thus have an important effect on economic and employment growth in the Community. Equally the Community is such a large market for goods and services produced in other countries that the rate of Community growth significantly affects how rapidly the rest of the world can expand. Years of high growth - such as 1988, when world trade grew in real terms by 9% - provide a stimulus to the Community's growth and employment prospects. Equally, the predicted decline in the growth of world trade

this year to under 7% and around 6% next year will have an impact on the economies of the Member States.

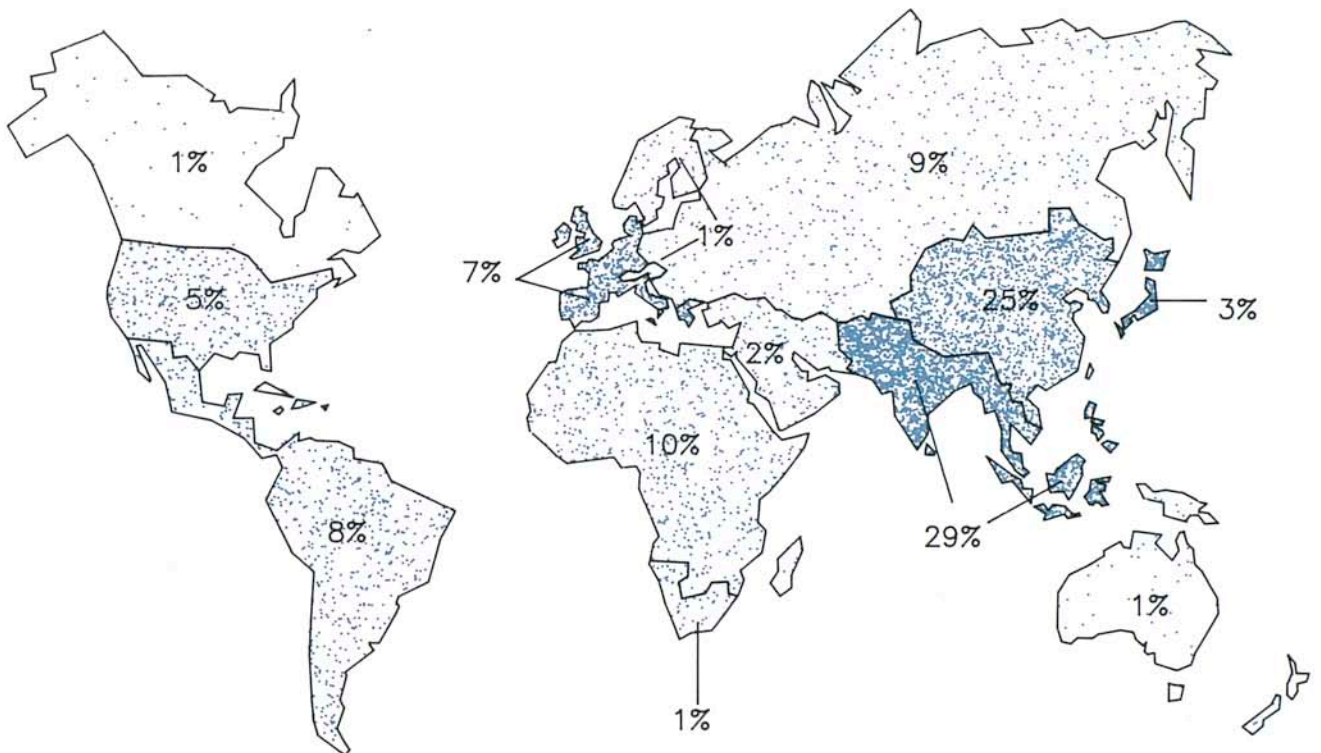
A major difficulty for the Community has been the fact that its geographically proximate markets have recently been among the slowest growing parts of the world economy. Income in the Pacific markets, on which both Japan and the United States are increasingly focusing attention, has been growing at an average of 5-6% a year throughout the 1980s. By contrast, demand in the Community's natu-

ral markets of Scandinavia, Africa, the Middle East and Eastern Europe has grown much more slowly or even declined.

The greater efficiency and activity brought about by the completion of the Internal Market will improve the Community's competitiveness. Coupled with the implementation of the Community's economic growth strategy, this could not only improve European growth rates in the immediate future but, by promoting demand for imports from the rest of the world, help ensure growth in Europe's export markets.

### 33 World Labour Force

1988



1 Dot = 500,000

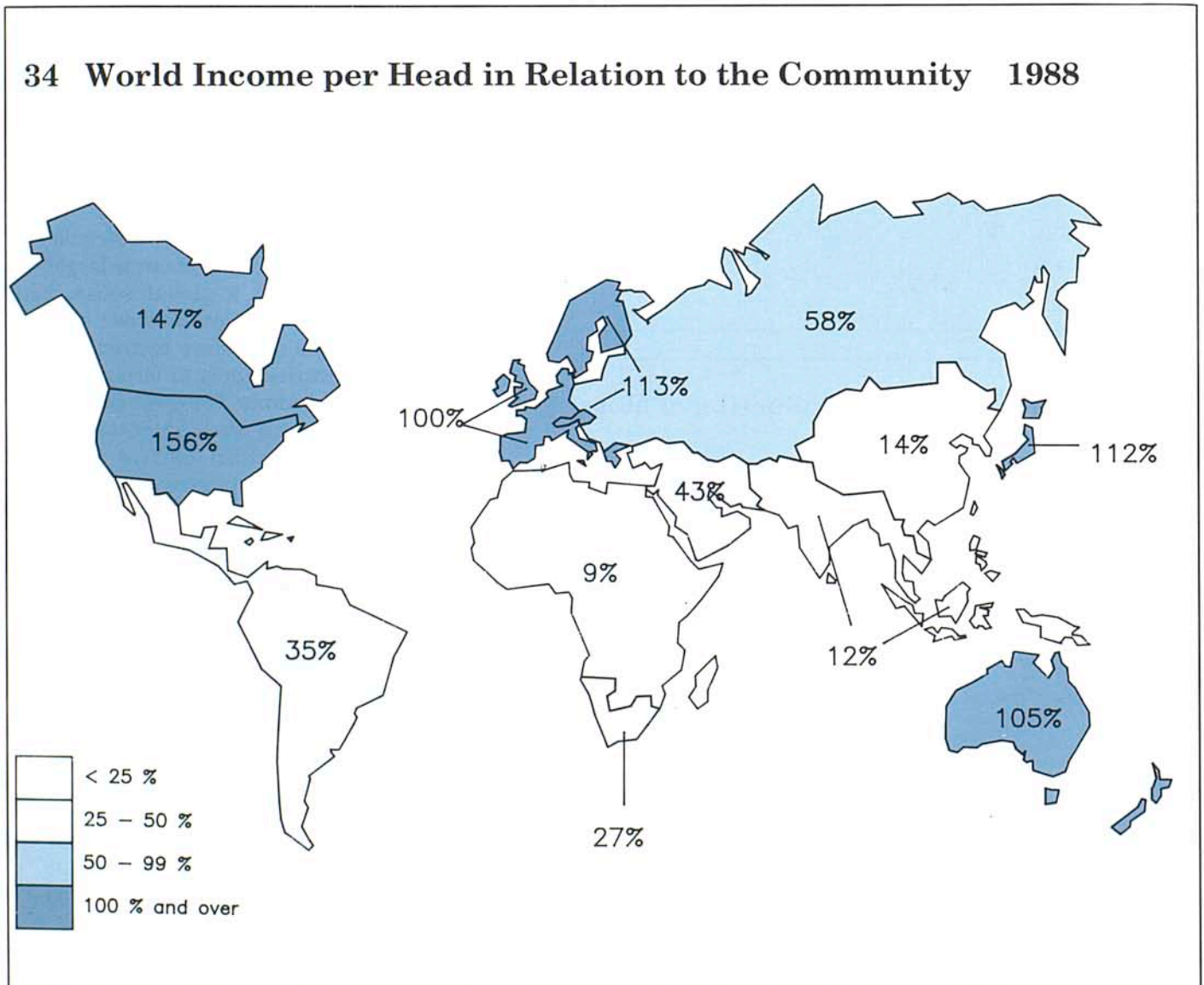
More of the world is seeking to raise living standards. The task is considerable. The world population of working age outside the European Community and the United States is expected to grow by 700 million between 1980 to the year 2000. This is on top of the fact that some 950 million people are estimated to be living in absolute poverty in the world today.

### Global Markets - Mobile Capital and Immobile Labour

Global markets for food products and raw materials have existed for decades, even centuries, because of the relative homogeneity of the products and because the location of production was largely determined by natural advantages. Global marketing, the standardisation of products and economies of scale in production have altered the basic

parameters of international trade for manufactured goods - a prospect faced, too, by the services sector.

This has led to the growth of new production locations outside traditional industrial areas (see Maps 35 and 36). Multinational companies have had increasing choice as increasing numbers of Asian and South and Central American countries have achieved the minimum conditions necessary for modern production. Developing countries which have progressed the most have assisted this process by en-



couraging sub-contracting to their less developed neighbours.

The removal of production to cheaper locations has brought ad-

vantages to the Community's consumers in the form of lower prices. It has also created profit income for investors and new market opportunities, especially for the export of

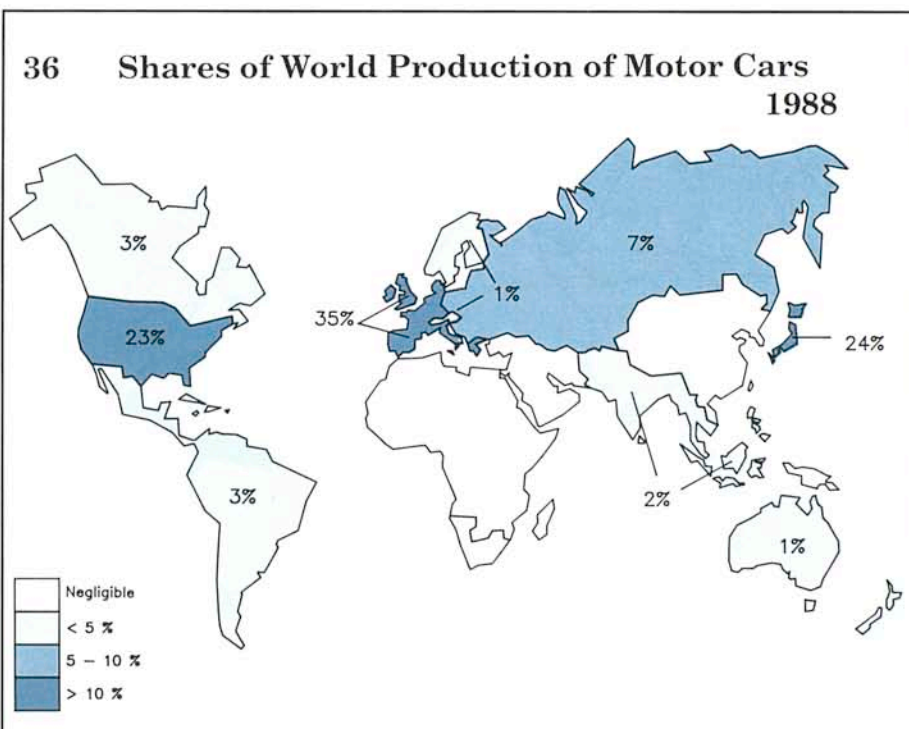
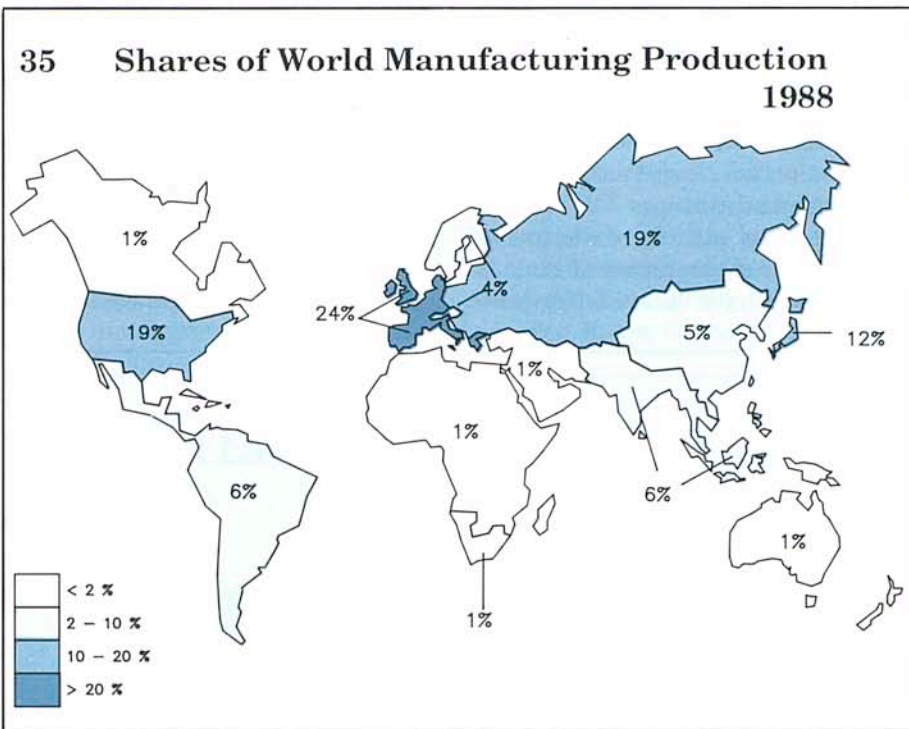
capital goods. Nevertheless the employment consequences of the transfer of production, in certain sectors, were negative for the Community. There was a widespread failure of Member States either to exploit fully the opportunities offered by the changed patterns of world production and consumption or to adopt appropriate strategies and responses.

The global economy is a reality, but the market is far from perfect. New financial capital for investment is highly mobile as there are fewer restrictions on movement, low transaction costs and greater security for international lenders. Equally, the technological know-how for many established products which is not already embodied in equipment is easily available and rapidly diffused.

On the other hand, restrictions on trade abound. Labour is largely immobile in a global sense, being unable to move between countries due to the severe restrictions most countries apply to foreign national immigrants. This even goes as far as inhibiting trade in certain service sectors which require temporary movements of personnel.

### Community Markets and Competitiveness

Over the past two decades, the Community share of a number of global markets and of a range of product areas, particularly those in which demand has been growing most rapidly, has declined. The competitive strength of Japan and the emergence of newly-industrialising countries have been important factors but it should also be noted that intra-Community trade has been growing over this period. The Community has suffered from relatively



low industrial productivity which, in turn, is a result of low rates of investment. The fragmented European market has also contributed by limiting the achievement of scale economies.

It is also related to the changes in the economic fortunes of geographically proximate zones - Eastern Europe, Africa, the Middle East - which have traditionally been major markets for European goods.

The secular downward trend in commodity prices has depressed de-

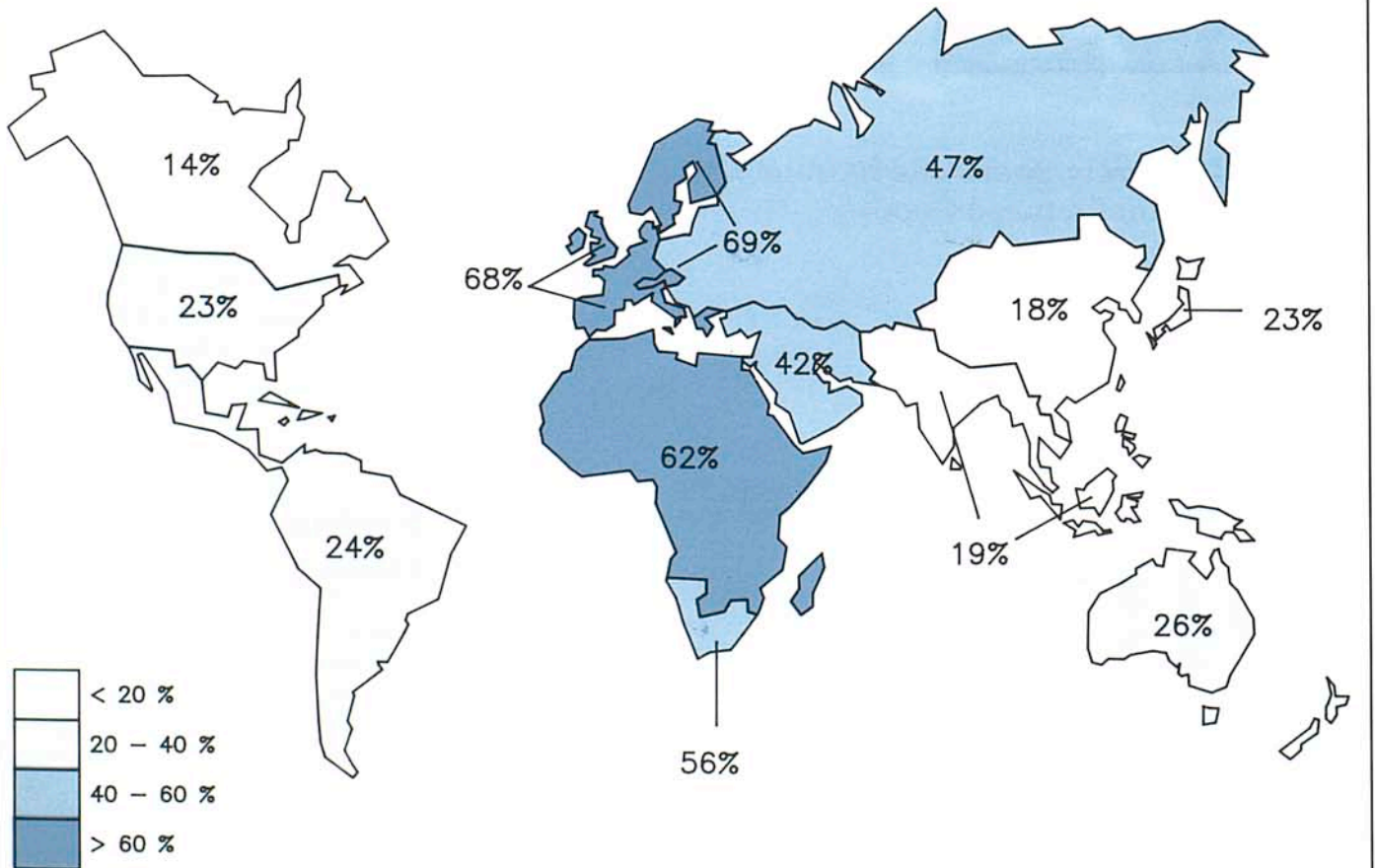
mand for manufactures in Africa and the Middle East. Between 1980 and 1986, the dollar value of imports into these two regions declined by 25%. By contrast, markets in Asia and the United States have expanded significantly over the same period - by 40% in the case of Asia and by 125% in the case of the United States (see Map 37 and Graph 38).

Eastern Europe with its geographical proximity, should be a natural market for the EC. Despite the current difficulties being experienced

by countries of this region, which have resulted in a decline in East-West trade, the economic reforms currently under-way should offer the Community the prospect of improved trade in the future.

Significantly, however, the Community's share of trade is now smallest and has declined most in the technologically advanced sectors of machinery and electrical equipment and transport equipment, which have also experienced the most rapid rates of growth. By contrast, in chemicals, for which the

**37 Community's Share of Imports into Different World Markets (Manufactured Goods) 1986**



market is much smaller, the Community is dominant in trade and has held onto or increased its share in most parts of the world.

## The Challenge of the Newly Industrialised Economies

In the past, the Community has often sought to preserve employment in mature industries where demand was stable or declining and where there was frequently worldwide excess capacity due to the entry of newly-industrialising economies - NIEs - into these markets. This has been at the expense of making more effort in higher technology growth sectors.

The growth of these newly industrialised economies brought considerable competitive pressure on European Community based companies with consequent losses of production and employment. Change has been rapid and the geographical location of production has

shifted eastwards on the world map. Global economics has traditionally been dominated by Europe or the United States. The new balance gives a major role to the countries of the Pacific Basin.

Within the Pacific area, the main source of competition has shifted from country to country. Japan - which was the prototype newly industrialised competitor - has long since given way to the next wave of NIEs - South Korea, Taiwan, Hong Kong and Singapore. They, in turn, have since shed many of the established products and sectors to another wave - China, Indonesia, Pakistan, Thailand, Malaysia, India and The Philippines.

The newly industrialised economies (NIEs) are beginning to adopt strategies which are less dependent on exports to stimulate growth and are starting to turn their attention to other developing countries.

The new competitors have taken growing shares in the United States and Japanese markets in particular (see Graph 39). They are also making inroads into the European market. Their share of total Community imports of manufactures is 10% and growing. It is particularly high in some sectors, notably consumer goods.

## Employment Consequences

Sectors where labour costs are an important component of production and where there is easy access to the technology have been particularly vulnerable to competition. Traditional product sectors - textiles and clothing, footwear and leather - have declined considerably. So have shipbuilding and steel and more sophisticated goods such

### Key to Abbreviations

L.Am	Latin America
Aus/NZ	Australia and New Zealand
ME	Middle East
SA	South Africa
Non EC	Non-EC Europe

### 38 Community Share of Different World Markets for Manufactured Goods 1986



as areas of mechanical engineering. In total, the Community lost 1.4 million jobs in these areas over the six years 1980-86 alone.

The social consequences of the employment losses have been particularly serious where the impact has been geographically concentrated - for example in areas dependent on a declining industry. The severity of the problems in some regions has been exacerbated by the slowness of the Community in adjusting to these external changes through the development of new employment-creating products and services.

Given the levels of absolute poverty throughout the world and the extent to which real wages in most developing countries have declined in recent years - by up to 20 to 30% - Europe cannot hope to compete in terms of wage rate for the production of basic manufactured goods. Europe has, however, had a comparative advantage in high technology products and its future lies in cashing in on this. Unfortunately, although Europe appears to have the ability and know-how to design innovative products, it has been less successful in developing large scale production and markets for these products.

Even this advantage could be lost if expenditure on research and development is not increased, and when the forthcoming demographic changes - the 1970s' babies slump - lead to a shortage of highly trained young people who will be expected to be in the vanguard of high technology development, production and marketing.

In the area of services, the Community has fared better. Including intra Community trade, the EC currently provides 40% of the world

market. However, the rate of growth of world trade in services has been slow. In the Community's domestic economy, services now account for some 60% of employment. By contrast, services account for less than a quarter of total international trade. While the catch-all category of 'other services' has grown as a share of total international trade, the share of other service activities - notably transport and tourism - has actually declined. While many growing services will, by their nature, remain non-traded, it is hoped that the current Uruguay round of multi-lateral negotiations will achieve a breakthrough in developing the world market for services.

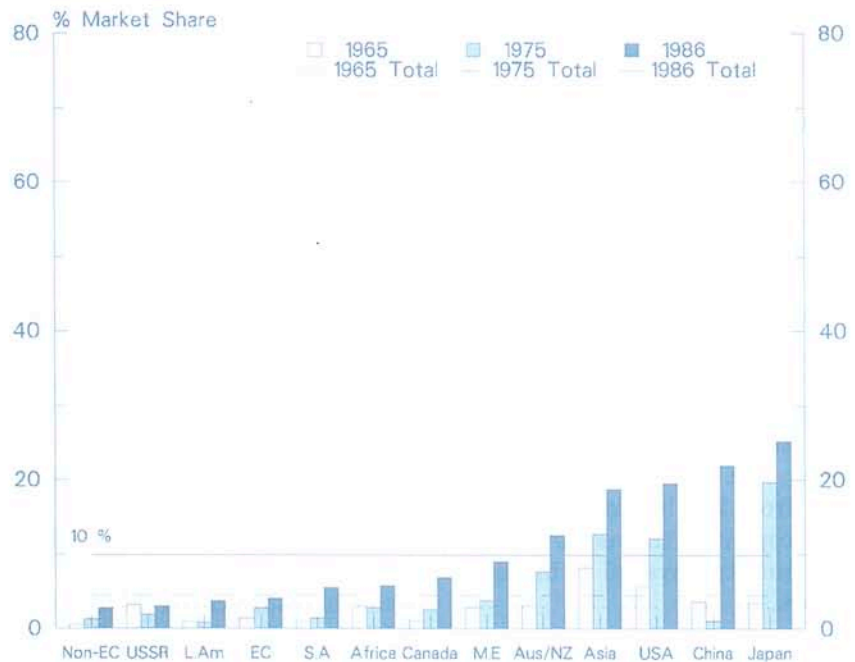
## Community Responses

Responses by industrialised countries to rapid import penetration have included measures to soften the impact by restricting imports, particularly through non-tariff measures.

Indeed limitations or trade restrictions survive in many industrial sectors. The extent of non-tariff measures is closely related to the degree of import penetration, except where there is considerable intra-industry trade, often between multinational companies with operations both in industrialised and in developing countries.

In the case of the Community, however, its trade policies have been accompanied by a series of sectoral restructuring plans - which have in-

### 39 Pacific NIE's Share of Different World Markets for Manufactured Goods. 1986



cluded specific labour market measures such as early retirement or voluntary redundancy - in order to ensure that the necessary degree of structural adjustment in the economy and labour market took place. This occurred despite the difficulties caused by low rates of economic growth and investment at that time.

There is little long-term future in the preservation of jobs in declining internationally-traded sectors. Member States recognise that their future lies in the pursuit of excellence and quality in all sectors and in the development of domestic services and activities which are not traded internationally.

Historically, the Community has had the advantage of a high level of education and training among its labour force, but this will be rapidly eroded without increased investment in human resources. Europe possesses a high proportion of the highest skills in the world although not so much those with a direct application in industry and commerce. An awareness of the risk of losing this advantage has stimulated the Community into making new policy initiatives aimed at improving training standards and co-operation in education.

Such actions are necessary since many newly industrialised countries have learnt that their past economic failures were less a result of inherent weaknesses than adverse social or political developments. They have found that in the right conditions, their citizens are capable of moving rapidly from low levels of development to cope with the requirements of high quality physical or intellectual work.

There are lessons from recent developments in the wider world economy and in the NIEs for the Community. When successful NIEs put their future in quality, technology and efficiency, it shows how little scope there would be for the Community to maintain its employment through low wage strategies. The ultimate maintenance of living and employment standards in the Community depends on investment, whether it be in physical capacity or education and training.

It depends moreover on developing an integrated European market and on maintaining an open multilateral trading system. It is also contingent on the Community being in a position to encourage favourable world market developments and to keep itself in a position to supply those markets where the economic returns and employment potential are greatest.

Community growth is a major determinant of the rate of world growth and demand. Aid and debt relief policies towards the developing countries also have a bearing on the future growth of Europe's export markets.

### **Differing Social Standards**

Fears that the industrialisation of developing countries might lead simply to exploitation and impoverishment in those rather than greater wealth and employment have led to pressures for the introduction of 'social clauses' in international trade agreements.

The ILO Ohlin report in the 1950s, the Brandt Commission in 1980, and the Council of Ministers of OECD meeting in 1987 all stressed the need to ensure a respect for

minimum social standards and workers rights in developing countries by including these requirements in trade agreements. These sentiments have been echoed in the Community. The Commission proposed social clauses prior to the Lome negotiation round although these were rejected by the Council. And in 1983 and 1986, the European Parliament pressed similar demands for trade in general.

The proposed content of such social clauses, the mechanisms to ensure their establishment and to impose sanctions in the case of non-observance have varied but success in advancing them has been limited. Pressures from developed countries for the establishment of minimum or 'fair' international social standards are open to the criticism that they are being imposed for protectionist rather than moral motives. While this may at times be the motivation behind support for these measures, the widespread concerns about standards in developing countries are real and heightened by an awareness that, many developing countries have undemocratic regimes which impose widespread restrictions on basic human rights, particularly the right of workers to organise.

### **Trade Expansion, Future Growth and Employment**

Trade interdependence, at world level, and the importance of that trade for Member States has made the participation of the Community in the processes of international trade negotiations, and the world management of economic and monetary affairs increasingly important.



Trade is fundamental to the achievement of the Community's employment goals. Effective international economic co-operation is also needed to ensure a reduction in unsustainable trade deficits in other countries which create protectionist pressures.

Of particular importance for the Community are the on-going Uruguay round negotiations in which the Community is seeking to further liberalise trade, to strengthen and extend the GATT system, and to bring new areas like services into the framework of the GATT.

The expansion of trade opportunities is important for the Community because its historical and geographically proximate markets - in Africa, the Middle East and Eastern Europe - have grown slowly, if at all, in recent years. Moreover, the Community is having to concede markets to newly industrialising countries in both traditional sectors and new growth areas.

Growth in international trade in services, in which the Community is competitive, but which has been limited by barriers, could provide one significant area of expansion of employment.



## Chapter 4 The Employment Content of Growth

*The overall relationship between economic growth and employment creation has fundamentally altered in the Community in recent years. Less economic growth is now needed in order for employment to expand than has been the case for thirty years.*

### Introduction

Employment levels in the Community have been stimulated by the recovery in economic growth since 1982 (see Graph 40).

Although the annual economic growth in the Community was only a modest 2.5% between 1983 and 1987, this has been sufficient to ensure that employment grew by over 0.5% a year.

From 1988 to 1990, forecasts indicate annual GDP growth of above 3%, producing an employment growth well in excess of 1% a year.

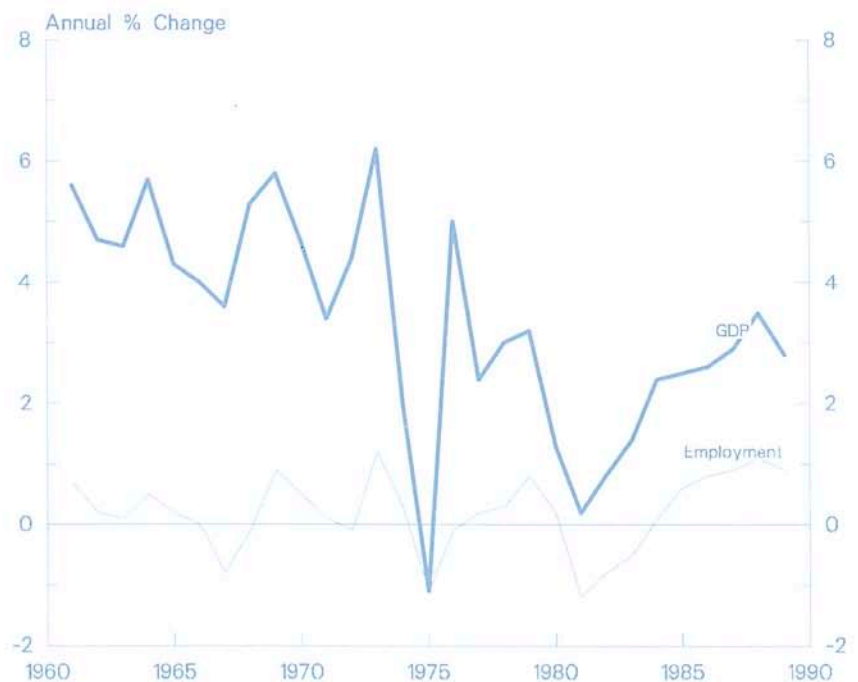
Although this is insufficient to bring about a rapid reduction in unemployment, it is high in comparison with past performance. The 4.5 million additional jobs created in the Community in the upturn since 1983 have more than compensated for the 3.2 million jobs lost between 1981 and 1983.

### Economic Growth and Employment Creation

The relationship between economic growth and employment can be looked at in two ways:

- as the rate of economic growth beyond which employment growth becomes positive - the "employment threshold"
- as the amount of employment created per additional percentage point of economic growth - the "marginal employment intensity of growth".

#### 40 Employment and GDP Growth Trends in the Community 1961-1989



These points are illustrated by Graphs 40 and 41.

Graph 40 shows annual growth rates of Community GDP against those for employment. There was a fairly stable relationship between growth and employment over the period 1960-1973 but GDP growth rates over 4.5% were needed to generate any increase in employment.

This stable relationship between growth and unemployment levels was upset by the first oil shock. A new ratio was established between 1977 and 1980, but again was altered by the second oil price shock. The period since 1981 suggests that a third constant relationship between economic growth and employment creation has developed and the current employment threshold is now 2% - in other words, GDP growth nowadays only needs

to be above 2%, rather than 4.5% as in the 1960s, for employment to grow.

Graph 41 illustrates how the relationship between employment and GDP growth has changed over the period 1960 to 1989. It shows how, for the period since 1980, a GDP growth rate of 2% generates no net employment increase (this corresponds to the employment threshold) but that growth rates of 3% and 4% correspond to 1% and 2% employment growth, respectively. Consequently, in order to reach an employment growth of 1.5% or more which - given demographic factors and increasing activity rates - is the rate needed to significantly lower the unemployment rate, an annual GDP trend growth rate of at least 3.5% is now required.

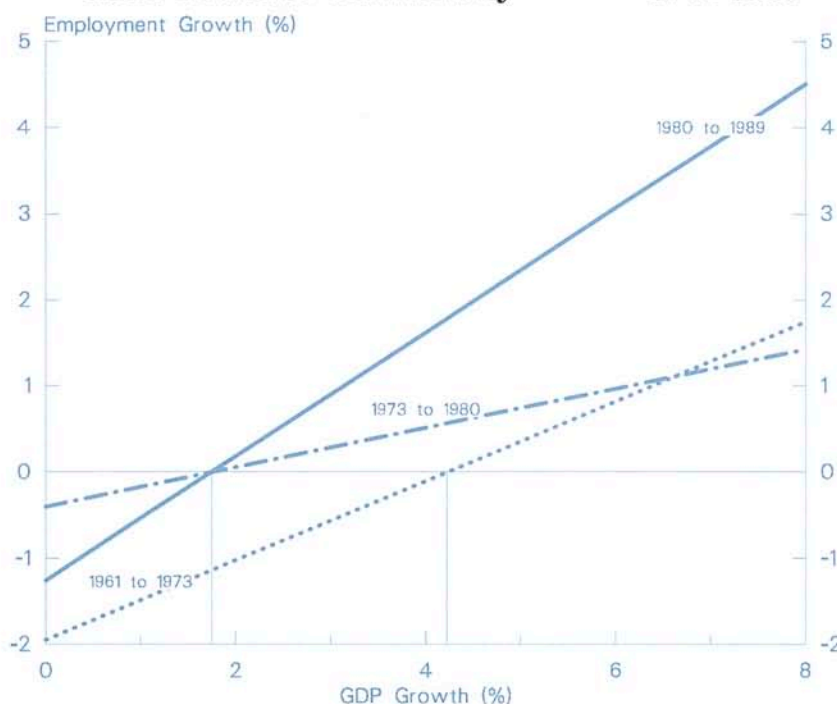
## Macroeconomic Analysis of the Employment Content of Growth

The increase in the employment content of growth is due to changes in the behaviour of key economic variables - e.g. wages, productivity, profitability - and important structural changes - e.g. in the sectoral composition, in working time.

Two main macroeconomic developments have affected employment performance:

- a sharp upturn in investment, in particular in plant and machinery which has increased the growth potential of the economy, and
- an appreciable slowdown in the rate at which capital has been substituted for labour, (see Graph 43), which has increased the employment content of growth.

**41 Relationship between Employment and GDP Growth in the Community 1960-1989**



Between the first oil shock of 1973 and the early 1980s, investment declined in real terms whereas real GDP grew at an average of 2% a year. As a result, the ratio of investment to output fell from over 23.5% in 1973 to under 19% in 1986. A decade of depressed investment produced an "investment gap" which, in itself, explains much of the shortage of jobs in the Community.

Since the early 1980s, the behaviour of real investment levels has mirrored, but lagged behind, the slow level of GDP growth. Construction investment in particular remained subdued. In 1986, international uncertainty and the difficulties involved in switching from export-led growth to internal growth, impeded investment. In 1987, however, and to an even greater extent in 1988, investment became the most dynamic component of demand in the Community. The real increase in total investment of over 7.8% in 1988 was the highest for twenty years. This dynamic rate of

investment is expected to continue in 1989 and 1990.

The revival of investment in the Community is a result of increased profitability and expectations of stronger demand. Early reactions by the business sector to the approaching completion of the Internal Market are also boosting private investment.

Profitability has steadily improved since the early 1980s (see Graph 42). The rate of return on fixed capital in the Community has risen by almost 30%, and has now climbed back to 85% of the rates of the period 1960 to 1973, when the Community effectively enjoyed full employment.

Improved profitability has been linked to the moderate real wage growth of recent years. Real unit labour costs have fallen by nearly 7% compared to the 1973/1981 aver-

age - i.e. real wages rose much less than labour productivity. Reductions in energy prices and increases in capital productivity due to greater utilisation have also contributed to higher profitability. The gains in capital stock profitability have more than compensated for the fact that long-term real interest rates are higher today than in the 1970s.

Demand in recent years has also strengthened, and is expected to remain buoyant. Up to 1984, growth in demand was primarily export-led but since 1985 additional demand has been increasingly generated from within. The improvement in the terms of trade, due to the fall in oil prices and the devaluation of the US dollar, stimulated private consumption in the Community, although part also come out of savings. Since 1987 investment itself has accelerated the growth of de-

#### 42 Profitability of Capital in the Community 1965-1989



mand. Dynamic demand has resulted in a continually increasing rate of capacity utilisation in the manufacturing sector, now higher than at the previous cyclical peak of 1979.

Thus improved profitability and stronger demand have stimulated investment with potential benefits for production and employment. However, this would not have been sufficient to expand employment as much as it has, if capital intensity (capital stock per person employed) were not now increasing more slowly than in the past.

The change in the relationship between employment and the capital stock is explained by increased capital utilisation and by structural employment changes, notably the expansion of part time work. The level of real wage costs per employee and of total factor

productivity (see Graph 43) suggest that wage moderation in the 1980s has also played an important part in curbing the process by which capital was being substituted for labour.

Total factor productivity is the weighted average of labour and capital productivity. Its rate of growth indicates the expansion of production potential with given factor inputs, and thus takes into account technical progress as well as increased efficiency in the use of all factors of production. When labour costs grow faster than total factor productivity, there is an incentive to replace labour with other factors of production in order to maintain the rate of return on capital.

During the 1960s, and until the first oil price shock, real per capita wage costs increased faster than total fac-

tor productivity, thus favouring more capital intensive forms of production, accompanied by a high investment ratio. However, because labour supply increased little at the time this was not prejudicial to full employment.

During the 1970s until 1983, the productivity of capital declined, particularly sharply in the years immediately following the two oil price shocks. A reduction in the annual operating hours of the capital stock was a factor and the growth of labour productivity also slowed down. As a result, total factor productivity growth fell appreciably and after a delay it was followed by an equivalent fall in real costs per head, continuing the process of capital/labour substitution.

In recent years improved growth rates, better terms of trade and increases in the rate of capacity utilisation have ended the decline in productivity of capital which has even begun to rise again. The growth in labour productivity has stabilised at an annual rate of about 2%. Real wage costs per head are now, for the first time since the early 1960s, increasing at a rate lower than that of total factor productivity. This is curbing the process of capital/labour substitution and thus increasing the employment content of growth (see Graphs 47, 48, 49, 50).

### 43 Real Wages, Capital Intensity and Total Factor Productivity in the Community 1965-1989



### The Role of Sectoral Changes

The relationship between economic growth and employment creation differs greatly between sectors and activities. Among other things it depends on the capital intensity of the production process, on company size and on the availability and implementation of technical progress.

While such structural features may change over time, some sectors display in the long term a much closer link between growth and employment creation i.e. a lower rate of labour productivity growth - than others. To the extent that these sectors expand as a proportion of the economy, the overall employment content of growth rises.

Activities with low rates of labour productivity growth exist in all sectors but predominantly in the service sector. Productivity growth of market services has always been significantly lower than that of the total Community economy (see Graph 44). Between 1982 and 1986, for example, market services productivity growth was 1.5% a year compared with 2% in the total economy.

The relative expansion of the service sector has therefore been the main source of the recovery of employment after 1983. Only since 1988 has manufacturing employment started to recover. Market services grew at an annual rate of nearly 2.5% between 1983 and 1986 while non-market services - which provided the biggest contribution to employment creation in the 1970s - expanded at a significantly lower rate.

### The Role of Working Time Reductions

Another factor which has linked employment creation more clearly to economic growth has been the reduction in the average working time per person employed, which has spread the demand for labour. Reductions in average working time have come about in two ways:

- lower contractual weekly working hours, leading to reductions in real or effective hours, and;
- growth in part-time employment.

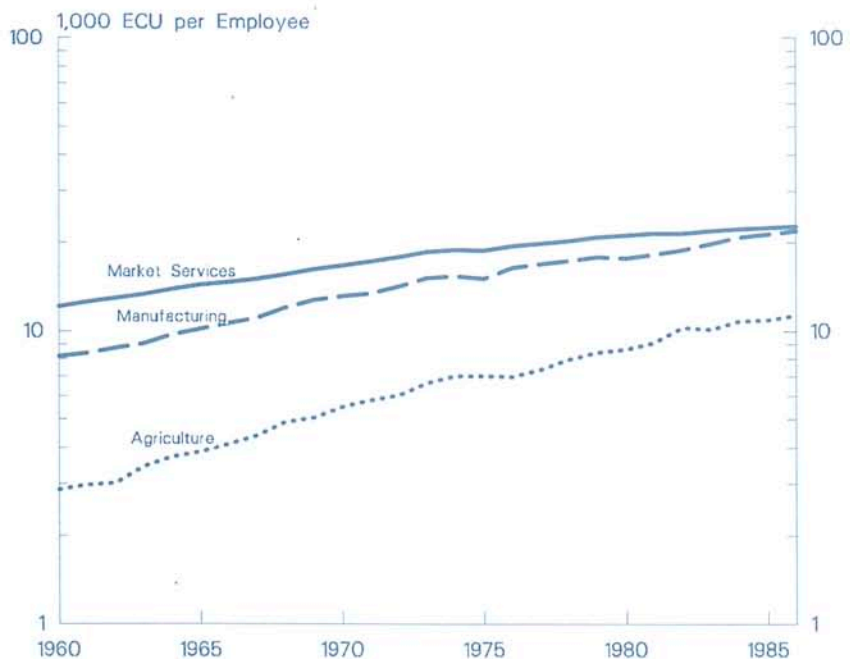
Contractual weekly working hours decreased significantly in the 1970s. In the 1980s the downward trend had slowed, until some major industrial disputes (German metal working industry in 1984 and 1987) or government initiatives (France 1982) restarted the process. In the Federal Republic of Germany, contractual weekly working hours in some sectors will go down to 37 hours (metal working, printing industries) and 36.5 hours (steel industry) in 1989. In Portugal a 35 hour working week has been negotiated for the civil service. In general, however, the margins for contractual weekly working time

reductions have been limited by employer pressures to restore profitability, and by the desire of those who are in employment to maintain growth in real wages.

In the 1980s it has been the growth of part-time employment that has principally reduced the average working time in the Community economy. Part-time employment has grown much more strongly than full-time employment. Between 1983 and 1987, 70% of all jobs created in the Community were part-time. In Denmark, the Netherlands and the United Kingdom over 20% of total employment is now part-time (see Chapters 1 and 6).

The aggregate importance of the growth of part-time employment can be estimated since the EC Labour Force Survey estimates that part-time employees worked 19.4

**44 Productivity in Agriculture, Manufacturing and Market Services in the Community 1960-1986**



hours per week in 1987 as compared with the 40.6 hours of full-time employees (effective working time, which includes overtime work). Two part-time employees therefore supply about the same labour volume - if not necessarily the same labour "value" - as a full-time employee. If the new part-time jobs were thus converted to "full-time equivalents", annual employment growth between 1983 and 1987 would have been 0.4% instead of the 0.6% achieved by counting full-time and part-time jobs equally. The growth of part-time employment has thus contributed about one sixth of the reduction in labour productivity growth between the late 1970s and the 1980s. Alternatively, if only full-time jobs had been created in the recovery since 1983, there would be at least one million fewer jobs and unemployment would still be rising (Graph 45).

### Other Factors

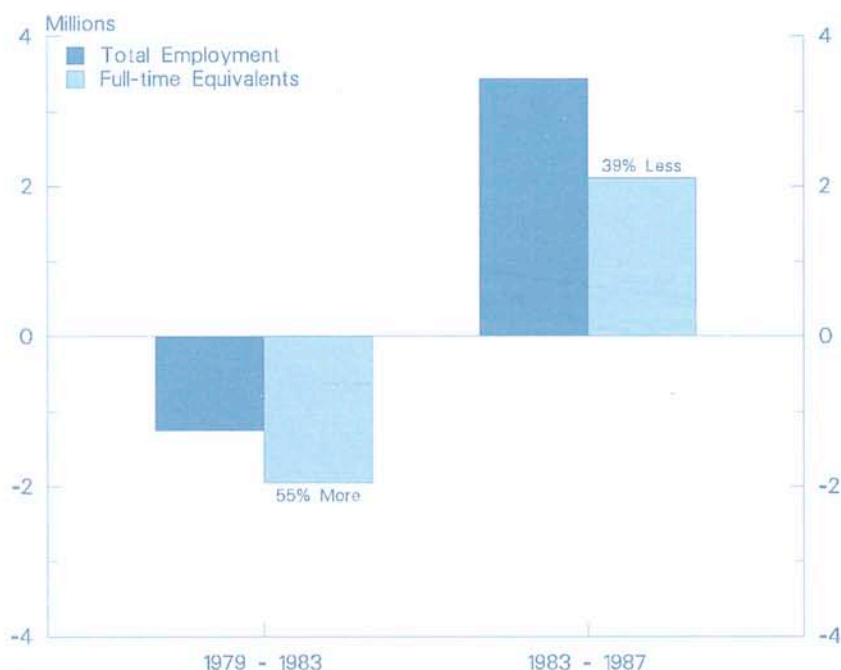
The shift towards the service sector and the reduction in average working time are not the only factors which have made growth more employment creating in the Community. Others are:

- a slow-down in the incorporation of technical progress into the capital stock. Depressed investment levels between the mid-1970s and the early 1980s slowed down the introduction of technology in the Community production process.
- Special efforts by virtually all Member States in the 1980s to provide jobs in the non-market services sector targeted on the unemployed, which have lower productivity levels.

### Prospects and Policies

The employment content of growth is difficult to predict as it is the outcome of a variety of economic processes. On the one hand, the trend towards the service sector will continue. As female participation in many parts of the Community is still comparatively low, there may well be further increases in part-time employment. On the other hand, the recent investment growth should accelerate the implementation of new production technologies. The completion of the Internal Market should also improve efficiency and labour productivity. Moreover, as unemployment declines, low-productivity jobs in the public sector targetted on the unemployed are liable to be reduced.

**45 Volume of Employment - Total Employment and Full-Time Equivalents in the Community (EUR9) 1979-1987**





A number of policies could help sustain the high employment content of growth:

- Relative factor price movements which discourage capital substitution for labour and sustain the moderate growth level of real wages. This would be helped if any margins of manoeuvre which governments acquire from growth are used to reduce non-wage labour costs, in particular by lowering direct taxes, rather than providing subsidies which encourage the use of capital (See Graph 46).
- Actions to ensure that sectoral change, especially the growth of services, is not inhibited by restrictive practices or price distortions. At the moment, ac-

tivities remain highly regulated in some service sectors, (e.g. finance, insurance, transport and telecommunication) and may not be able to expand to their full potential because of these restrictions. The Community's implementation of the Internal Market programme addresses many of these issues and should provide a new impetus to reforming the regulatory framework.

- The strategy of enhancing the employment content of the capital stock and of economic growth by forms of shift working linked to reductions in individual working time which expand of operating hours of equipment. When capacity utilisation is very high, as at

present, an expansion of operating hours would contribute to the growth of production potential and provide more jobs with the given capital stock. The employment effect would be strongest when the resulting reductions in unit capital costs were used to negotiate reductions in individual working time.

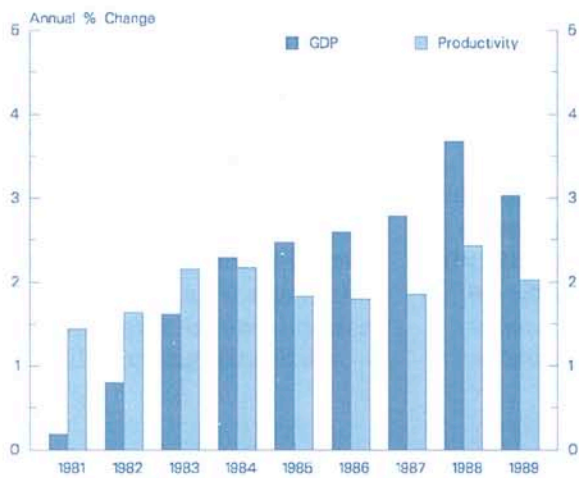
These policies would contribute to a more employment intensive pattern of economic growth in the Community. However, such structural changes take time to have their effect and their acceptance and smooth implementation is at least partly dependent on the Community continuing to achieve high overall rates of economic growth.

#### 46 Real Wages and Labour Productivity in the Community 1965-1989

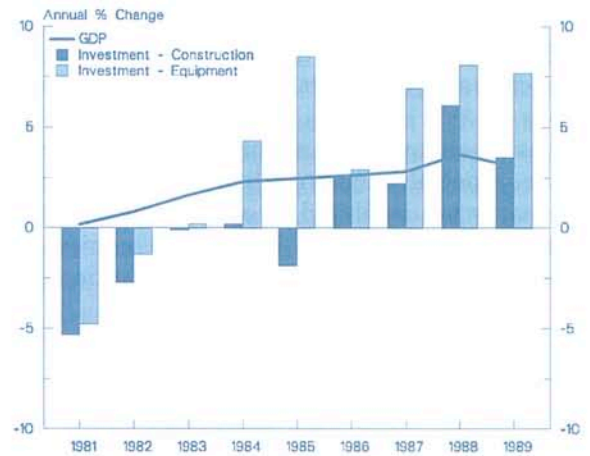


## Economic Developments in the Community in the 1980s.

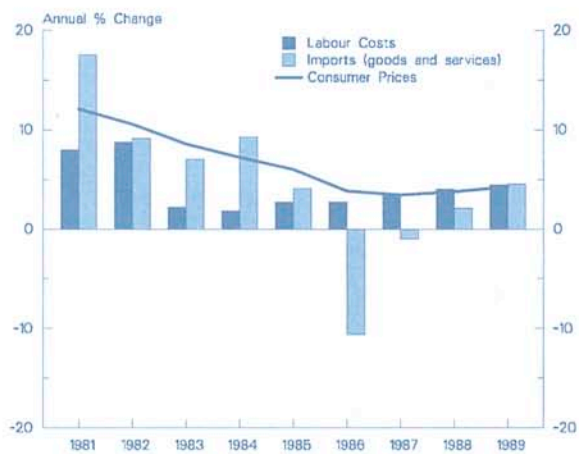
**47 GDP and Productivity Growth in the Community 1981-1989**



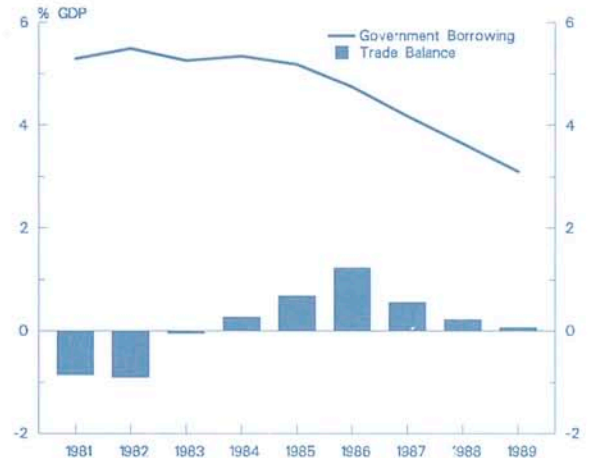
**48 GDP Growth and the Role of Investment in the Community 1981-1989**



**49 Consumer Price Inflation and its Determinants in the Community 1981-1989**



**50 Government Borrowing and the Trade Balance in the Community 1981-1989**



## Chapter 5 Sectoral Employment Impact of 1992

*The opportunities and challenges unleashed by the completion of the Internal Market are multiple. What can we currently predict about its effects on employment in particular sectors and areas of the Community?*

### Introduction

The completion of the Internal Market by 1992 has already begun to give an impetus to growth and employment creation in the Community. By removing trade barriers and exploiting economies of scale, it stands to strengthen competitiveness and employment growth. It should provide a margin of manoeuvre for the creation of self-sustained and balanced growth, especially when supported by related policies in such areas as research and technology, environment and competition. While the overall impact will be positive for employment, the free movement of goods, services, labour and capital that the Internal Market implies could lead to a considerable restructuring of the European economy and labour market.

These effects will have an impact on a Community already undergoing major structural transformation as a result of changes in the world economy (as discussed in Chapter 3) and of other changes taking place internally - notably the continuing growth of the service economy.

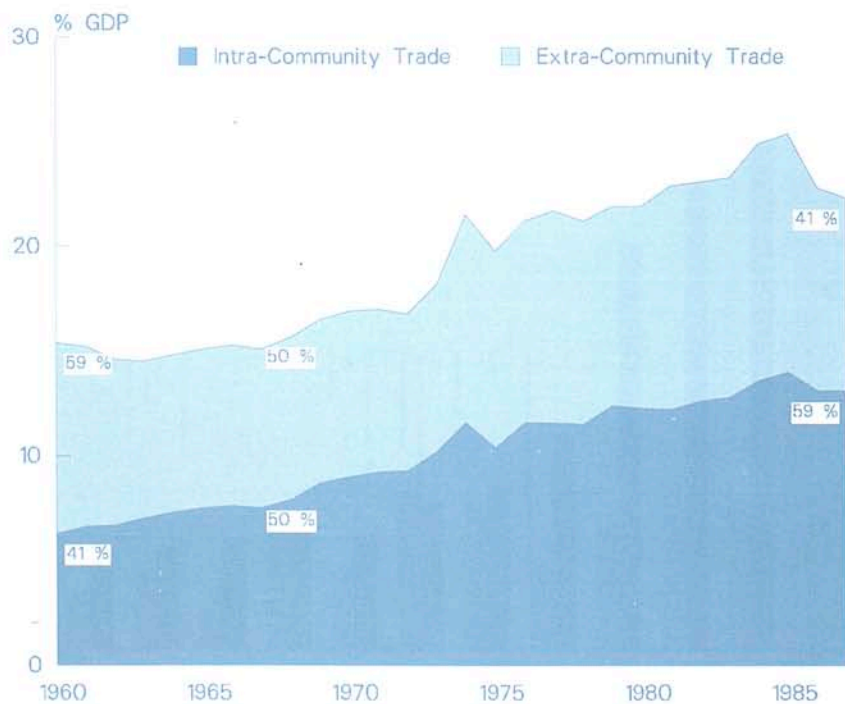
The overall macroeconomic environment determines, to a

considerable extent, the ease and speed with which structural changes are absorbed. Thus the ability of the Community to achieve and maintain higher rates of economic growth is a key factor in

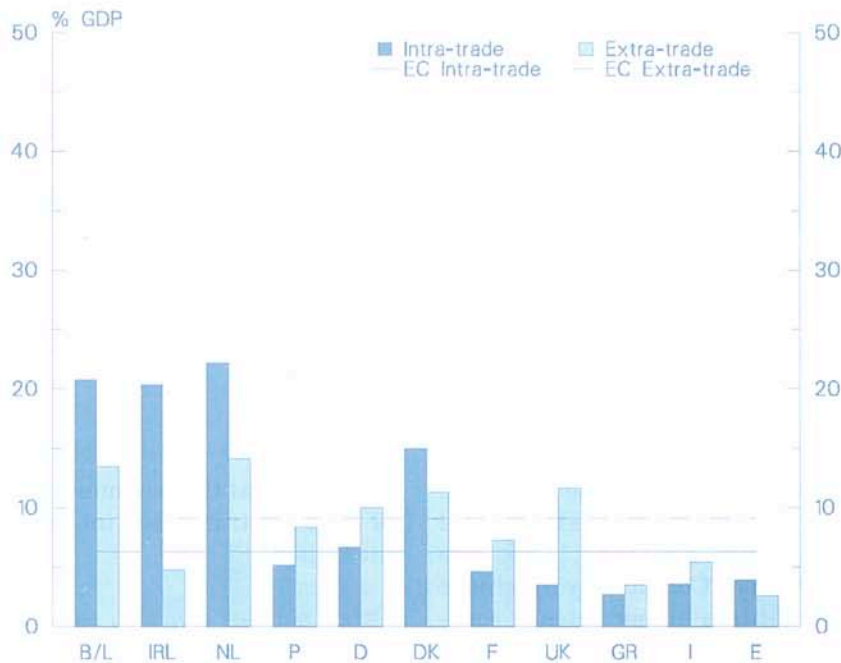
ensuring that the economic benefits of 1992 are translated into employment gains.

Other policies can also assist. For example, the completion of the In-

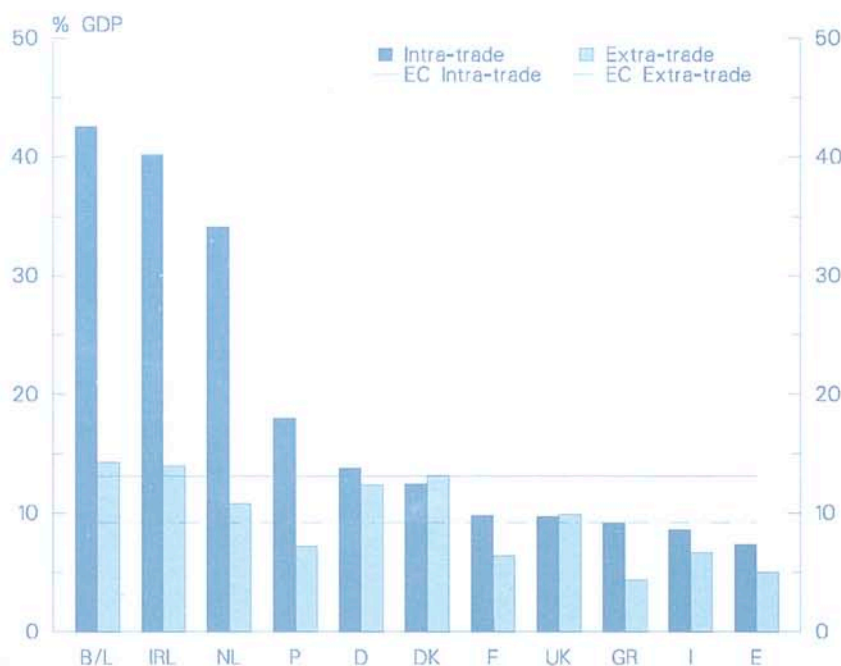
**51 Shares of Intra- and Extra-Community Trade as a % of GDP - EUR12 1960-1987**



**52 Interdependence: Intra- and Extra-Community Trade as a % of GDP 1960**



**53 Interdependence: Intra- and Extra-Community Trade as a % of GDP 1987**



ternal Market at a high level of environment protection could also provide a stimulus to the growth of the environmental protection industry which currently provides employment for more than 1.5 million people, a number which could double by the end of the century.

**Community Economic Interdependence**

The Community is characterised by a high degree of economic interdependence, with a large and growing level of trade between the Member States. In 1960, Community trade between Member States represented only 40% of total trade. By the mid-1960s, when the original customs union was completed, intra-Community trade equalled extra-Community trade in value. Today it represents 60% of Community trade (Graph 51).

For some Member States this interdependence is even greater: for the three Benelux countries and for Ireland, intra-Community trade represents over 70% of total trade and more than one-third of GDP (Graphs 52 and 53).

However, the growth of intra-Community trade has slowed somewhat since 1973 as a result of non-tariff barriers and the small share of Community production in growth sectors. The completion of the Internal Market is expected to have a positive effect with respect to both these factors.

**Structural Shifts in Employment**

The completion of the Internal Market will impact on a Community

already experiencing major changes in the structure of its employment (see Graph 54). Agricultural employment has continued to decline, now representing less than 8% of jobs in the Community. Employment in industry declined sharply in the period after the first oil shock in 1973-74, although it has picked up in recent years. Manufacturing employment is expected to maintain the slow rate of growth begun in 1988 after many years of decline. It now seems that the substitution of capital for labour in the manufacturing sector is slowing down as the availability of labour has increased and its cost has declined (see Chapter 4).

The major growth area for employment continues to be the service sector which now accounts for over 60% of total number employed in the Community. Part of the apparent job creation in services is a result of a shift in activities from manufacturing to services through the contracting out service work previously undertaken in-house (see Chapter 6). This exaggerates both the decline in manufacturing employment and the rise in service employment. Nevertheless, there is no reason to expect a slowdown in the increase in employment in services in the immediate future.

### 1992 - The Impact on Employment

The impact of 1992 on employment will not be felt evenly. There will be an overall, positive, effect in the long-run but there will be disparate effects on different sectors, industries and regions and on the structure of employment within them.

It is obviously impossible to foresee all the possible changes that 1992

will bring or to predict the particular effects it will have on specific narrowly defined sectors or individual firms. A great deal of the analysis that is underway remains to be completed. Moreover, forecasting exercises of this kind are hazardous. Nevertheless, some preliminary studies have been completed and this chapter exploits this initial work in order to provide a first assessment of the possible impact of 1992 on employment (see Box on 1992 monitoring).

One reason for the difficulty in assessing the impact of 1992 is the complexity of the different processes involved. The abolition of frontiers will encourage the exploitation of economies of scale in the search for greater competitiveness, affecting both the structure of industry and of employment. Greater efficiency will in turn reduce costs

and prices and increase demand and production, which will in turn induce additional growth.

The effect on different sectors will depend on the extent to which they previously enjoyed protection and on the realisation of potential economies of scale through merger and a reduction in the number of establishments. The abolition of frontiers will increase competition between producers in different countries, accelerating adjustments in certain sectors. It will also offer opportunities to build on the strengths of particular localities: those with, for example, good communications and a reserve of highly-skilled workers will be in a good position to move into new markets after 1992, thus bringing about shifts in the structure of production.

### 54 Change in Sectoral Employment in the Member States 1974-1987



These likely developments are not necessarily all desirable. Concern has already been expressed that efforts must be made to avoid allowing the 1992 process to aggravate regional imbalances. The Community comprises regions at very different levels of economic development and while the backward regions have very competitive wage levels, they mostly lack good infrastructure and communications. There is a balance to be struck. On the one hand, concerns have been expressed that the more peripheral regions would lose out against more central areas in the Community. On the other hand, the northern countries fear that competition from the south will bring pressure on their higher social standards and risk 'social dumping'.

Estimates by the Commission services have suggested that the

completion of the Internal Market will have substantial beneficial effects on employment levels in both the medium and long terms. However, the immediate impact is more uncertain and depends in particular on the extent to which economic growth takes up the slack achieved from the increased productivity resulting from rationalisation.

It has been suggested that the trend in employment would take the form of a "J-curve", with employment losses in the first year being off-set by employment gains from the second year onwards. The net effect has been estimated at 1.5% of employment or at least 2 million potential new jobs in the medium-term.

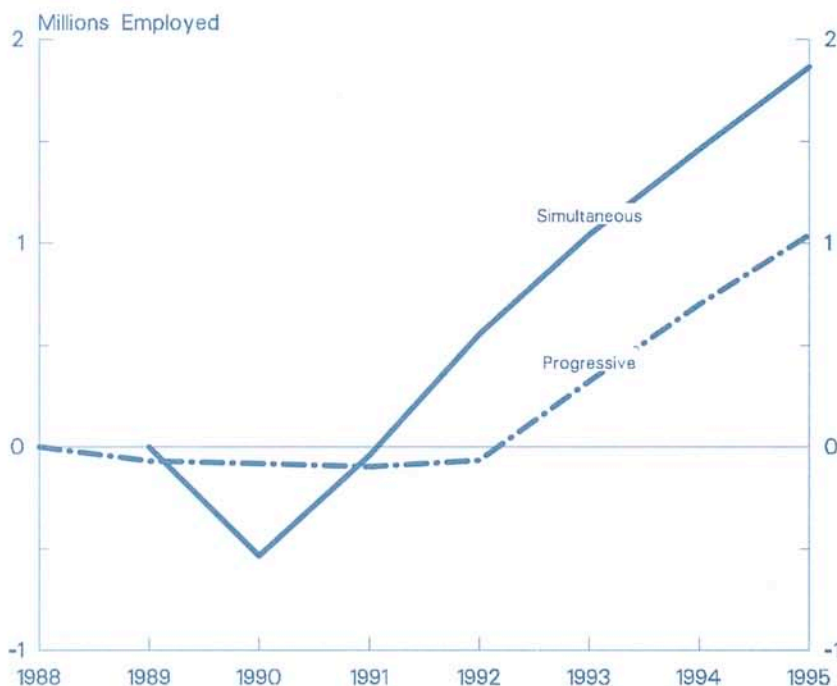
These first estimates of the employment effect were based, however, on an assumption that all measures

announced in the Internal Market White Paper would be implemented simultaneously. In practice, implementation is likely to be more gradual, with the employment changes spread over time and the J-curve effect therefore much less pronounced (Graph 55). In both cases, the eventual net job creation is the same.

This J-curve effect, even in its flatter form, is enhanced by the current high rate of output growth in the Community, as enterprises react in anticipation of the completion of the Internal Market. This anticipation is taking the form of higher domestic and foreign investment and an increase in the number of mergers and concentrations.

While the exact employment effects of the Internal Market will depend on the outcome of a large number of inter-dependent factors, the various alternative calculations made so far all show positive employment benefits.

### 55 Effect of the Internal Market on Employment : Alternative Scenarios



### Some Sectors more 'Sensitive' than Others

The overall job creation potential of the Internal Market will be distributed across a variety of sectors of activity.

However, while it is estimated that all sectors will be affected by 1992, the greatest impact is likely to be felt in those currently characterised by low market penetration and high non-tariff barriers. Three broad categories are considered:

- Industrial sectors 'sensitive' to the 1992 changes

- Industrial sectors relatively 'non-sensitive' to the 1992 changes
- the Service sector.

## 'Sensitive' Industrial Sectors

Sensitive sectors are those in which the completion of the Internal Market could be significant.

Changes will arise as a result of a series of effects which can be classified into three groups:

- direct and indirect effects of the White Paper measures, whether they apply specifically to certain sectors or to all sectors
- induced effects arising from changes in relative prices, market shares or overall demand

- strategic effects, principally the result of changes in the behaviour of firms linked to the expansion of European trade or global trade.

The completion of the Internal Market essentially involves a process of provoking changes in behaviour. The Internal Market will reveal the strengths and weaknesses of each sector in the international competition environment and accentuate the changes already under way.

One of the principal factors determining the sensitivity of industrial sectors is the character of non-tariff barriers. On the basis of a survey of 11,000 European firms, industrial sectors (broken down into 20 areas of activity) were classified according

to the overall impact of non-tariff barriers. The box indicates how these issues were seen by the firms who were interviewed.

The current dispersion of prices in different parts of the Community, the scope for economies of scale, the degree of concentration and the prevailing and potential extent of internationalisation are other determinants of the impact of 1992 on different sectors.

The analysis of sensitive sectors which follows is exploratory, and is intended to give an overall impression. In practice, the impact on individual sectors may vary between Member States and may be influenced by off-setting effects of the strategies of enterprises.

### The Importance of Non-Tariff Barriers as seen by Business

The removal of non-tariff barriers in the Community market will affect sectors differently. A Community-wide survey of 11,000 firms identified a series of barriers to trade in different sectors:

- 1 Technical standards and regulations: plastics, non-metal minerals, chemicals, mechanical engineering, motor vehicles
- 2 Administrative barriers: textiles, clothing, paper, metals, rubber, food
- 3 Frontier formalities: wood, leather, man-made fibres
- 4 Freight transport regulations: metals, oil products, paper
- 5 Value-added tax differences: motor vehicles, clothing, leather
- 6 Capital market controls: computers, textiles
- 7 Government procurement restrictions: electrical engineering, transport equipment, computers

40 sectors, representing 50% of industry by value-added in the Community, have been identified as particularly "sensitive" to the impact of 1992 by the Commission's Directorate-General for Economic and Financial Affairs. These sectors have been classified into four broad groups.

#### Group 1

##### **Economic Characteristics:**

- High non-tariff barriers (public procurement and standards)
- High intra-EC import penetration rates and high degree of openness to third countries
- Little price disparity
- Strong growth in demand
- High technology content
- Moderate or substantial economies of scale
- High degree of concentration
- Relatively poor productivity of European firms compared with American or Japanese competitors

##### **Employment Indicators:**

	Employment as % of total manufacturing Employment	Annual Change		wage costs per person (1,000 ECU)
		1975-83	1983-86	
Group 1				
330 Computers	1.3	-1.2	4.1	28.7
344 Telecom equipment	4.2	-0.4	2.4	21.1
372 Medical equipment	0.5	10.5	2.5	19.2

The computer, office-equipment and medical equipment industries are currently experiencing a rise in employment.

Telecommunications equipment suffered falling employment over many years as the introduction of electronic and digital technology led to continued increases in productivity. In recent years, these losses have been reversed and employment is expected to remain relatively stable in the medium term.

##### **Effects of the Internal Market:**

- Restructuring
- Cooperation (on Research & Development)
- Improved competitiveness at world level
- Internal market provides opportunity to become a force at world level.

#### **Group 1 : Competitively Weak Industries**

For the high technology industries with growing demand, such as computers, office equipment, medical and telecommunications equipment, the Internal Market offers an opportunity to regain ground lost to Japanese and American competitors. In these industries, Japanese and US firms currently have a large productivity advantage over their European counterparts because of the considerable economies of scale they are able to realise. These are truly global markets, in terms of the homogeneity of consumer demand throughout the industrialised world, the nature of the players in the market and the universal role of technology.

The opening-up of the Community market could be an opportunity for European firms to lower their costs by greater exploitation of economies of scale, often through merger. This will strengthen their ability to invest in R&D since, in these industries, companies need to be of a certain minimum size in order to finance product development. The Single Market could also improve the industries' performance in pioneering innovation, by making research staff more mobile, increasing the speed of take-up of new technologies, and encouraging co-operation between firms. Thus, the Single Market is an opportunity for these industries to become world, rather than local, players.



## Group 2 Industries Facing Rationalisation

The potential for restructuring is high in sectors where trade is presently limited and where there are many European producers relative to the size of the market as in railway equipment and boilermakers.

For railway equipment and boiler-making the impact of the Internal Market could be considerable. In the short-to-medium term, the freeing of restrictions on government procurement could provide a boost to the most competitive Community suppliers and lead to an increase in intra-EC trade and lower prices. The change in public purchasing behaviour could set off major rationalisation in these industries as producers seek to establish production facilities of optimum size to serve an integrated EC market.

In the drinks industry, some further concentrations could occur, continuing a strategic process which has been under way for some time.

Changes in approval procedures are likely to cause changes in the pharmaceutical industry in future years.

Alliances between European firms are already proliferating. It is difficult to foresee the exact consequences of this, but the rationalisation process could see medium-sized, non-specialised firms disappear, leaving fewer but larger integrated groups operating on a European scale.

### Group 2

#### Economic Characteristics:

High non-tariff barriers (public procurement for sectors 315 and 362 and standards for sectors 257, 425 - 8)  
Rather low intra-EC import penetration rates and little openness to third countries  
Wide price dispersion  
High degree of concentration  
Substantial economies of scale

#### Employment Indicators:

	Employment as % of total manufacturing Employment	Annual Change		wage costs per person (1,000 ECU)
		1975-83	1983-86	
Group 2				
257 Pharmaceuticals	1.6	-0.4	-1.2	25.8
315 Boilermaking	1.1	-2.6	-2.3	20.7
362 Railway equipment	0.4	-2.4	-9.7	20.0
425 Drinks	0.1	-1.2	-4.7	23.6
427 Drinks	0.6	-4.3	-8.2	24.9
428 Drinks	0.3	-2.34	-4.8	21.3

The pharmaceutical industry has a workforce of approximately 300,000 and overall employment was relatively stable but there has been a slight drop in recent years. However, if indirect employment generated upstream and downstream is taken into account, the industry provides employment for a total of 1.2 million people throughout the EC.

In boilermaking, a significant fall in employment of around 2.4% per year over the period 1975-86 has accompanied a slight fall in output. The decline is partly caused by a stagnation in investment within the Community Internal Market and the arrival of more competitive imports. Employment levels have also been affected by the appearance of new techniques and higher skill requirements.

The employment situation in railway equipment has changed greatly over the last few years. As in some other sectors, there are close links between jobs and orders on the one hand and investments to boost productivity on the other.

In drinks there is a trend towards concentration with the number of producers decreasing.

#### Effects of the Internal Market:

Growth in intra-EC trade  
Restructuring (boilermaking and locomotive industries)  
Technical efficiency gains  
Narrowing of price disparities

Impact of the internal market likely to be most marked in this group, but adjustments will occur at different rates.

## Group 3

**Economic Characteristics:**

Identical to those of group 2 except that price dispersion is low (less than 10 %) and extra-EC trade plays a greater role than intra-EC trade in the shipbuilding and electrical engineering industries.

**Employment Indicators:**

	Employment as % of total manufacturing Employment	Annual Change		wage costs per person (1,000 ECU)
		1975-83	1983-86	
Group 3				
341 Cables	0.4	-0.6	0.7	19.4
342 Electrical machinery	3.6	-1.7	-1.4	18.9
361 Shipbuilding	1.0	-4.7	-13.0	20.6
417 Pasta	0.1	-0.2	-1.0	23.5
421 Chocolate	0.7	-3.4	-6.8	20.2

The production of cable is essentially a capital intensive activity. The pace of technological development in both the cables themselves and the methods of producing them is such that employment is likely to fall rather than rise. Changes in employment will be mainly affected by strategic effects which would have occurred in any case.

The same applies to employment in shipbuilding which has fallen with the decline in activity. Restructuring has gone ahead but continued excess capacity in the Far East has maintained pressures on the European industries.

**Effects of the Internal Market:**

Restructuring  
Technical and economic efficiency gains but less marked than those for group 2

Relative importance of Community external trade policy.

### Group 3 Industries Liable To Some Rationalisation

In a rather disparate group of industries, including shipbuilding, electrical equipment, pasta and chocolate, there is some scope for efficiency gains from rationalisation.

In some of the industries (e.g. shipbuilding and electrical equipment) imports from outside the EC are substantial, with competition mainly from newly industrialising countries. This overseas competition explains why price differences within the Community are low despite the low level of intra-Community trade and why the bulk of the restructuring has already taken place.

While technical efficiency gains could certainly still occur, they are probably less than those to be expected in the industries in groups 1 and 2. In the agri-food industry, however, the wave of mergers and acquisitions now taking place is almost certainly a strategic response to the prospect of 1992.

### Group 4 Industries Where Distribution Networks May Change

This group of industries includes many basic consumer goods (radios, TV, household electrical appliances, clothing, shoes and toys) and a few intermediate and investment goods (motor vehicles, machinery, glass).

Here the structure of production is unlikely to alter much but existing price differentials provide scope for significant changes in distribution systems. If such developments occur, the major beneficiaries are likely to be consumers.

Examples of existing administrative barriers are frontier formalities imposed by certain Member States on products imported from third countries but which enter freely into other Member States. This affects major areas of consumer goods such as radio, television, electrical appliances, clothing, shoes and toys.

At the production level, there is likely to be a move towards increased cooperation between European firms which may lead to technical efficiency gains in some industries. In the motor industry, for example, the establishment of the Single Market could allow economies of scale to be reaped through production agreements between European motor groups. At the same time, it could intensify competition by ending the present segmentation of the EC market due to differences in technical regulations, tax rates and manufacturers' pricing policies. These production effects, should, however, be fairly limited.

#### Group 4

#### Economic Characteristics:

Moderate non-tariff barriers (standards and administrative barriers)  
High import penetration rates  
Price dispersion above 10 % or  
Substantial economies of scale

#### Employment Indicators:

	Employment as % of total manufacturing Employment	Annual Change		wage costs per person (ECU)
		1975-83	1983-86	
Group 4				
247 Glass	1.0	-2.8	-6.5	20.9
248 Ceramics	1.1	-3.2	-2.6	17.4
251 Industrial chemicals	3.0	-2.0	-5.6	27.0
256 Other chemicals	0.7	-0.7	-5.8	24.0
321 Agric. machinery	0.8	0.1	-10.3	20.0
322 Machine tools	1.4	-4.3	-0.1	21.1
323 Textile machinery	0.5	-8.1	0.2	20.9
324 Food machinery	1.3	-2.4	-1.1	22.4
325 Mining machinery	1.9	-2.2	-3.3	21.8
326 Transmissions	0.9	-6.8	-2.6	20.5
327 Wood machinery	0.8	-2.0	1.1	21.6
345 Audiovisual	1.8	-3.2	-2.5	19.8
346 Consumer electricity	1.0	-3.4	-3.7	17.5
347 Electric lamps	0.4	-4.2	3.1	18.3
351 Motor vehicles	6.3	-1.5	-1.9	23.0
364 Aerospace	2.0	-0.1	-0.7	25.1
431 Wool	0.7	-6.4	-5.4	16.9
432 Cotton	1.0	-5.7	-9.1	16.7
438 Carpets	0.2	-3.2	-10.4	18.3
451 Footwear	1.2	-1.7	-6.6	14.4
453 Clothing	3.5	-4.1	-5.2	12.3
455 Household textiles	0.3	-2.3	-1.7	13.3
481 Rubber	1.6	-2.3	-5.7	19.7
491 Jewellery	0.2	-2.6	-8.4	17.4
493 Photography	0.2	1.5	-2.8	16.9
494 Toys	0.3	-4.8	-5.1	15.5

#### Effects of the Internal Market:

Importance of Community external trade policy

Sectors where "something is likely to happen", particularly as a result of changed distribution networks.

## Relatively 'Non-Sensitive' Industrial Sectors

Some 70 other industrial sectors are considered to be relatively "non-sensitive" to the Internal Market. One group, including cement, building materials and baking, is primarily based on national or even local markets. Physical or structural factors may inhibit trade in these goods rather than non-tariff barriers which tend, in any case, to be weak or non-existent.

A number of industries where non-tariff barriers are weak are already open to international competition. Some, such as steel and paper, are suffering from strong competition from the newly-industrialising countries which use the same technology but have lower labour costs. For these industries, it is the Community's trade policy as much as the Internal Market, which will determine their ability to face up to this competition.

In industries with moderate non-tariff barriers, high import penetration and low price dispersion the effect of the Internal Market is expected to be small.

## Service Sectors

The sensitivity of service sectors to the Internal Market depends on a different set of criteria from those applicable to manufacturing industry. Some of the factors involved are the degree to which the service is already traded between countries, the extent to which they have been "externalised", the number of workers and their skill level, and productivity and cost levels.

One large group of sectors, representing 15% of total value-added and over half of market services, could be particularly sensitive to the opening of frontiers insofar as existing regulations, or lack of harmonisation, protect national markets. These are the financial services, business services, telecommunications and transport industries.

### Financial Services: Banks and Insurance

There are 2.3 million people employed in banking in the Community, representing 1.9% of total employment and 3.2% of the market service sector. The increase in employment between 1975 and 1985 was 420,000, a rise of 22.5%.

Employment in insurance is around 1 million, or 0.8% of total employment and 1.3% of service employment.

The world-wide nature and openness of these industries and, particularly in non-regulated activities, the introduction of new technologies make it difficult to quantify the effect of the Internal Market, but a number of factors likely to influence the level of employment can be identified.

The level of activity and the rate of introduction of new services are important in this regard: all banks which foresee increased activity expect their work-forces to grow. The potential loss of jobs through the productivity gains made possible by computerisation is substantial but this could, equally, be compensated by an expansion of labour intensive specialised services.

### Transport

Around 3.8 million people work in the transport sector, 3% of total employment and 5.2% of employment in services.

The employment effects are likely to vary between the different modes of transport (road, rail, air, sea, river) in line with existing disparities. Freedom to set up in national and international markets and the harmonised liberalisation of international road transport could have a significant effect on employment through the restructuring of supply, an intensification of competition and a strengthening of inter-firm cooperation. Whether employment will increase or decrease as a result is hard to predict.

Close scrutiny of the operation of the market, particularly road transport, may be needed in order to

### EC Telecom Services

Employment in 000's	1980	1987	1992
Network operators	919	924	921
Subsidiaries & competitors		32	45
New telematic firms		41	63
EC end users	490	513	527
Total	1,418	1,510	1,556

ensure that Community regulations on social and technical issues are respected in the new more competitive atmosphere.

### Telecommunications

Telecommunications play an increasingly major role in the competitiveness of the European economy and the sector has enormous potential for further growth.

Diversification and an enhanced role for the private sector have major implications for future employment, which will be affected in particular, by the growth of telecommunication traffic, new services, increased productivity from new technology, and regulatory changes (see box opposite).

The implementation of the proposals in the Internal Market White Paper and in the Telecommunications Green Paper on harmonised standards for telecommunications and the opening up of public purchases will have an important impact.

### Business Services

This sector covers a wide range of activities ranging from advertising and public relations to cleaning and security, travel services and R & D.

It has experienced very rapid growth due both to the contracting out of previously in-house activities from the manufacturing sector and a growth in demand. It now employs over 4 million people. The abolition of non-tariff barriers (recognition of qualifications, technical standards, and opening-up of public markets) offers scope for expansion in all of these activities, particularly for medium-sized enterprises.

## Sectoral Forecasts

Taking into account the existing trends as well as the likely effects of the Internal Market, it is possible to make a tentative forecast of future output growth in certain industrial and service sectors.

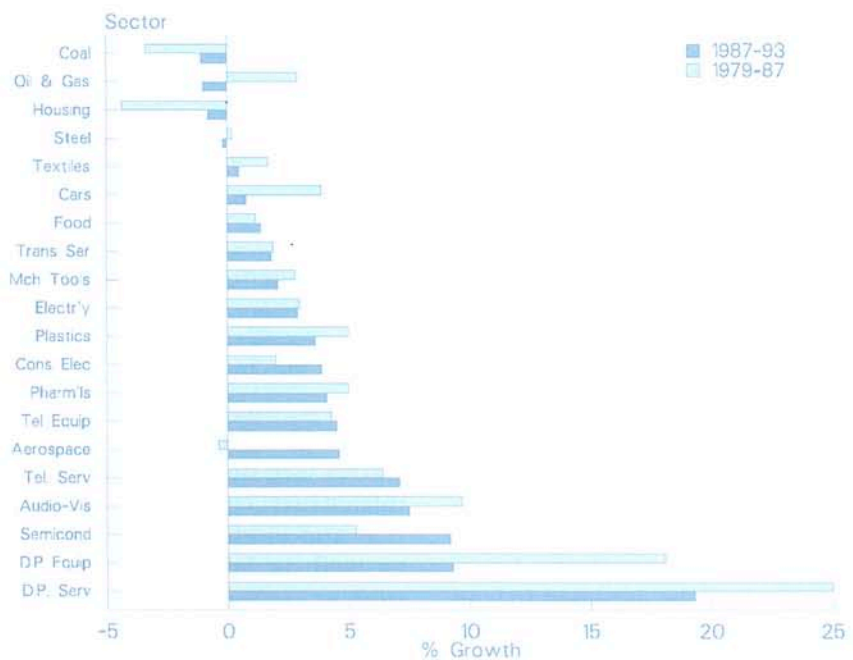
Graph 56 shows that overall growth in the Community is expected to increase in the short term and will be based on the stronger performance of certain sectors, reinforced by the completion of the Internal Market. Half the 20 sectors analysed are expected to achieve growth rates equal or superior to their current performance.

## The Regional Impact of 1992

Regional disparities in the Community have increased since 1973, reversing the trend towards convergence that was apparent in the 1950s and 1960s.

Measures to complete the Internal Market will have a regional impact. To the extent that 1992 improves the economic climate and stimulates growth, it provides one of the necessary conditions to restart the process of convergence between regions. However, evaluating the specific regional distribution of the effects of 1992 is clearly extremely difficult at this stage. The consequences for particular regions will depend on the extent to which their existing structure of economic activity and employment is sensitive to

**56 Sectoral Output Growth 1979 - 1987 and Forecasts 1987 - 1993 in the Community**



## Factors Influencing the Location of Firms

### Market potential

- local market demand, growth potential ;
- potential for economies of scale ;

### Macro-economic context / economic policy

- growth rate of the economy, its capacity to absorb shocks;
- exchange rates, credit rates, taxation (income/company taxes);
- industrial policy: R & D, subsidies, energy policy;
- commercial policy: import constraints, non-tariff barriers.

### Labour market

- labour costs;
- qualification of the Work-Force;
- labour market legislation: working-time, redundancy legislation;
- social climate: industrial relations, flexibility, trade union activity.

### Geographical situation

- proximity of clients, suppliers;
- transport costs (and communications).

### Infrastructure

- energy costs (electricity, gas, water);
- industrial sites (costs and expansion potential);
- services (banks, insurance, ...);
- educational institutions (universities, research institutions, etc.).

### Type of activity

- product life-cycle;
- labour intensity.

### Other factors

- social, cultural and language factors
- quality of living environment

1992, and the capacity of both the private and public sectors to react to the changes that occur.

These effects are both complex and uncertain. In certain sectors, activities may be displaced to other regions, although these effects could be counter-balanced by other movements. In general, the Internal Market can be expected to lead to greater specialisation and concentration of export-based activities

in areas of "greater economic advantage" because it may be easier and more cost-effective to serve the Single Market from fewer sites. However, companies' location decisions will be based on a complex of factors (see Box) which will include infrastructure, geographical location and product market potential as well as labour market factors such as training facilities and skill levels.

Assessing the regional impact is extremely difficult, therefore. Hence the Commission is undertaking extensive research into these issues including the potential effects of Community support from the Structural Funds and through the Community's borrowing and lending instruments (see Box: 1992 monitoring).

## "Social Dumping" in the Internal Market - Fact or Fiction ?

Since the creation of the Internal Market will accentuate competition across the Community, any significant differences in working conditions - wages, levels of social protection, social benefits, etc. - between the Member States raises the possibility that such differences could distort competition and give rise to concerns of "social dumping".

"Social dumping", in these terms, can be defined as the use of low levels of working conditions and social standards - below that which the productivity of the economy would normally justify - to improve market shares and competitiveness. It can work in two ways. Companies in Member States where working conditions are significantly lower than elsewhere may attempt to increase their market share and attract investment, displacing employment from regions with higher standards of working conditions. At the same time, Member States with better working conditions could come under pressure to reduce them or, at least, not to continue to make improvements.

While there is not sufficient evidence to assess the potential seriousness of the problem, the factors which might give rise to social

dumping can be considered under three broad headings;

- direct labour costs
- health and safety
- other aspects of working conditions.

### Social Dumping and Labour Costs

While the lower wage costs and cheaper social security systems of less-developed regions reflect a social disadvantage, they may also offer a comparative economic advantage.

Differences in labour costs can be important in sectors where wages represent a significant proportion of total costs and in sectors which have previously been well protected and are suddenly exposed to competition by the Internal Market.

However, the differences in wage costs per head between Member States also reflect different productivity levels, which, in general, offset part of the comparative advantage of low wage areas. Graph 57 gives an indication of the difference between labour costs and unit labour costs in Community countries. Comparisons between costs in Member States are made difficult by variations in tax regimes and, on occasions, by exchange rate movements as well as by wider problems of measurement.

Moreover, international competitiveness does not depend only on wage costs. Other factors, such as product quality, reliable delivery and after-sales service are also important. Equally, company decisions regarding the location of their production units depends on a variety of factors ranging from the availability of sub-contractors to the quality of financial and administrative services.

### Social Dumping and Health and Safety at Work

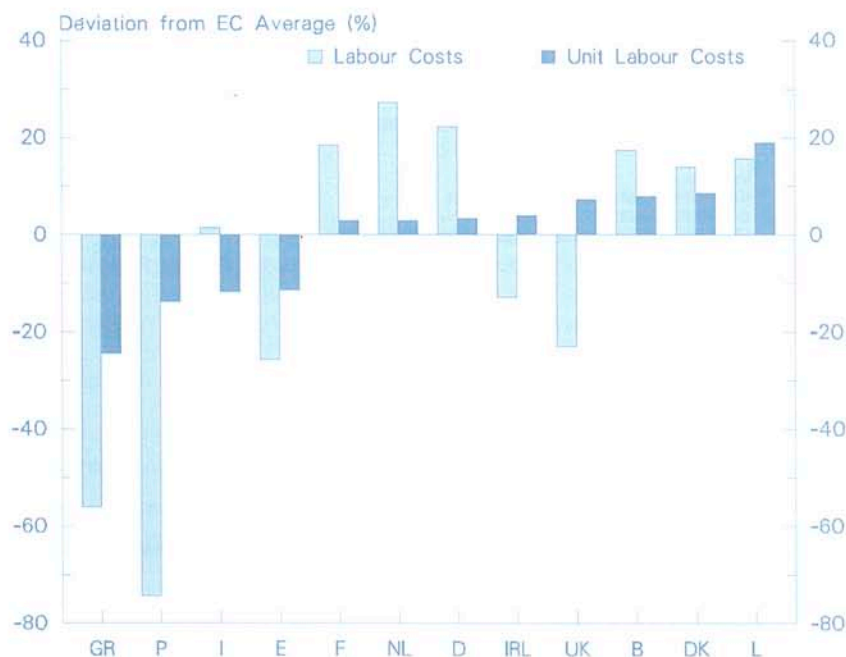
Health and safety conditions in the work place are factors which affect labour costs, albeit indirectly. Existing wide disparities could encourage social dumping. The

Commission proposes to reinforce its activities in the field of supervision over health and safety at work on the basis of Article 118A of the EEC Treaty.

### Social Dumping and Working Conditions

The completion of the Internal Market, which includes the eventual development of a European wide labour market, should lead to the improvements in the living and working conditions of workers as laid down in Article 117 of the EEC Treaty. If differences in working conditions between Member States are not to lead to distortions of competition, then standards may need to be brought closer into line across the Community.

## 57 Labour Costs and Unit Labour Costs in the Member States 1987



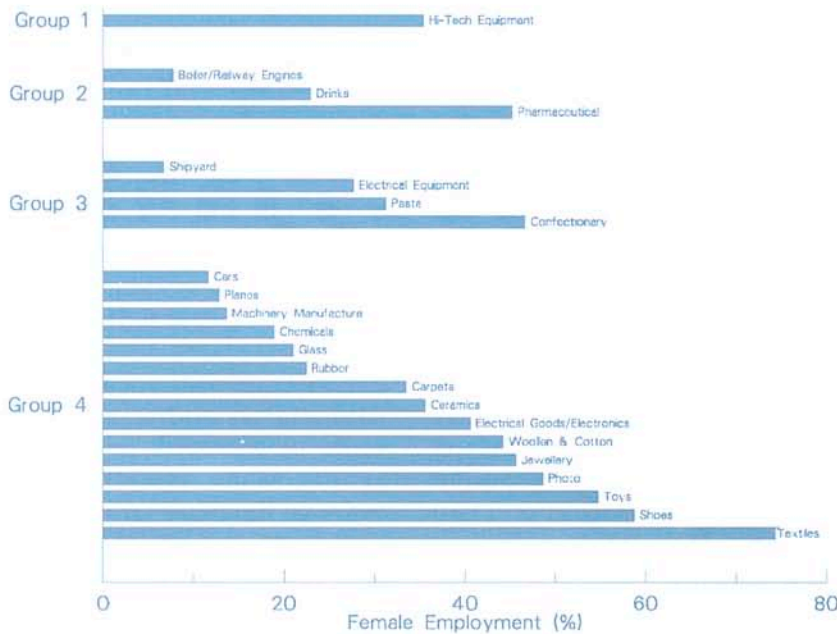
### The Impact of 1992 on Men and Women

Though women account for some 38% of the Community labour force, the proportion of employees in sensitive sectors who are women varies from less than 10% in heavy industries like shipbuilding to 75% in textiles (see graph 58).

Whether the Internal Market will have any differential impact on the employment of women depends on a number of factors, notably whether current trends continue with regard to the following:

- a high proportion (73%) of female employment is concentrated in the service sector. The expected growth in this sector is therefore likely to be beneficial to women. Indeed, 75% of newly created jobs in recent years have been for women;
- temporary and part-time jobs are principally undertaken by women and increases in this type of employment should maintain present growth rates of female employment or even increase them;
- on the other hand, female employment is concentrated in jobs requiring few qualifications. The Internal Market will stimulate competition and productivity, perhaps resulting in the substitution of capital for less qualified workers. At the same time, demand for less qualified female workers is likely to remain constant, or even increase, in services linked to social development (for example, domestic work and child care).

### 58 Share of Female Employment in Sensitive Sectors 1986





## **1992 Monitoring**

The Commission and other Community bodies, particularly the European Parliament, have underlined the importance of observing employment trends and changes in order to ensure the successful completion of the Internal Market.

The task of observation is complex, but a range of activities have begun or are planned.

The Commission's initiatives consist of:

- Programmes of analysis and research
- A European employment documentation system

### **Study programmes**

Following on the study on the "Cost of Non-Europe" (Cecchini Report), more than sixty studies dealing directly or indirectly with the social dimension have been launched in various Commission departments. Many of these studies will be completed by the end of 1989. The results will afford a clearer understanding of the mechanisms and impacts of the completion of the internal market in the social and regional field.

For example, one of these studies will provide information on the position and strategy of the industrial sectors sensitive to 1992 in each country.

These studies fall into three categories:

- Studies dealing with regions.

These studies examine the problems of various regions of the Community ranging from the traditional industrial regions to the regions of the south and islands.

- Studies dealing with sectors.

These studies examine the problems of particular sectors such as telecommunications, transport or financial services. They also analyse groups of sectors in relation to a common theme, such as those sectors dependent on public markets, or the position and strategy of sectors which are 'sensitive' to the completion of the Internal Market.

- Studies on a particular issue.

These studies look at such issues as mergers and concentrations of enterprises; regulations governing working conditions; women's employment; or employment in small and medium sized enterprises. Many of these studies also have a sectoral and/or regional dimension.

### **European employment documentation system**

Before the end of 1989, the Commission will have set up a European employment documentation system. This system will be responsible for assembling, processing (analysis and synthesis) and disseminating the data available in the Commission and in the Member States on employment trends. Sources will include public authorities, private bodies, universities, etc.



## Chapter 6 Job Quality - For Better or Worse?

*The issue of job quality is a growing debate. Has the shift from industry to services brought an improvement or a deterioration in job quality? Is the increased importance of small and medium-sized firms in creating new jobs, and the increase in part-time jobs, leading to a better or worse working environment?*

### Introduction

The current structural transformation of the European economy and labour market, which will be accentuated after 1992, is causing major changes in the content and quality of jobs as well as their quantity and distribution. There has been considerable debate in the United States, and to a lesser extent in Europe, on the relationship between changes in the number and type of jobs and in their quality. A key question has been whether the new jobs being created are better or worse than the ones they replaced.

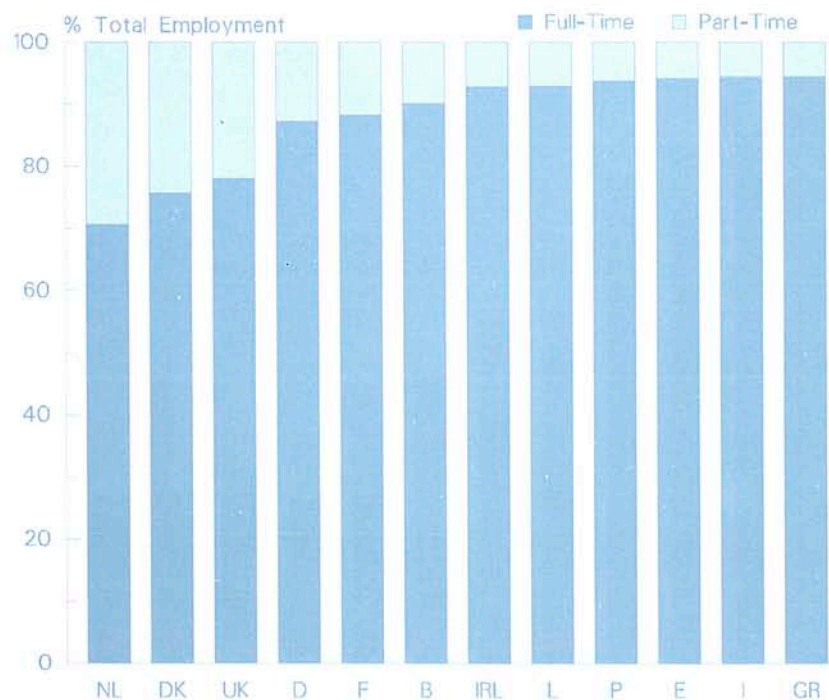
The increase in total employment, and the shift from manufacturing to services, may be seen as generally positive factors which have created new working conditions and increased flexibility. On the other hand, these changes may also be seen as having been achieved through the extension of part-time working and the development of low-skilled and low-paid jobs.

The issues are not easy to handle. There is no unambiguous, quantifi-

able, concept of job quality and hence no overall measure. Thus the debate tends to turn around a series of measurable indicators of quality such as the contractual relationship, the skill content, the

working environment, the remuneration and the age and sex structure of the changing labour force. Balanced judgements are difficult to make. Indeed, because the factors on which emphasis is now

### 60 Full Time and Part-Time Work in the Member States 1987



placed concern characteristics of the contemporary labour market, they may well overlook other factors, for example, the extent to which the physical and environmental aspects of jobs have improved over time.

### The Growth of Alternative Contractual Forms

Much of the debate on new forms of employment and increased mobility has been concerned with the need for more flexible labour market responsiveness to increased international competition, in the context of economic crisis and of new opportunities for organisational and technological change. In particular, debate has focused on the growth of new contractual forms of employment and their implica-

tions for labour market behaviour and policy.

The most common forms of employment contract, other than for traditional full-time and permanent jobs, are for part-time or temporary work. Graph 60 shows the distribution of full-time and part-time work in the Member States. Part-time employment is very much concentrated among women in the middle and older age-groups (see Graphs 62 and 63). With the exception of the young in Denmark and the Netherlands, levels of part-time work among men are still very low and show no signs of increasing.

This pattern is the outcome of individual decisions to enter the labour market, mostly on the part of women, and reflects the job options open to them. While women, especially married women returning to work after having children, have

perhaps the greatest choice about how much they work, they are not usually the only breadwinner and often have the least choice about the form of contract to accept.

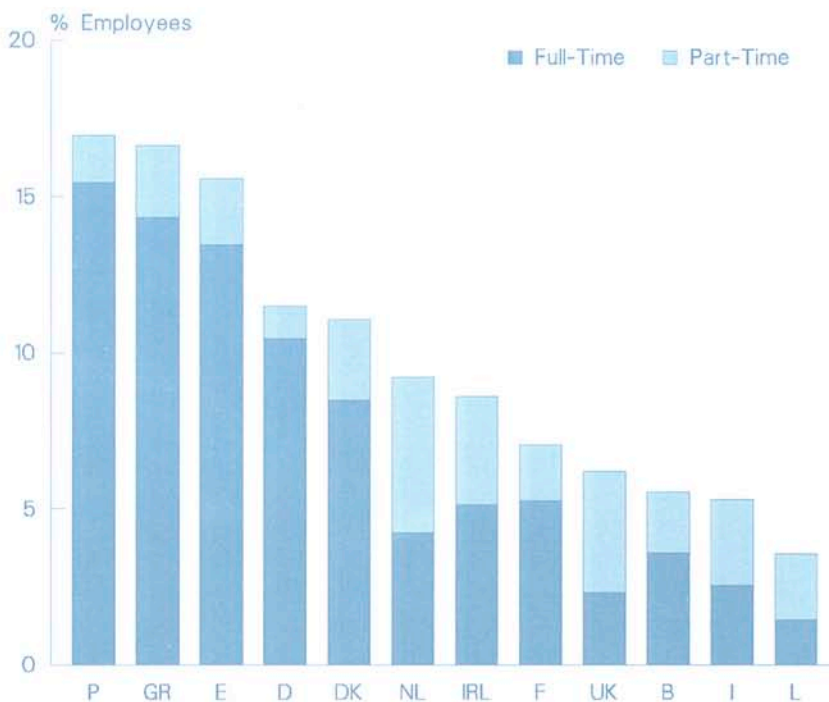
The search for flexibility by firms has led to the creation of many new part-time and temporary jobs which require little skill or work experience. This has led to the emergence of a secondary labour market alongside the primary one, but without the same restrictions on employers or forms of protection for workers. The number of jobs in manufacturing traditionally performed by men working full-time has declined significantly in recent years as demand for the goods they produced has slumped. As a result, those who were previously employed in the primary market have become unemployed or have been forced to seek work in the secondary market, in jobs which do not demand the same level of skills.

Part-time work and temporary contracts offer firms two ways of increasing the flexibility of their labour force. The former enables them to vary the hours worked, the latter the number of people they employ.

Trade unions in Europe are concerned at the way in which management use these new contractual forms to increase flexibility for their convenience and profitability, without necessarily considering the effects on the workforce. This is less the case with part-time jobs as such, than with short-term contracts and forms of quasi-self employment which may allow the employers to avoid taking on the usual obligations to employees.

The growth of part-time and temporary jobs could potentially reflect either the operation of market

**61 Distribution of Temporary Employment in the Member States 1987**



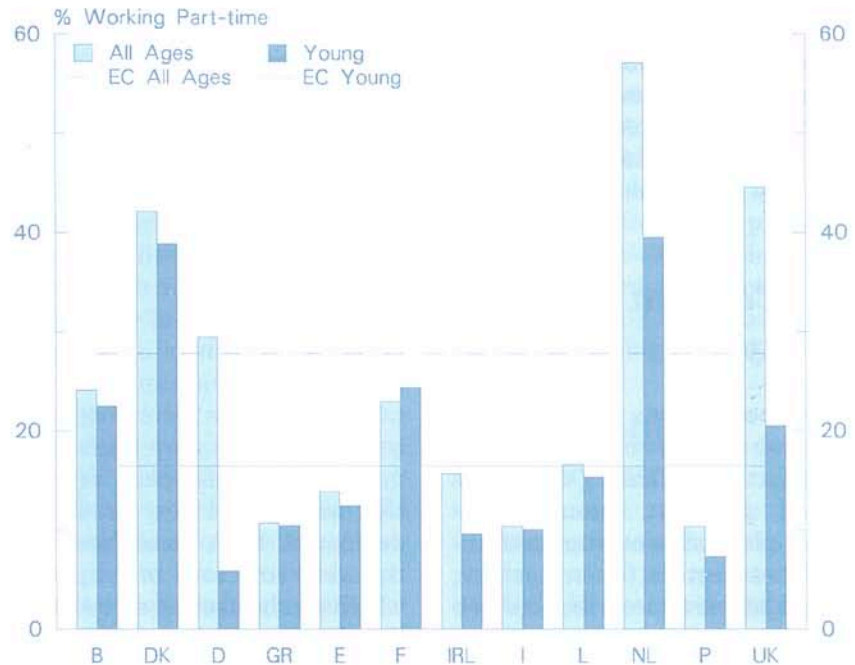
forces or workers increasingly exercising their choice to work fewer hours or for a smaller part of the year. In other words, the key question is whether it is the workers who are pushing for these new forms of employment, whether it is the employers, or whether it is an arrangement which suits both of them.

Research indicates that while many people have part-time jobs from choice, a significant proportion (see Graph 76 in Chapter 7 ) do so because they cannot find suitable full-time work. The position varies considerably between Member States and between men and women. Across the Community, between 5% and 50% of men are doing part-time jobs because they cannot find a full-time one, while the range for women is from 5% to 30%. The averages are 24% for men and 11% for women.

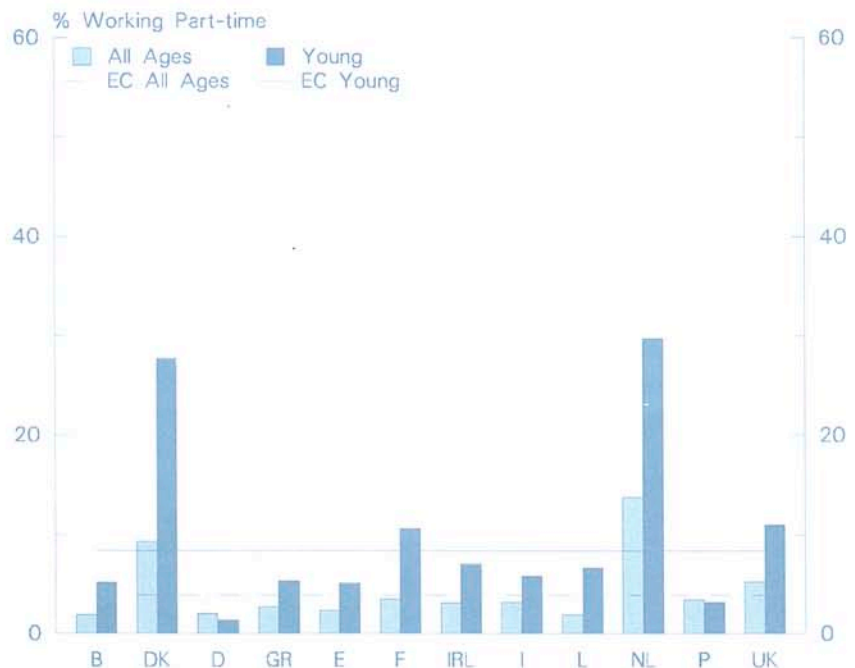
More striking is the evidence on the proportion of workers on short-term contracts who would rather be in permanent jobs. The importance of temporary working across the Community is shown in Graph 61. Graph 77 in Chapter 7 shows how 50% of women and 70% of men doing temporary jobs are doing so because they could not find a permanent job.

The trend towards part-time and temporary work has been furthered by more women looking for jobs and by pressure from the large number of unemployed. It is important to assess whether these forms of work are replacing permanent full-time jobs or are additional to them.

**62 Part-Time Employment of Young Women and all Women in the Member States 1987**



**63 Part-Time Employment of Young Men and all Men in the Member States 1987**



Already the pressure from companies seeking this type of flexibility has had an impact on legislation restricting or promoting such forms of work. In several Member States, institutional provisions restricting part-time work have been modified or legislation governing short-term contracts and temporary work agencies has been relaxed.

### Skill Content and Job Quality

People's perceptions of the quality of their job are determined by a variety of factors including the skills required, payment, tenure, hours and the physical working environment. These factors, taken together, will lead people to describe their job as "good" or "bad".

In practice, positive characteristics tend to go together. High-skilled jobs with good pay tend to be accompanied by good employment conditions and a pleasant working environment.

Changes in job quality which have resulted from recent structural developments in the labour market are principally associated with two phenomena: the shift to services and the introduction of new technologies. The nature of work changes most as a result of organisational and technological innovation. New tasks emerge as technology advances and old tasks are taken over by machines or disappear as innovation occurs and new products are developed. Both these factors alter the skill-structure of employment which can be used as an indicator of the changing content of jobs.

As tasks become increasingly complex, more skills are required to perform them. When machines are introduced to perform low grade tasks, unskilled workers can be replaced or down-graded. This may lead to a polarisation of excess labour and over-qualification in some occupations and skill shortages and under-qualification in others.

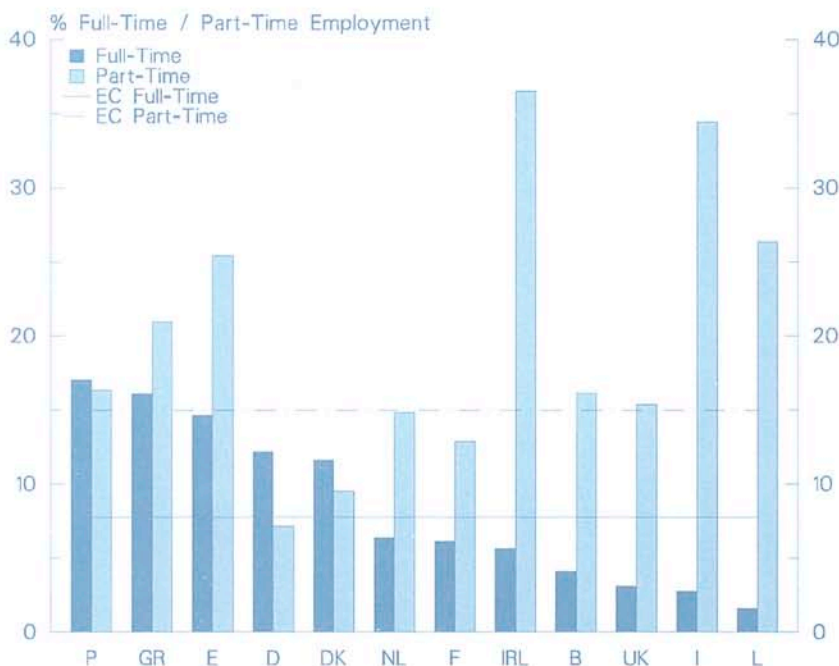
At a time of persistent high unemployment, firms may use their power in the labour market to raise job requirements and increase competition among workers. Formal education and training is used as a requirement not only in relation to the tasks to be performed, but also as an indicator of behaviour, loyalty to the firm, adaptability and capacity to learn - a screening device for potential workers.

Evidence from a number of Member States suggests that differences in job content between occupational groups is related to differences in formal qualifications. The use of formal qualifications as a means of selecting workers is a function of economic conditions and has increased with the switch from over-employment to under-employment in the mid-1970s.

The evidence is often surprising. A Dutch survey of occupations and qualifications shows that managers have a relatively low level of education compared with the requirements of their job and lack specialised education, a characteristic they share with unskilled and semi-skilled production workers. Bookkeepers and cooks also seem to lack "appropriate" formal training. Professional and scientific workers, however, show the expected relationship between job content and the level, and length and type of education. The link between complexity of tasks and type

### 64 Temporary Employment by Full-Time and Part-Time Status in the Member States

1987



of education also seems to be particularly pronounced in public service occupations such as health and education.

In some countries, it is suggested that the polarisation of skills is primarily due to supply-side factors. The rise in the number of highly-skilled workers is associated with two trends: the number of qualified people is rising faster than the jobs needing them, while the more skilled jobs have tended to require even higher levels of qualification. As a result, competition crowds out less qualified workers who are replaced by skilled workers who, in terms of their qualifications, are under-employed.

In other countries, the explanation is to be found primarily on the demand-side. High levels of demand for higher qualifications is induced by technical and organisational change and efforts to improve productivity. When unemployment is high, better qualified workers can exploit their labour market advantages.

Different policy responses are required for these contrasting situations. If supply-side factors are the main cause, the solution lies in the creation of additional employment to absorb the excess labour: the provision of vocational training to the lower skilled will simply make the problem worse.

If demand-side factors are responsible, then vocational training targeted on specific occupations and labour market groups will have the greatest impact.

In practice it is likely that both demand and supply-side factors are present, necessitating a strategy of employment-intensive growth ac-

companied by specific employment and training policies.

The polarisation of skills in the structure of employment has been accompanied by a deepening of the division between internal and external labour markets. Both the form of the internal organisation chosen by a firm and the nature of its relationship to the external environment are compromises between the need for flexibility and the need to keep a core of experienced workers.

Internal flexibility is achieved by varying the tasks of the regular workforce to meet the changing product demand. This involves the integration of tasks into a smaller number of jobs and fewer production units which are less rigidly and hierarchically organised. Added flexibility is gained by recourse to subcontractors and employment agencies in the external labour market.

In this way, the complex relationship between the need for skilled workers and the search for flexibility tends to intensify the division of the labour market into two segments. But this is a result and not a cause, of the changes in the content and quality of jobs.

The policy message is again ambiguous. Increased flexibility in labour markets is considered a positive result of the changes in job content. Segmentation of the labour market, with a greater proportion of the labour force in precarious marginal jobs, often at low rates of pay, is not. Employment policy will therefore need to recognise two objectives: the need for flexibility in the interests of productivity and competitiveness, and the introduction of measures to reduce the

precariousness of a growing number of jobs.

The failure, so far, to meet these objectives is shown by the relationship between qualifications and unemployment. The incidence of unemployment is related directly to the level of qualification and to sex. In Spain and Holland, 70% of the unemployed have only primary or lower education. In the United Kingdom, unemployment rates for males with no qualifications are almost twice as high as the average.

## Income and Employment

Income is a crucial factor in people's assessment of job quality. Higher income jobs are normally regarded as "good" jobs, involving the use of most skills and offering the best career prospects.

German evidence, relating to employment and income trends in a number of sectors, provides a tentative indication of whether job quality is increasing or decreasing. Income levels in manufacturing were 10% higher than in services, although some service sectors such as financial and business services were at the top of the earnings scale. Service occupations, such as personal services, cleaning and security guards, were also at the bottom end of the earnings scale.

Low paid sectors did not necessarily generate the most new jobs, although employment increased in production-related services such as cleaning and manpower services which have a high proportion of part-time working and low skilled workers. Falls in employment occurred in low income sectors such as household related services.

On the other hand, employment increased in production-related services where income levels were higher than average, such as business advisory services, which tend to be occupations with high skill levels. Nor did there seem to be much relation between the level of pay rises in a sector and employment growth.

These findings indicate that the main determinant of the growth of employment in both high income and low income service occupations is demand for the product. The trend to service employment has therefore caused an increase in both "good" jobs and "bad" jobs if income is used as the indicator. But on balance, employment has increased more in occupations where income growth had been below average.

## Job Content and the Service Sector

Changes in job content and the growth of new forms of employment are both closely related to trends in the service sector where new types of job are most widespread - from information technology based office jobs to fast-food outlets.

Two developments in particular have contributed to the massive expansion of the service sector in recent years. The first is the shift of existing jobs from the manufacturing sector to services through companies contracting out their service activities. The second is the creation of completely new types of service activity. Clearly to the extent that the first development has been a major factor, the emergence of the so-called service economy might in some degree be regarded

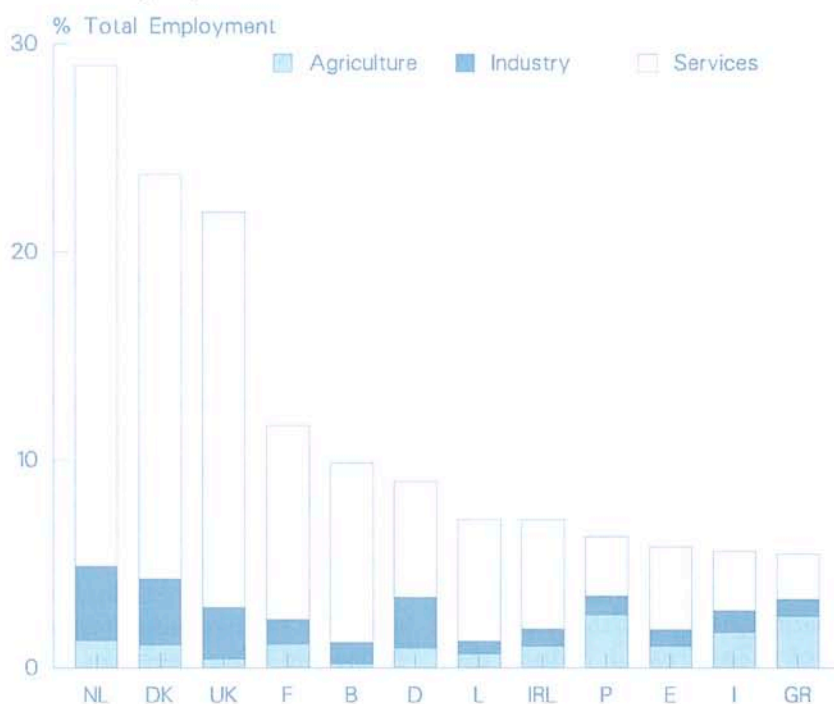
as a statistical mirage, though it might nevertheless be associated with fundamental changes in the way that labour markets operate.

It also carries important policy implications. In the first place, if the growth of services is merely a reflection of relocation of employment from one sector to another, it may offer little hope of solving the unemployment problem. In the second place, if such shifts in employment involve no change in where an employee is actually working but only a change in who is employing him or her - e.g. office workers or cleaners continuing to work in the same building but for a contractor rather than the company for which work is being done - then there may be important implications for industrial relations. This is particularly the case if such employees are working side by side with the client company's staff.

The effect that this kind of shift has on job quality may well be part of the motivation behind the move, as the firm seeks to increase flexibility. For example, a manufacturing firm may contract out its catering to an outside contractor, so causing the activity to shift from manufacturing to services and a corresponding change in the form of contractual relationship. In order to remain competitive, the specialist contractor may have to employ the workers on a weaker, more tenuous contractual basis. The shift in job between sectors may therefore lead to a reduction in quality.

Indeed, firms may pursue a strategy of contracting out less essential work and confining the workforce they employ to the most central activities. Low quality jobs might, therefore, be externalised while the good jobs involving high levels of human capital will be retained. This

**65 Sectoral Distribution of Part-Time Employment in the Member States 1987**





tendency will be reinforced if many of the skills are specific to the firm and are continuously being developed through on-the-job training.

In the longer-term, as the externalisation of certain activities increases, the market for them will expand, providing opportunities for specialisation and economies of scale. On the other hand, technological change may have the opposite effect, making the internalisation of an activity both feasible and attractive - such as, for example, the emergence of desk-top publishing and the possibility it opens up for firms to produce their own presentational material.

As well as sub-contracting, another feature has been the development of "paternalistic" or "foster" relationships whereby large firms encourage small firms to be set up under their patronage. By this means they are able to exercise control over what they do, while transferring some of the risks attached to the venture concerned and avoiding upsetting their internal organisation.

The results of a recent survey of services provided to French businesses show that there seems to be a threshold effect in operation, demand initially increases with size, then levels off, and finally, for large businesses, decreases (see Box).

It also shows that externalisation and polarisation go together. Most of the functions which are contracted out are those which are either low income, low-skill occupations such as cleaning and security or high-skill, high-income activities such as advertising and computing.

## Job Quality and Legislation

Both supply-side and demand-side factors are affecting the changes in job content and job quality. Supply-side changes are contributing to greater flexibility in the labour market, through changes in participation rates, particularly of women, and in more flexible use of time.

Demand-side factors, which tend to down-grade the value of work associated with certain contractual forms, are contributing to an intensification of labour market segmentation as more and more jobs with precarious contractual arrangements, which often demand little in the way of skills, are pushed into the secondary labour market.

An important factor affecting the pattern of employment contracts has been the degree of legislative intervention by governments. While contractual forms are frequently the subject of collective negotiation, governments generally have the means to promote or prevent the growth of new contractual forms, or to influence the conditions in which they occur. Government action in this area is commonly judged according to how far it promotes or restrains the creation of skilled jobs with terms which are flexible but which do not exploit the worker.

There are wide divergences between Member States in terms of the growth of new forms of employment, changes in job content and flexibility. The preoccupations of governments and of employers and trade unions often differ, but the trends towards the wider use of

these new types of job with possible implications for job quality and labour market segmentation are well established. These trends could be accentuated after 1992. For example, a firm's decision to re-structure its operations and to externalise or to relocate an activity within another enterprise within one Member State may possibly be the first step towards deciding to relocate in another Member State (see Chapter 5).

This raises the issue of the need for general protection of these different forms of work. If the threat of social dumping were to become a reality, then competitive forces could bring pressure across the Community leading to the more widespread use of more precarious forms of contract.

### Recourse to External Services - A Survey of French Businesses

The main determinants of intermediate demand for services are the nature of the function contracted outside and the size of the business.

Effect of Size on Externalisation	Percentage of Companies Using External Services for the Functions Indicated		
	below 15%	25 to 50%	over 50%
No Relation	Payments Analytical Accounting	Maintenance Management Control	Transport of Merchandise Foreign Trade
Frequency of Use Increases with Size	Security Warehouses Transport of Personnel Non-supervisory Recruitment	Supervisory Recruitment Security Catering	Cleaning
Frequency of Use Decreases with Size	Representation Computerised Management	General Accounting Translation	—
Frequency of Use Increases to Threshold Then Decreases	Leasing Computer Studies Handling Prototypes & Models Software Organisation of Work Research Infrastructures Financial Management Methods	Computer Maintenance Studies Marketing Specialised Equipment Testing	Legal Problems Cadre Training Taxes Advertising Non- Supervisory Training Litigation Patents & Trademarks

## SMEs and the Self-Employed

### Job Creation in Small and Medium-Sized Enterprises

Small and medium-sized enterprises (those with fewer than 100 employees) are increasing their share of employment in most Community countries and creating jobs at a more rapid rate than large firms.

The relative importance of small and medium-sized firms in the Member States is shown in Graph 66. There are wide variations in the contribution of SMEs to total employment. They provide around 20% of the manufacturing jobs in the UK and Luxembourg, 30-45% in France the Netherlands, Belgium, Spain, Portugal, Ireland and Denmark and over half the manufacturing jobs in Greece and Italy.

The evidence also suggests that the share of employment accounted for by SMEs is increasing, although this needs to be interpreted with care since it may simply mean that they are losing employment less rapidly than other firms. This, indeed, was often the case in the 1970s and early 1980s (see Graph 67).

SMEs are more important in the service sector where they provide over half of all jobs in that sector.

SMEs are becoming more important employers of the workforce in most Member States, except in the

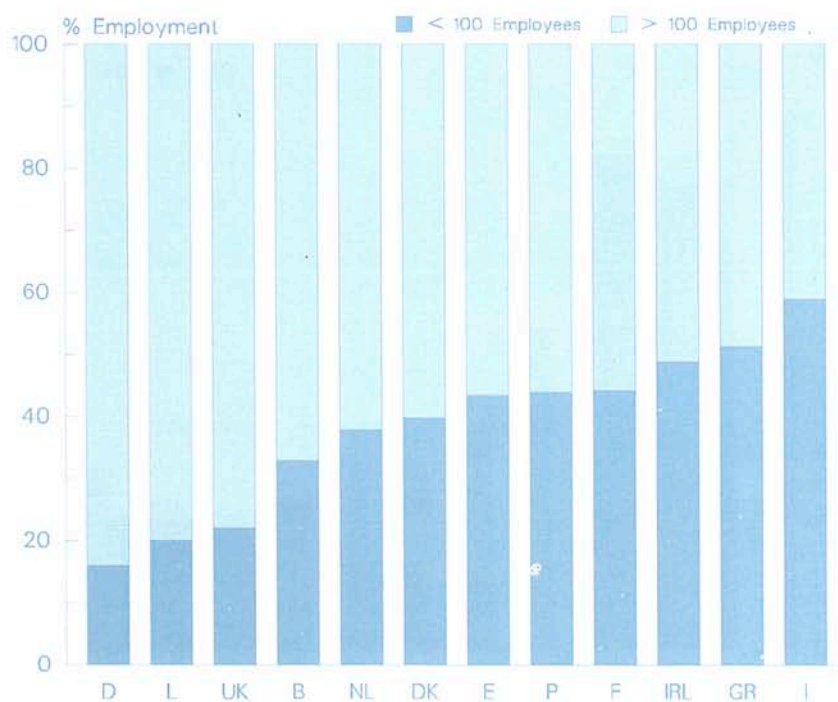
Netherlands where their share has remained relatively constant and in Greece where it has declined slightly, although remaining amongst the highest. Only in the United Kingdom has there been a substantial increase in the share of SMEs in manufacturing employment.

Small and medium-sized enterprises have been creating jobs at a

time when large enterprises have been reducing employment. This is particularly true of firms with less than 20 employees. In the UK, France and the Federal Republic of Germany, the extent of job creation is small for firms with more than 20 employees.

However, the creation of jobs in SMEs occurs in a relatively small

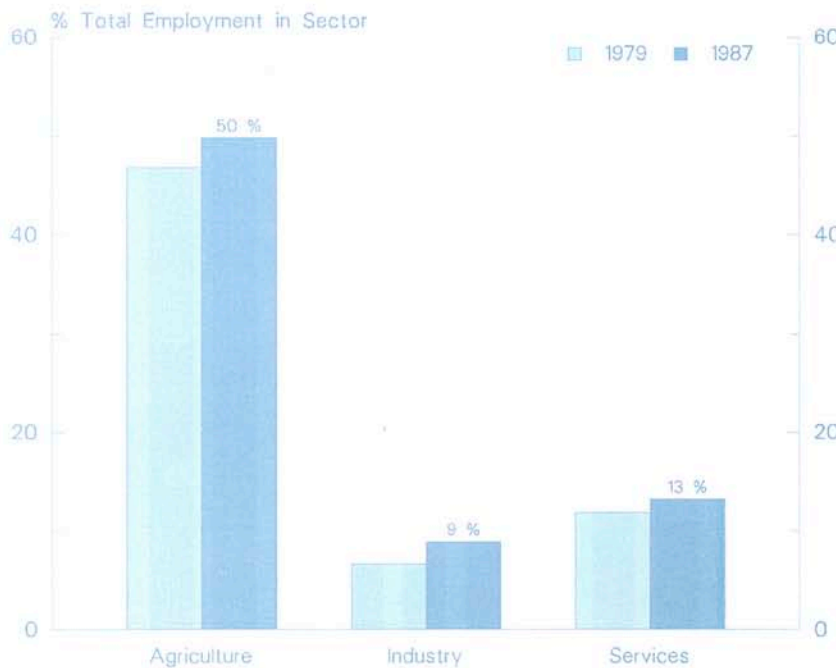
**66 Distribution of Employment in Manufacturing by Size of Firm in the Member States circa 1980/83**



**67 Employment Growth in Small and Medium Sized Enterprises in some Member States**



**68 Change in the Distribution of Self-Employment by Sector in the Community (EUR9) 1979-1987**



number of firms. Not all small firms are creating jobs and not all large firms are losing jobs. Only some 10% of firms grow out of the smallest size category, and only 1% manage to become large firms, even over a period as long as twelve years.

Similar differences can be noted with regard to the life of new firms. A majority fail within ten years of opening, most of the rest remain small, and few grow big enough to make a noticeable contribution to employment.

The jobs created by small firms are often different from those in larger enterprises. They tend to have a higher concentration of “new” jobs and reflect the trends in job content and job quality more closely than do large firms.

SMEs tend to employ a greater proportion of female workers, particularly part-time females, than their larger counterparts. In the Netherlands, 37% of employees in small firms are women compared with 26% in large firms. In the Federal Republic of Germany, firms with less than 20 workers employed 40% of all female part-time workers.

Employment in small firms tends to be more unstable than in large firms. Small firms experience much higher levels of turnover than large firms which have a hard core of “permanent” workers who tend to be better paid than their counterparts in small firms. In France, for example, wages in large firms are up to 60% higher than in small firms.

This suggests that jobs in small firms may be of a lower quality than jobs in larger firms, although this may be linked to the structure and

organisation of the industry. Lower job quality is associated with high rates of sub-contracting and the use of various forms of 'flexible' employment contracts.

On the other hand, the skill level of employees, particularly in manufacturing, tends to be higher in small than in large firms. In the Federal Republic of Germany, 76% of male manual workers in small firms are categorised as skilled, compared with 60% in large firms.

## Self-Employment

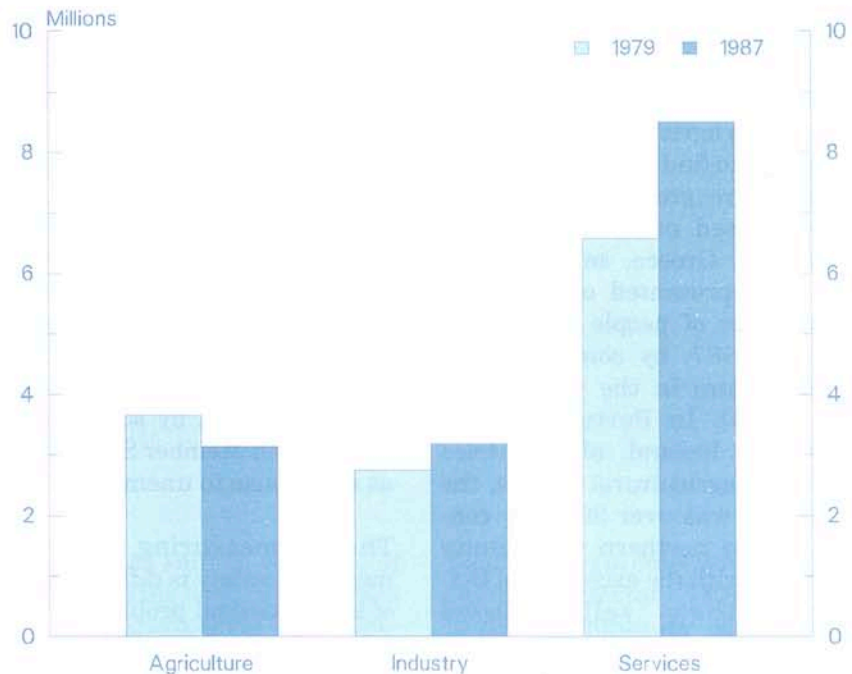
The expansion of self-employment is often cited as an example of the positive employment effects resulting from the encouragement of new contractual forms.

There are considerable differences in the incidence of self-employment as between sectors, and partly reflecting this, as between countries.

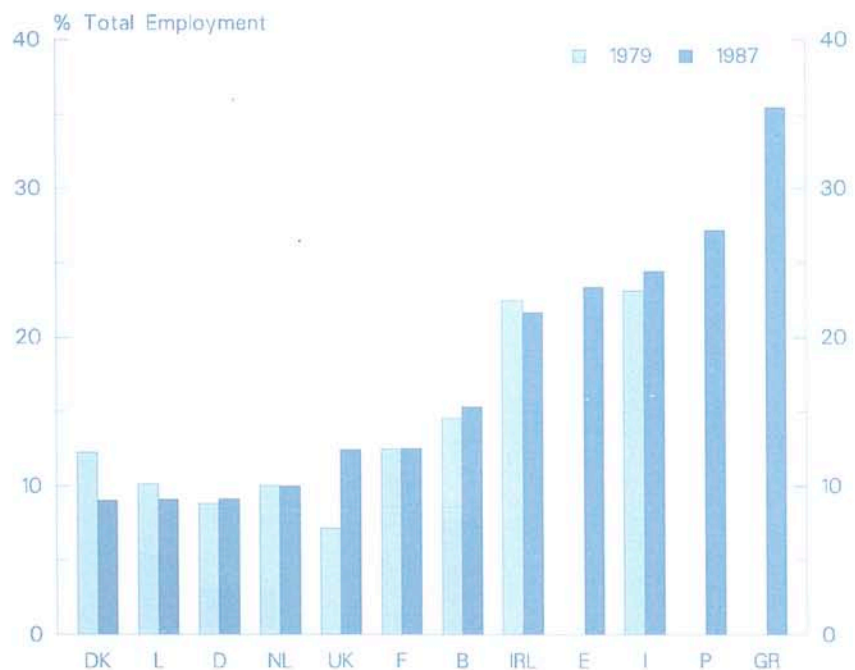
The number of self-employed is highest in the service sector, the figure exceeding 8 million in 1987 throughout the Community as a whole (Graph 69). Moreover growth of self-employment has been much more marked in services over the 1980s than in other parts of the economy, the number increasing by almost a million. However both features reflect the growing overall importance of service activities in the EC economy rather than any tendency for the self-employed to gravitate towards this sector.

On the other hand, although only some 20% of the self-employed work in agriculture, these account for nearly 50% of the total number working in this sector (Graph 68). This compares with a figure of around 14% in services. While the numbers of self-employed in agri-

### 69 Changes in Self-Employment by Sector in the Community 1979 - 1987



### 70 Changes in Self-Employment in the Member States 1979 - 1987



culture have tended to decline during the 1980s, the fall has been less than the decline in overall employment and the proportion has therefore gone up.

In view of the importance of self-employment in agriculture, it is not too surprising to find that their relative numbers are greatest in the less industrialised parts of the Community. In Greece, self-employed workers represented over 35% of the number of people in employment in 1987, by some way the highest figure in the Community (Graph 70). In Portugal, Italy, Spain and Ireland, all countries with large agricultural sectors, the proportion was over 20%. By contrast in the northern Community countries, with the exception of Belgium, the self-employed represented only around 10% or less of total employment.

The trend towards self-employment which is evident at a Community level is by no means uniform as between countries. In three of the nine countries for which historical data are available, Denmark, Luxembourg and Ireland, there was a fall in the proportion of self-employed, while in two others, France and the

Federal Republic of Germany, the growth in the proportion has been minimal.

In part, this is explained by the continued shrinking of the agricultural sector in these countries, and it is notable that only the UK, where agriculture was already very small, has shown any significant increase in the importance of self-employment. Here the large rise which occurred during the 1980s might reflect a process of coming into line with the position in other parts of the Community (in 1979 the UK proportion was, by some way, the lowest of all Member States) as well as a response to unemployment.

Though measuring self-employment accurately is difficult because of the statistical problems involved - the changes described here are based on only a small sample survey and do not necessarily make adequate allowance for those self-employed in the less formal sectors of the economy - it would appear from the evidence available that the trend towards self-employment, though small, is not a transitory phenomenon and is likely to continue.

## Chapter 7 Women's Employment

*The place of women in the Community labour market has changed dramatically. A pronounced feature of the 1980s, and prospectively for the 1990s, is the disproportionate growth in jobs for women. Have attitudes, social security systems, protective legislation and child care provisions kept pace?*

### Introduction

By 1990, a decade and a half will have passed since the adoption of the first Community Directive to provide equality of treatment of men and women in the labour market, and the second Community Action Programme for Equal Opportunities for women will have come to an end.

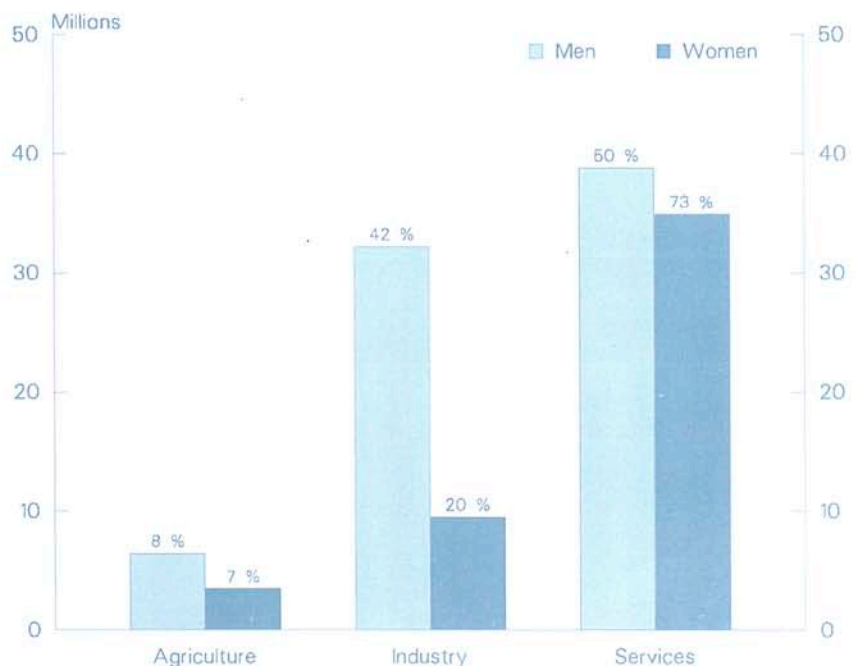
Despite these legal and social initiatives, progress in achieving equality has been slow and women still remain largely confined to traditional occupations with relatively low level jobs. This segregation persists despite the recent extensive changes in the structure of the labour market and the sustained increase in the labour force participation of women.

Both supply and demand factors have contributed to increased participation. Smaller families, the narrowing gap between the ages of children, and a readiness to work part-time are some of the domestic and social factors which have encouraged the entry of married women into the labour market. Indeed, in some countries there has

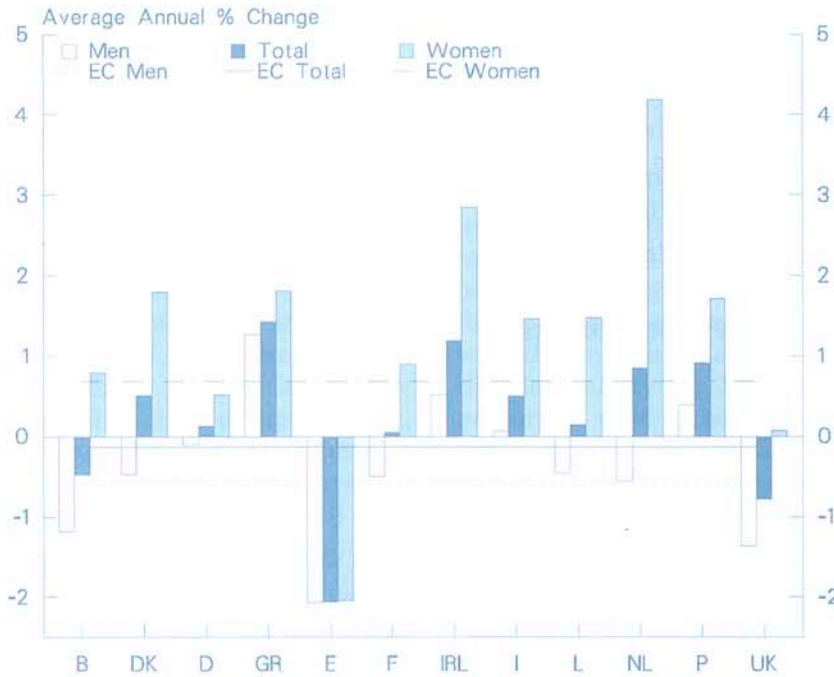
been a definite shift in the cycle of women's working lives, with women establishing themselves in employment in a manner which increasingly resembles men's career patterns.

Most women in employment work in the service sector - 73% of the total in the Community as a whole - where their numbers are now almost as high as men (Graph 71). By contrast, only 20% of women work

**71 Distribution of Male and Female Employment across Sectors in the Community 1987**



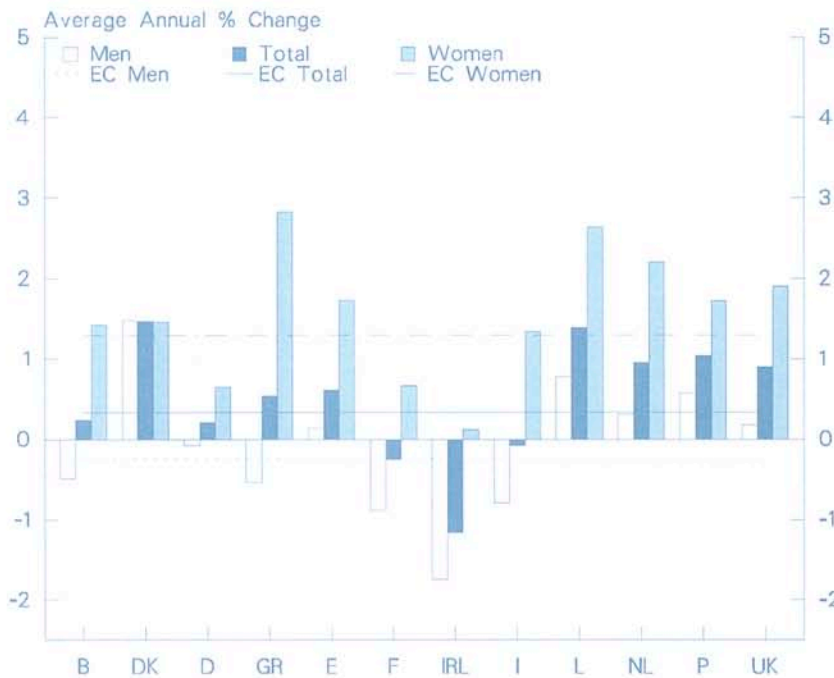
**72 Growth of Female Employment in the Member States 1977-1982**



in industry, less than half the proportion of men employed in this sector.

The overall rise in the labour force participation of women embraces different categories of women in the Member States, from married women over 25 years old in the Netherlands to women under 25 years old in Spain. This surge of women onto the labour market has been reflected in a relative growth of employment of women. Graph 72 shows that from 1977-82, annual employment growth for women was higher than overall rates of growth in virtually all Member States. Even in the period 1982 to 1987, when employment growth slowed or was negative, women continued to do better (Graph 73).

**73 Growth of Female Employment in the Member States 1982-1987**



There are, however, limits to the increased labour force participation of women in different age groups. Employment rates of women are heavily influenced by child care. In a majority of countries, the proportion of women in the labour force is higher for those without children than for those with - the exceptions are: Belgium, Denmark, Greece, France and Portugal (Graph 74). With the exception of Denmark, activity rates decrease as the number of children under 10 years old rises. Part-time activity rates, however, are less affected than full-time activity rates. Thus the employment rate of women with three children working part-time can be higher than that of full-time women workers with two children under ten.

In most countries, having a third child causes the chances of being employed to fall by about the same extent as having a second child. In France, Belgium and Denmark, however, a third child has a much greater impact on the mother's employment rate than a second child.



In France, for example, a woman with two children has an employment rate 78% of that of a woman with one child, while a woman with three children has an employment rate of only 34% of that of a woman with one child.

Women have fared better in the recession than men, in part because of the concentration of their employment in the expanding services sector which has been less hit by cutbacks and closures than big male employing industries such as shipbuilding, steel and car. In France, for example, redundancies have affected large employers more than small businesses, in which women are disproportionately represented. Women have also benefitted disproportionately from the expansion of public sector employment in some Member States.

## The Persistence of Sex Segregation

Sex segregation persists both across broad sectors of economic activity and between occupations within industries. Nearly three quarters of European women in employment are in the services sector rather than agriculture or industry (see Graph 71). Women are also concentrated in a restricted number of lower-paying, less prestigious occupations. In the Federal Republic of Germany, for example, 90% of women are employed in just twelve occupational groups, generally those with lower skills, despite the greater success of girls at school.

Research on the implementation of the equality directives including studies on women's attitudes to jobs as well as data on education and training demonstrates how men and women are prepared for different occupations from an early stage.

Industries which have expanded - like food processing, electronics, printing and publishing - have provided an impetus to women's recruitment. Another possible reason for persistent sex segregation arises from attempts to raise productivity and competitiveness in these industries by lowering labour costs rather than by increasing capital investment. This involves using more flexible labour practices by the recruitment of a mainly female workforce in unskilled jobs.

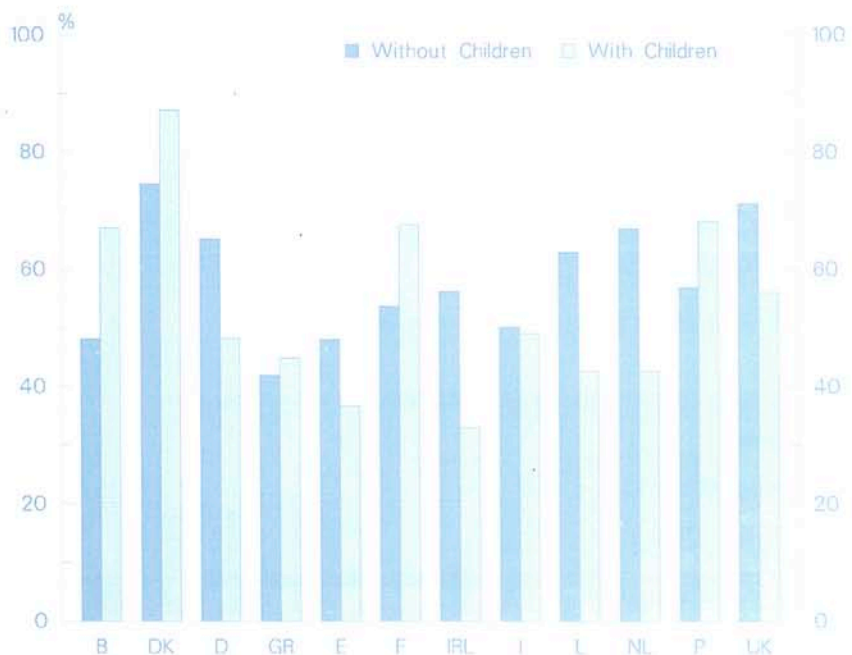
It would be misleading, however, to concentrate solely on the growth of unskilled jobs as the source of women's employment. Many tasks of a repetitive nature traditionally performed by women, like office-based data-processing or industrial circuit-board assembly in electronics, are being replaced by electronic or automated processes.

More evidence is needed on the employment of women as compared with men in newly emerging occupations in the service sector. As yet, evidence is inconclusive as to whether segregation will decrease with the changing structure of job content.

## New or Not-So-New Forms of Employment

A recurring theme of debate on the contemporary labour market is the changing quality of jobs - an issue addressed in Chapter 6. One strand of this debate suggests that the increased flexibility of employment contracts has had a greater negative impact on women's employment. The proliferation of casual, marginal or atypical forms of employment is often linked with the decline in the traditional model

74 Activity Rates for Women over 40 Years with and without Children of any Age in the Member States 1987



of full-time, guaranteed, single-employer jobs. When these forms of employment first appeared they were explained away as supply-side factors such as women's preferences for working part-time. It was not until such atypical employment patterns - such as temporary or part-time work - began to affect significant numbers of men, that the issue surfaced as a problem to be taken seriously.

Jobs which are part-time or temporary or both are not the only forms of non traditional patterns of working of interest to women. Putting-out systems of work - homeworking, selling to friends and neighbours, and sub-contracting - all generate correspondingly atypical employment relationships. Family helpers are a prominent category for women in Italy, Spain and Greece. There is nothing new about homeworkers or family helpers as labour market

members but with the growth of the newer forms of temporary working and part-time work (such as job-sharing), they contribute to a complex picture.

Part-time work has clearly played a role in the mobilisation of women on to the labour market as demonstrated by the fact that countries such as Denmark, the United Kingdom and France which have the highest rates of female labour force participation are also those where part-time employment is high. By contrast, in the less industrialised Member States - Italy, Ireland and Greece - the proportion of the women's labour force accounted for by part-time work actually fell between 1975 and 1985. This is partly due to the fall in part-time agriculture-related jobs for women and to the growth of other forms of atypical employment, such as temporary,

but full time, employment in tourism or homeworking.

Part-time working is predominantly, but by no means exclusively, a female phenomenon. In the Federal Republic of Germany, part-time working rose from being 86% to 90% female over the decade up to 1985 but, interestingly, in Belgium, the figures for this period were exactly reversed - going down from 90% to 86%.

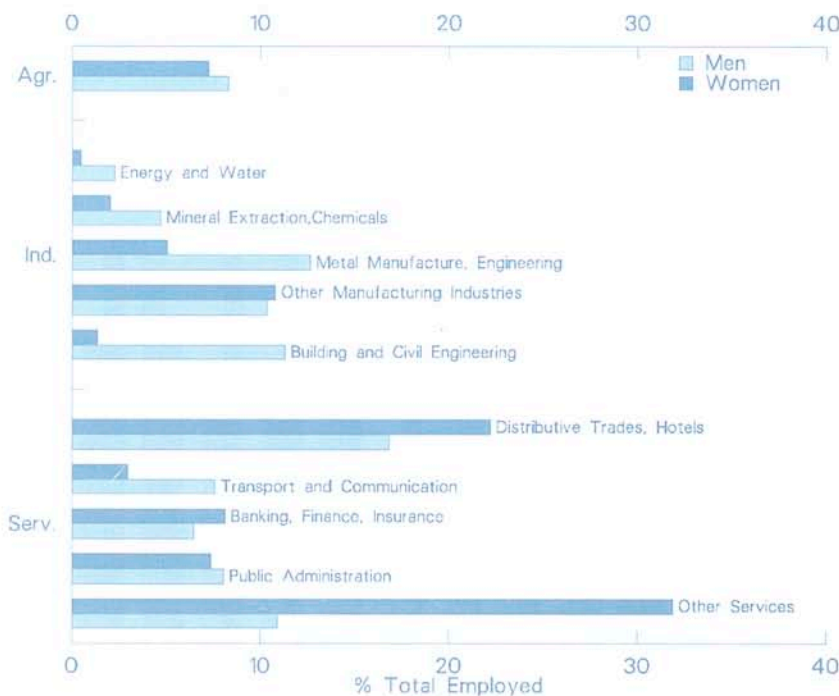
Like other forms of atypical employment, part-time working is concentrated in specific sectors - agriculture for women in Italy, Greece, Portugal and Ireland and commerce and other services elsewhere in the Community. This concentration heightens sex segregation since part-time work has attracted women into a restricted range of non-industrial sectors of economic activity (Graph 75). This is all the more noteworthy as part-time work constitutes over 20% of women's employment in six Member States - Belgium, France, F.R. Germany, Denmark (42%), United Kingdom (44%) and the Netherlands (57%) (Graph 62).

In four Member States, the public sector has played a strategic role in the expansion of part-time working - France, Belgium, the United Kingdom and, to a lesser extent, Italy. Thus the movement to regularise and provide greater social protection for part-time workers has had to face the apparent legitimisation of atypical kinds of working.

## Temporary Work and Women

Temporary working takes four main forms:

**75 Distribution of Male and Female Employment by Branch in the Community 1987**



- Fixed-term contract employment
- Interim or agency-based employment
- Seasonal and casual employment.
- Other temporary work in the widest sense

The European Labour Force Surveys sheds some light on the number of temporary women workers. In 1987, a majority of the Member States had more than 10% of women employees in temporary jobs, the exceptions being Belgium, France, Italy, Luxembourg and the UK.

As with part-time work, the commerce and other services sectors were the principal employers of women on a temporary basis, whilst agriculture, the building industry and manufacturing were the main sources of temporary employment for men.

Part-time and temporary work for women overlap a great deal. Given the concentration of women among part-time workers, it can be assumed that they are equally predominant among temporary part-timers. In three countries - Ireland, Italy and Luxembourg - between 43% and 47% of part-timers also work on a temporary basis. Reforms to reduce the vulnerability of women part-time workers may also have to encompass measures to protect them from the vulnerability of the temporary nature of their employment where these aspects coincide.

This vulnerability is illustrated by the extent to which the termination of short term contracts is given increasingly as the explanation for loss of job by people becoming unem-

ployed. Job insecurity as a 'cause' of unemployment has risen for both women and men between 1983 and 1987.

## Choice or Necessity

The concept of "choice" is frequently introduced into discussions of atypical employment and of women's position on the labour market. This implies that women voluntarily opt to take less well paid part-time or casual jobs to maintain their role at home as mothers or caring for dependent relatives.

Commission research on child-care, completed in 1988, concluded that:

"At present, most parents have little freedom of choice with respect to how they organise child-care and the relationship in their lives between family and employment.

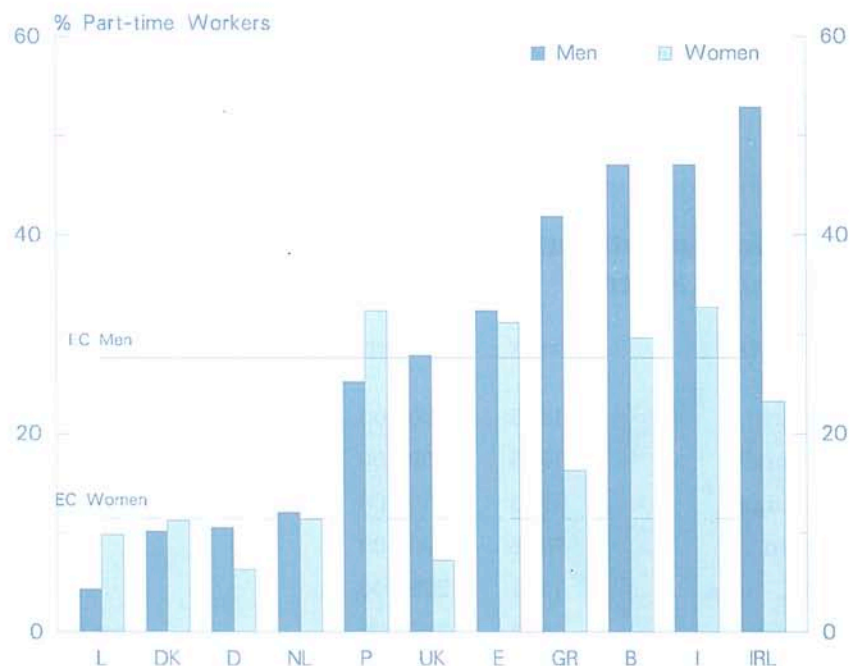
Leave entitlements that are unpaid or attract only low benefit payments will be irrelevant to many families. Part-time work may only be on offer if a parent is prepared to look for and accept a poorer job".

If acceptance of part-time work is necessitated by factors largely out of women's control, such as the lack of suitable child-care or the school schedule, then the issue of choice is spurious. This point can be examined by looking at the reasons for men and women being in part-time or temporary jobs.

Graph 76 shows the proportion of men and women working part-time involuntarily - averaging 30% and 10% respectively - according to the 1987 Community Labour Force Survey.

Graph 77 shows the proportion of employees occupying temporary

**76 Part-Time Workers in the Member States who could not find a Full-Time Job 1987**



**77 Employees with Temporary Jobs in the Member States because they could not find a Permanent Job 1987**



jobs in the Member States because they could not find a permanent job. No data is available for the Federal Republic and France, but, for the remaining 10 countries, the proportions averaged nearly 70% for men

and 50% for women. For Spain and Greece, around 85% of employees with a temporary job would have preferred a permanent one while, for Portugal, Ireland and Italy, the

proportions were between 60% and 70%.

**Outwork and Homework**

In contrast to the more visible character of temporary and part-time working, outworking, including homework, has a lower profile in the labour market. Despite the increase in salaried employment in Europe, various forms of outwork have persisted, or, in Greece and Portugal, even increased.

Outworking encompasses work at home or outside the employer's or organiser's premises. It can take the form of piecework or the combination of piecework and fixed payments, frequently found in Italy. Intrinsic to outwork, however, is the dependent, subordinate and isolated economic position of the - almost always female - worker, separated from the sale or marketing of her output, be it pottery for tourists or shoes for the fashion market. The table shows estimated numbers of homeworkers in some Member States.

Homeworking is highly concentrated in clothing, textiles, leather goods, shoes, fur, toys and novelty goods. In the United Kingdom and the Federal Republic of Germany, branches of manufacturing in metal and electrical goods use homeworkers. The high proportions of women in homeworking, combined with its suitability for labour intensive industry, serves to reinforce the sex segregation of women. Homeworking is regionally concentrated, notably in urban areas associated with the textile industry and in peripheral and less industrialised regions of the Community. It is also found in north west Ireland, the Madeira Islands, southern

**Minimum Estimates of Homeworkers in Selected Member States**

Country	Year	Number	Proportion of women %
Italy	1985	700,000	over 90
France	1985	59,600	82
Portugal	1983	50,000	over 90
Spain	1986	490,000	75
U.K.	1981	229,000	70
Greece	1986	225,000	over 90

as well as northern Italy, and northern Portugal.

The existence of homeworking - be it legal or in the black economy - has the advantage of offering women the opportunity to become economically active in regions devoid of waged work or where service employment is as yet undeveloped. However, homeworking is one of the least protected types of employment. This is sometimes because there is an absence of legal protection for homeworkers compared with salaried employees (as in Greek villages) or because the exist-

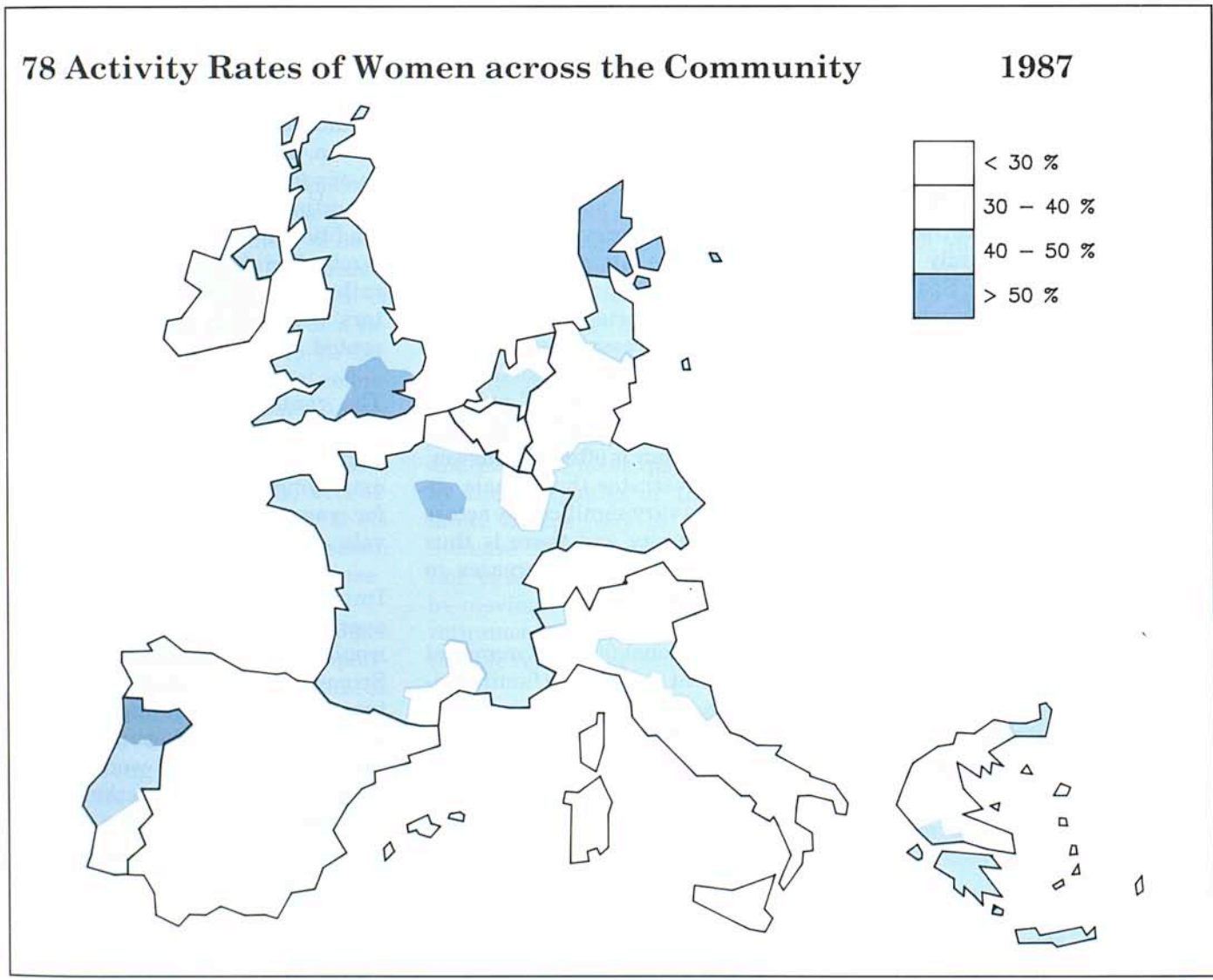
ing laws and regulations are infrequently enforced (Ireland, Belgium, Netherlands). In other instances (Italy and France) social and labour law protection exist but, for a complex of reasons, homeworking and homeworkers tend to disappear into the black economy or "instant self-employment" at the first sign of regulatory enforcement.

Homeworking is an example of one of the more unchanging features of the position of women in the labour market. Interestingly it has proved extremely adaptable to contemporary conditions of production. The

recruitment of women into homeworking serves as a substitute for capital investment, with the domestic premises of the homeworkers substituting for the costs of factory premises, and reduces the social costs of employing labour.

### Family Helpers or Unpaid Workers ?

Family helpers share with homeworkers many similarities in their position on the labour market, despite their concentration in different sectors. The term "family helper" is



generally used to cover three categories of economically active people:

- wives working in their husbands' enterprise;
- relatives working in family enterprises;
- assistants who work with the self-employed without a contract of employment.

These forms of non-waged employment form a small (and diminishing) percentage of total employment in the Community, except in three countries: Italy, Spain and Greece where they are an important share of women's employment - 35% in Greece. Not all family helpers are women and the Member States can be divided into two broad groups: the Federal Republic of Germany, Belgium, Denmark and the Netherlands where over 83% of family helpers are women; and Greece, Spain, Portugal, Ireland and Italy where the proportion of women among family helpers is less high, ranging from 52% to 78%. The strength of small businesses and artisanal enterprises as well as small agricultural enterprises managed by couples accounts for the greater number of male family helpers in this second group.

Like homeworkers, family helpers are poorly protected by social or labour laws, unless they claim self-employed status (as allowed in Portugal) or unless they acquire social security rights from their husband's employment (as in Greece).

Helping out a husband or a relative in a family business, like accepting irregular homework or seasonal employment in tourism, is a survival strategy for women in the fragmented labour markets of the less developed regions. It has little in common with the situation of full-time family helpers in enterprises of North European cities or, for example, the full-time skilled homeworkers in the silk industry of northern Italy. And with the continuing fall in the numbers engaged in agriculture, family helpers will correspondingly decline.

## Future Concerns

For the immediate future, women are likely to provide the major proportion of any increase in the Community's economically active population. The decentralisation of production, the smaller scale of businesses, the growth of service activities have all contributed to employers' changing requirements for labour. Shorter lead times in production processes have created a need for adaptable, flexible work forces. Various forms of atypical employment are called for and women's labour is often the answer. Map 78 illustrates that female activity rates vary significantly across the Community and there is thus scope for substantial increases in certain areas.

More traditional forms of marginal employment such as the family helper, the seasonal agricultural worker or the homeworker play a somewhat different role in the labour market. They permit women to be economically active at no or low

pay. They constitute, in some regions, a buffer against emigration and against large scale unemployment among women. As home-based types of employment, however, they reinforce traditional stereotypes of women as occasional and marginal visitors to the world of work. The demand for part-time and temporary workers attracts women into sectors like clothing, where women are already well represented, thus reinforcing the sex segregation of women on the labour market.

The structural sexual segregation outlined above has implications for the vocational training orientation and education for women. These are the means that will enable women to enter occupations outside their traditional areas. Given this segregation, however, it has often proved easier for women to improve their opportunities by progressing to non-traditional occupations within already female-dominated sectors, rather than attempt to move to sectors where they are under-represented.

The confinement of women to a limited range of sectors and occupations, often in atypical forms of employment, also has implications for wage segregation and wage levels.

Improved social protection for everyone in atypical employment would particularly benefit women. Stronger regulation of precarious types of employment might equally play a part in combatting tendencies to still consider women as a casually employable section of the labour force.

## Chapter 8 The Demographic Time Bomb

*Fewer young people to enter the labour market and an ageing population - does this mean an early solution to unemployment and an era of labour scarcity? How will companies cope with a very different labour force structure?*

### Introduction

Most of the European Community faces a medium term demographic problem of a declining but ageing population.

The problems of financing pensions, health care, and social services has been the subject of much debate. There has been much less discussion of the short term problem of labour shortages. Because of a reduction in the birth rate in the 1970s, Europe faces a sharp reduction in the number of young people entering the labour force over the next few years. Shortages of labour, especially skilled labour, are already beginning to affect some areas and sectors but there has been little in the way of policy response.

One benefit of demographic changes will be a fall in youth unemployment. It is possible too that labour shortages could bring about the re-entry into the labour market of many long-term unemployed adults. However, one worry is that many of these long-term unemployed and many of the young entering the labour market for the first time lack suitable skills and training.

The way in which these short-term problems of labour shortages are tackled will have implications for the longer term problem and its solution. There are several possible strategies which companies and governments can adopt. Companies may invest in new technology to increase productivity and reduce the need for labour but the scope for this will vary considerably between sectors. Companies and governments may attempt to increase the labour force participation rates of women by providing more creche facilities and parental leave, paid for either by the companies or the government. There may be policies to increase the labour force participation of older workers, for example, by moving or raising the statutory retirement age and by encouraging flexible retirement systems.

The demand for education and training facilities on the part of both companies and individuals is likely to increase.

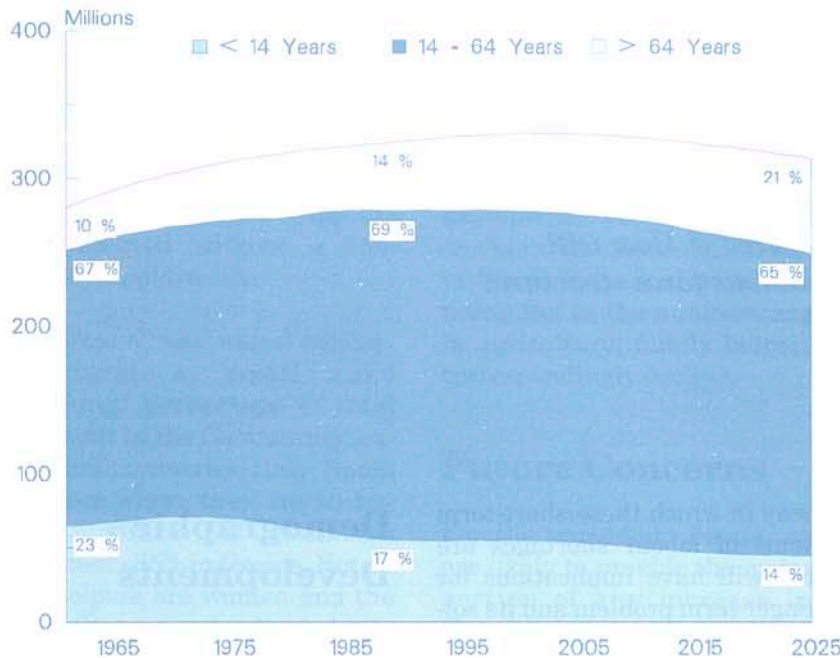
### Demographic Developments

At the beginning of 1987, the population of the European Community was 323 million, 34% more than in the USA and 15% more than in the USSR. After peaking in 2005, by 2010 the population of Europe will be only 2% more than now - compared with an expected increase in that period of 19% in the USA, 7% in Japan, 20% in the USSR and a massive 39% globally. The Community share of the world's population is expected to fall from 6.4% to 4.7% by 2010.

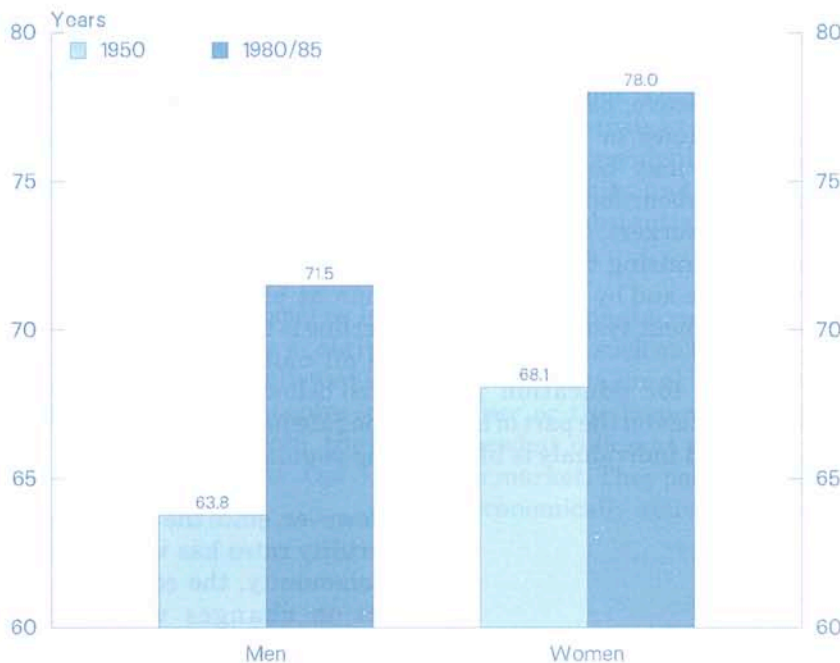
By 2025, there will probably be about 2% fewer people in Europe than at present. The cause of this decline is the fall in the fertility rate in all countries (except Ireland) to well below 2.1 children per woman, the rate needed to sustain the existing population level.

However, since the rate of decline in fertility rates has varied across the Community, the consequent population changes will also be of differing magnitude and occur at different times. Conventional wis-

**79 Population Structure Trends in the Community 1961-2025**



**80 Life Expectancy at Birth in the Community 1950-1980/85**



dom suggests that the Mediterranean countries - Spain, Greece and Portugal - together with Ireland, are expected to have expanding populations while the countries of the north will have declining populations. This is an over-simplification.

While the Mediterranean countries and Ireland did have relatively high rates of population growth between 1965 and 1985, the Netherlands, France and Luxembourg experienced higher growth rates than either Portugal or Italy during that period.

Much attention has been paid to the expected dramatic decline in Germany's population - which is expected to fall by over 15% from its 1975 peak of 62 million to 52.5 million by 2025. However, it is less well known that Italy - which in the north has some of the lowest fertility rates in Europe - is expected to experience a drop in its population of 9% between 1995 and 2025. Furthermore, by 2025, Belgium will probably have almost 6% less people than now and Denmark, whose population is already shrinking, 7% less. The only countries whose population is expected to be still growing by 2025



are the United Kingdom and Greece.

Better diet, housing, and medical care have reduced infant mortality throughout this century. This, combined with increased longevity in recent years, means that the number of older people has been increasing. As life expectancy for women has increased faster than for men, there is a growing proportion of women in this older group.

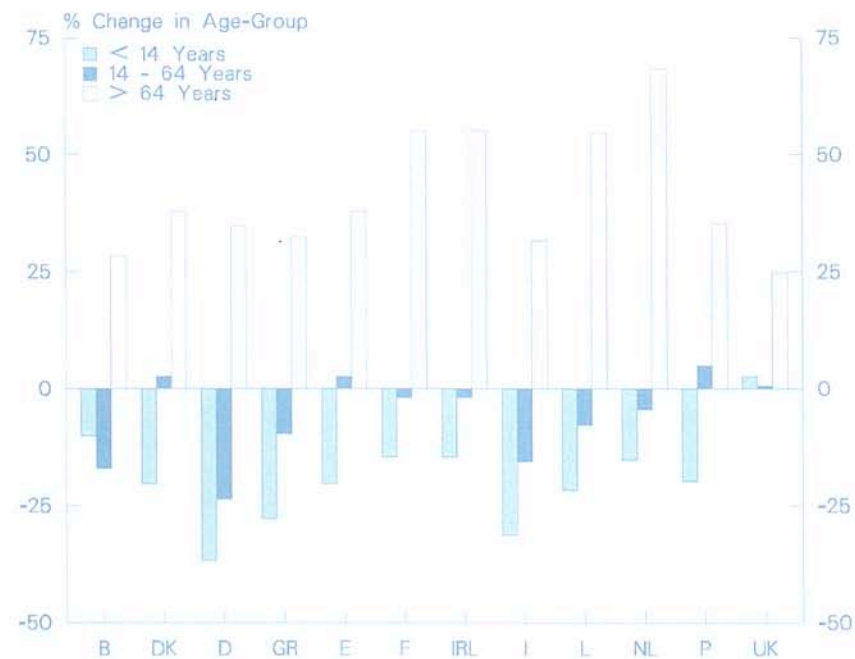
Increased life expectancy, coupled with declining birth rates, has meant that populations are “ageing” since there is a greater proportion of the population over 65 years old and many more of these are expected to survive beyond the age of 75. Graphs 81 and 82 illustrate the changing age structure of the population over the next 35 years or so. For all countries there is an expected overall decline in the proportion of young people in the population and an increase in the proportion of elderly people.

By 2025, over 20% of the population of the European Community will be over 65 years old. However, the position will vary widely from country to country, ranging from 24% in Germany to 17% in Ireland.

### 81 Predicted Population Changes by Age-Groups in the Member States 1990-2025



### 82 Predicted Percentage Changes in Age-Groups of the Population in the Member States 1990-2025



## Changing Patterns of Dependency

As Graph 83 shows, the ageing of the population has significant implications for the pattern of dependency. The dependency ratio of old people is rising throughout Europe and the dependency ratio of young people is falling. This obviously has implications for direct government spending on items such as health care, which will rise, and family benefits and education which may fall.

Since overall dependency is only rising slowly, it has been suggested that there will simply be a transfer of government expenditure from the young to the old. However, currently social expenditure per head on those aged over 65 is up to three times the public expenditure per

head on the non-elderly. This is not necessarily because the actual economic cost of a child is only a third of the economic cost of an elderly person but because most costs of child rearing, apart from education, are borne by the parents and not directly by the state. The problem of increasing age dependency is therefore a political, rather than economic one -how does society tax workers who have fewer dependent children to pay for the support of the elderly?

The financial viability of pension and social security schemes in the future has been extensively discussed. Not only are pension costs rising because ageing populations lead to an increase in the number of old people eligible to claim a pension, but also because many state pension schemes have become more generous and greater life expect-

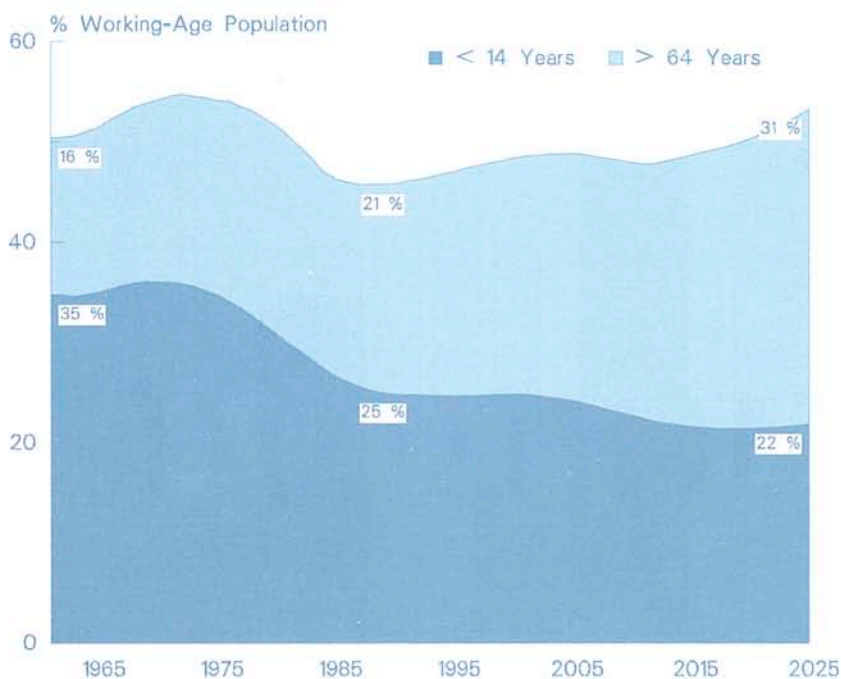
tancy and lower retirement ages mean that pensions are paid for longer. Possible solutions include raising contributions, lowering benefits, raising retirement ages and increasing personal savings.

In countries with rapidly ageing populations, the cost of maintaining current levels of benefit could put an unacceptably high tax burden on those in work. In the Federal Republic, for example, it has been estimated that the marginal tax ratio for many middle-income families would need to rise above 80% if benefits were to be maintained. On the other hand, if contributions remained at their current share of earnings, the real value of the state pension would be halved by 2030.

Provisional German legislation suggests a compromise solution with moderate increases in contributions, a tightening of benefits and the raising of the official flexible early retirement age of 60 by the year 2000. In the United Kingdom, the government has switched the emphasis from state to private provision of pensions. Although this helps solve the problem for the public purse, the problem for companies and individuals will still remain. If demographic changes are not fully taken into account by companies in their pension calculations then the necessary financial resources may not be available.

In other Member States, studies are being carried out but policy conclusions are slow to emerge. Governments may feel that fairly dramatic changes in policy are more easily implemented when the crisis is seen to be biting. On the other hand, short term labour market developments and the policies used to deal with them may help alleviate the long term problem.

**83 Dependency Ratios: Trends in the Share of Young and Old Relative to the Working-Age Population in the Community 1961-2025**



## Labour Force Implications

The demographic trends outlined above suggest that most European countries will, sooner or later, need to think seriously about their ability to provide income, goods and services for the non-working elderly population. Dependency ratios calculated purely on the basis of the age profile of the population may overstate the problem, however, since the ratio of the population of working age to the "dependent" population tells us little about the "real" dependency ratio - namely, how many people will be working to support those who are not.

A falling birth rate has its most immediate effects on the numbers of people entering the labour market. On the basis of demographic factors alone, and assuming that participation rates remain constant at their 1985 level, the European Commission's Statistical Service Eurostat has calculated the number of labour force entries and departures for each year until 2025. This shows net entrants to the labour market in nine Member States numbered just under half a million a year twenty years ago, but rising to a peak of 968,000 in 1981. In 1989, the number of net entrants in the nine is forecast at just over 350,000, falling to a mere 11,000 in 1993 by the time the Internal Market is completed. By the year 2000 net entry will be negative, with 300,000 more people leaving the labour market than are entering. The inclusion of the new Member States, Spain, Portugal and Greece, in the overall calculations makes the problem look less immediate since labour shortages will not be felt so early in those countries.

It is, of course, simplistic to assume constant participation rates and the Eurostat figures should be treated as a "worst case" scenario. Activity rates (the proportion of people in, or seeking, employment as a proportion of the adult population) are difficult to forecast even in the short term, since they depend on many factors, including the growth and structure of economic activity. Moreover, activity rates themselves influence the level and strength of the economy as the increased purchasing power of additional workers stimulates demand. A Eurostat study ('Demographic and Labour Force Analysis based on Eurostat Data Banks') illustrates the possible magnitude of error when making assumptions about participation rates.

For example, between 1975 and 1985, the number of males in the European labour force would have risen by 5.5 million on the basis of population changes had participation rates remained at their 1975 levels. In fact, male participation rates fell, so that the number of men in the labour force rose by only 3.1 million. For women, the picture was reversed. While with a constant female participation rate, a rise of 3.2 million in the number of women in the labour force would have been expected, a rapidly rising participation rate led to an increase of 9.8 million.

Most of the decline in male labour force participation rates occurred in the older age groups - from 55 to 69 - as retirement ages have fallen and more men have taken early retirement. The figures in Graph 84 illustrate the changes between 1975 and 1987.

Equally dramatic changes have occurred in female labour force participation rates, where most of

the increase has occurred in the 25-49 age band. Graph 85 highlights the wide spread in women's labour market activity across Europe.

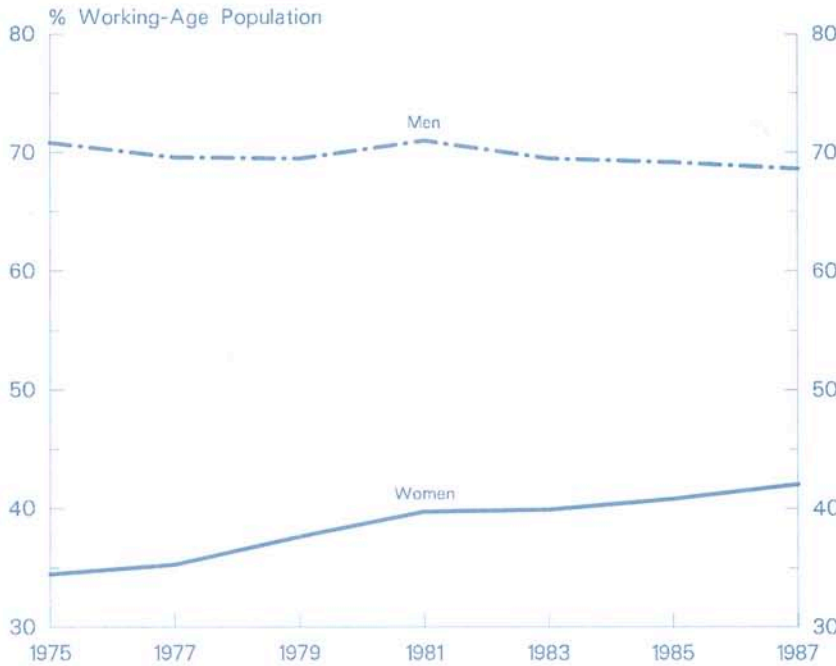
Almost 60% of Danish women are in the labour force, more than double the proportion in Spain. These differences in female labour force participation account for most of the difference in total participation rates across Europe since there is much less variation in male participation rates. Interestingly, the variation in the male participation rates mirror those in the female ones. Thus not only does Denmark have high female participation, its male rates are also the highest in Europe. Conversely, Spain has low rates for both sexes. In the more northern European countries, many of the women who contribute to the high female participation rates work part-time and the lack of availability of part-time work in the southern countries of Greece, Spain, Portugal and Italy may be a factor in their low female activity rates (see Map 78).

## Coping with Labour Shortages

The last few years have been characterised by large numbers of school leavers and increasing numbers of women coming on to the job market. Because of low overall lack of demand in the economy and a regional and skills mismatch of jobs and labour in many Member States, many of these young people and women have spent long periods unemployed (see Chapter 10).

With far fewer young people coming onto the labour market in the next few years, the picture is likely to change and there could well be labour shortages in the northern Member States.

**84 Trends in Male and Female Labour Force Participation Rates in the Community 1975-1987**



**85 Male and Female Labour Force Participation Rates in the Member States 1987**



There are a number of ways in which companies and governments can be expected to react to the projected shortages of labour.

**Technology to Reduce Labour Needs**

Companies may invest in new technology to increase productivity and reduce the need for labour. This policy was effectively pursued in the 1960s but there is less scope for saving labour in the short run in many of the growing service industries. Companies may also be constrained by shortages of highly skilled young people to design, implement and run the necessary technology (see Chapter 12).

**Employing the Long-Term Unemployed**

Companies may recruit from the pool of the unemployed. However, 50% of the unemployed are long-term unemployed and there is a fear that many of these people may have 'missed the boat', as they are not equipped to benefit from the new demand for labour. Many have little formal education and training and are concentrated in poorer areas where demand for labour may be slow to pick up (see Chapter 10).

**Turning to Women**

Companies may seek to attract ever more women into employment. Female participation rates have risen rapidly in recent years and it is possible that they will continue to do so. However, many of the women currently not working are constrained by having to care for children or infirm relatives. For female labour force participation to continue to rise, more provisions for child care, health care and job

breaks may need to be provided (see Chapter 7).

The Member States have varied in their response to these problems. Denmark, for example, has a high level of state provision of child care facilities whereas the UK has very little. Where governments insist that this is the responsibility of companies, the taxation treatment of such provisions may be important determinants of their supply.

### Taking on Older Workers

Participation rates of older workers have declined. This trend has been encouraged by higher levels of pensions and early retirement schemes promoted by governments to create space so that young unemployed workers could find jobs.

A policy of flexible, rather than early, retirement as a way of combatting labour shortages while simultaneously easing pressure on social security systems has been developed by some governments. For example, Denmark has followed the Swedish example by introducing legislation on partial retirement. This allows employees and self-employed people between 60 and 67 to reduce their working time and receive a partial pension. Participants in the scheme must have contributed to a pension fund in a full time job for at least ten years. They must work at least nine hours less a week than before but for over a quarter of their average working hours over the previous 9 months. They must work between 15 and 30 hours every week and on at least 20 days in every quarter.

At the beginning of 1988, France introduced a gradual retirement scheme for those over 60 and Italy also has a scheme so that workers within two years of retirement age

can work part-time and start to receive pensions. However, there are some costs for older workers as final pensions can be adversely affected by their being based on the last period of earning, rather than the highest.

To encourage the employment of older workers, pension plans would need to be portable and neutral as far as full-time and part-time work is concerned.

A change in company cultures and attitudes may be required if older workers are taken on or retained because they are often regarded as slower and less adaptable to change. Studies of the performance of older workers do not actually support this view.

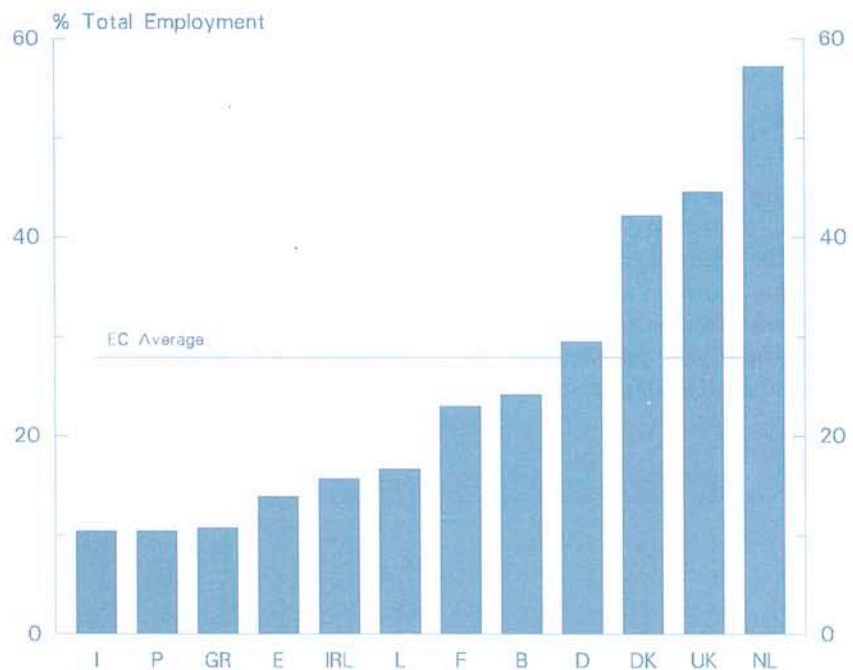
Experience in the United States suggests that the benefits to the employer of employing older workers

can include lower voluntary turnover rates, greater loyalty to the employer and better familiarity with business practices.

Several schemes in the United States use the concept of a job bank for retired people. The law allows retired people to work for less than 1000 hours per year without affecting pension and health benefits. Hence companies are able to hire ex-employees for part-time or temporary assignments. This reduces recruiting and training costs and is a substitute for the temporary workers who would normally be used to cope with the flexibility of the company's production schedule. Companies have also found it worthwhile to continue to provide training for these older workers.

Although the US schemes obviously benefit the companies concerned, there is a risk for public pension

### 86 Share of Women in Employment Working Part-time in the Member States 1987



funding schemes. Early retirees who work less than 1000 hours a year do not have to make pension contributions and the existence of the scheme may encourage full time workers to take early retirement as they know there is the potential for earning extra income when needed. This both reduces the revenue base for pension schemes and increases expenditure. Thus Member States seeking to promote the employment of older workers in this way would need to examine the longer term pension funding implications.

While there can be an economic advantage in using the human resources of older workers for longer, care is needed to avoid creating situations where, in effect, older workers are obliged to work longer. Although retirement is, historically a fairly new concept and "early" retirement a very recent phenomenon, both are firmly entrenched in people's expectations about the trade off between work and leisure over their life. As with the policy of encouraging women to work, a policy goal of increasing freedom of opportunity and flexibility would seem appropriate.

## **Skill Shortages**

Within the overall labour shortage problem, there are likely to be particular shortages of certain skills. This problem will be intensified unless a higher proportion of young people are prepared to remain in education longer in order to

gain professional or vocational qualifications.

In recent years, young people have been encouraged to undertake additional education and training as a response to unemployment. In future, they will need to gain qualifications, not in order to avoid the dole queue, but in order to meet the demand for skilled labour. Employers may have to offer the inducement of higher wages for skilled labour to ensure that young people are prepared to forego the immediate prospect of a wage packet while they remain in education or are trained. Women and older workers may also need training if they are to meet this demand and avoid being pushed into low pay and low skill jobs.

It is unclear to what extent these extra costs would be met by governments or companies. The savings made by governments on education as a result of the lower birth rates of the 1970s could be used for this purpose but these same resources may need to be channelled into support for the increasing numbers of elderly. Investment in training for young people, unemployed women and older workers and indirect measures such as better child care and health services, will provide the Member States economies with the vital necessary resource for growth - a larger and more skilled labour force. Higher economic growth and a broader tax base would diminish the problem of financing the elderly population.

### **Recruiting and Keeping Women in the Work-Force - Some Company Responses**

European companies are increasingly providing creche facilities. Midland Bank in the UK plans to set up 300 workplace nurseries, for example. IBM has pioneered a nationwide system to provide funds to recruit, train and licence new day-care providers. In the first year of the programme, IBM was responsible for creating 4000 new child-care programmes.

But provision of creche facilities is not the only response. Increasing opportunities for career breaks and job-sharing are also important. Many career-break schemes, eg. Barclays Bank (UK), apply only to staff in managerial positions or with management potential but Lloyds Bank (UK) has made all staff eligible for a five year career break to enable them to care for pre-school children.

Denmark Radio has introduced a 24 week parental leave scheme with pay, and ten of these weeks may be taken by the father.

Marks and Spencer, the retail chain, where 85% of the workforce is female is employing more part-time managers.

J. Sainsbury, the supermarket group, has relaxed the requirement for managers to move between regions.

British Telecom is about to introduce a job sharing scheme for 200,000 people. Employees in the job share scheme working a minimum of 16 hours a week will be paid on the same basis as their full-time counterparts and have the same sick-pay, maternity leave and pension benefits.

Messerschmitt, BASF and Audi have introduced re-employment guarantees for female workers who leave because of domestic responsibilities. Opportunities to maintain skills is provided by encouraging these women to stand in at work for colleagues who are ill.

Esso UK has a career break scheme for male and female employees which can be used for various family reasons, eg. looking after children or elderly parents. The company also runs awareness raising seminars to help combat discrimination against women and ethnic minorities.

The Amsterdam police force has lowered its height requirement to encourage the recruitment of more women.

In the United States, companies with child-care schemes have lower labour turnover, lower absenteeism, fewer interrupted careers and can attract bright women more cheaply.

“In tighter labour markets employers cannot afford to ignore workers’ obligations to family. Employers who do will simply lose out to employers who don’t.”

Elizabeth Dole, US Secretary of Labour





## Chapter 9 Vocational Training and Employment

*Vocational education and training systems are developing rapidly to meet the new demands of Europe's converging labour market. But is the rate of investment in human resources sufficient to meet the changing needs?*

### Introduction

Vocational education and training measures have assumed a central position in the responses of Member States to the structural changes experienced over the past decade.

However, while there is now a broad consensus within the Community over the positive effects of vocational education and training on employment, policy responses have been extremely diverse and perhaps not always timely or comprehensive enough to deal with the rapid developments brought about by economic, technical and demographic changes on the labour market.

Traditional employment and career patterns have changed with fundamental consequences for the qualities, aptitudes and skills now required to enter and stay in work. In such a climate, the role of initial and continuing vocational training in meeting these requirements, and in providing an adequately skilled workforce to satisfy the demand of both current and future economies, is crucial, and wholly justifies the increased priority which Member States are now placing on the development of their vocational education and training provision.

The trend recently has been towards an extensive revision of education and training policies to meet current needs. Frequently progress in Member States has been hindered by the baggage of measures introduced in the early 1980s, based on the perception that the exceptionally high unemployment was a cyclical rather than a structural phenomenon. Measures therefore focussed on 'make-work' schemes for the supposedly temporarily unemployed, and on the removal of surplus labour from the active labour market via early retirement schemes.

Such measures were essentially short-term. They ignored warnings of the 'demographic time-bomb' (see Chapter 8) and the equally clear indications that the demand for new types of skills and the development of new working patterns would require the existing workforce to adapt and retrain if further unemployment were to be avoided.

The current situation across Member States sees vocational education and training as an accepted part of policy responses to changes which are clearly identified as structural. Here too, measures have been short-term, characterised by the proliferation of training schemes aimed particularly at the long-term

unemployed and young people. Such schemes were generally based on limited analyses of labour market needs, and the provisional and fragmented nature of resulting training provision has made effective Community-level analysis and evaluation extremely difficult.

The situation is improving gradually as Member States make greater efforts to adjust training systems to the demands of accelerated economic development, but the signs are that this is again tending towards short-term action to stop the gaps rather than the comprehensive investment in future training needs that will have to take place if the Community is to continue competing successfully on a world market (see Chapter 3).

### Identifying Training Needs

Recent studies have highlighted the main factors defining current training needs:

- technological progress which has created new potential for automation;
- changes in the functions and skills required of workers, as a

result of these technological advances;

- new industrial strategies in response to a developing market and the resulting new demands placed on the workforce;
- demographic changes in the workforce;
- the development of new European industrial and economic structures in preparation for 1992 and the Internal Market;
- new developments, such as stricter environmental standards, which need specialist skills for their implementation;
- the mobility of workers, and the skills and qualifications currently available on the labour market.

The requirements which these developments place on the workforce will obviously have to be met largely by the existing population since they will make up the majority of the active workforce until the year 2000. The European Community will have to rely largely on its existing human resources in competing in the evolving world economy.

This gives particular emphasis to the need to exploit the full potential of all members of the workforce, particularly women, and to re-equip older workers with new skills.

Yet, the signs are that the working population of the Community is currently unprepared to meet such challenges, implicit in the paradox in the Community's labour market - continuing high levels of unemployment, especially among the young (see Chapter 10) contrasted with severe skills shortages in many sectors of industry. The rela-

tionship between levels of unemployment, particularly chronic long-term unemployment, and the level of educational and vocational qualifications has now been widely accepted. Certainly, people with low or no relevant qualifications, are the majority among those with employment difficulties.

## Preparation of Young People

Youth unemployment has been a significant feature of the labour market in the 1980s. Although unemployment is falling overall in the Community, unemployment among people under 25, at 20% in April 1989, is still high (see Chapter 10).

Socio-economic and individual circumstances of young people vary enormously across the Community, but certain trends can be identified:

- a significant proportion of young people abandon their studies before the end of compulsory schooling, or leave with no diploma or qualifications (between 10-30%);
- access to training is usually denied to young people without a school leaving certificate;
- young people without training qualifications tend to experience far greater job instability as they get older than those with some qualification, and are also more likely to become long-term unemployed.

At the same time, young people who undergo initial training tend to choose a very limited range of options. This is particularly noticeable among girls, the vast majority of whom go for secretarial, catering or 'caring-type' jobs, regardless of the

nature or level of their academic qualifications. The German situation, where over a third of girls choose from only five occupational options, is indicative of the overall Community position.

The situation is no more encouraging for higher level qualifications. In all Member States, industry is reporting shortages of young people with appropriate qualifications, particularly in electronics, engineering, computer science, logistics, chemistry, information technology.

Educational institutions still seem to find it hard to attract young people into technical studies rather than the humanities. Only 39 new students per year are recruited into technology per 100,000 inhabitants in Europe, compared with 77 in the United States and 76 in Japan.

## New Developments, New Partnerships

Given this scenario, Member States have aimed to develop more comprehensive vocational education and training programmes. In particular, there has been a vast expansion in pre and initial vocational training which aims to integrate young people into the world of work. The problem has been for educational and initial training systems to identify the needs of industry. It is especially difficult for the educational world to anticipate technological development or to forecast the skills requirements for which education and training have to cater.

The emphasis in future will no longer be on the need to adapt people to the application of new technologies by training (reactive training), but on preparing people for a society in which new techno-

logies will be universal (pro-active training).

Vocational training should be seen as a strategic weapon. It must lead to achieving skill profiles that will help people to adapt to permanent change in work activities and stimulate the process of 'learning how to learn'.

In all Member States, education and training systems have begun to be adapted to suit these requirements. Four main fields of action can be identified from the range of so-called 'transition' projects for young people moving into the labour market;

- forging closer links between schools and the economic world, including the development and implementation of more varied forms of work experience, the use of the world of work as a learning resource, and initiatives to foster a more pro-active and 'entrepreneurial' spirit among young people and schools;
- improved guidance and counselling to meet new needs;
- measures designed to remedy failure and to provide fairer opportunities for poorly attaining and disadvantaged young people;
- help for teachers to cope with new tasks and new roles.

In most cases, programmes have adopted a comprehensive approach encompassing all facets of their work with young people's transition. This philosophy is now beginning to have a real influence on the provision of mainstream training and education.

In all Member States attempts are being made to foster new forms of partnership between the various agencies responsible for youth education and training (Ministry of Education, Ministry of Employment, individual firms, schools and training institutions).

These new partnerships include new forms of linked work experience and training in initial training or integration schemes, involving educational and industrial circles.

The picture, across Europe, and particularly between north and south, is not uniform. In northern Europe industry is increasingly co-operating with schools providing compulsory (i.e. up to about age 16) or general education. In other parts of Europe, the picture is different: there, firms are just beginning to develop ways of supporting technical and vocational training but are rarely involved with compulsory or general education schools. Yet increasingly it is difficult to distinguish between general and vocational education, as vocational training becomes more general, and many compulsory or general courses assume a pre-vocational character.

The range of projects being introduced is extremely varied, as the examples below demonstrate:

- in U.K., the two-year Youth Training Scheme, incorporating vocational study and work experience, is increasingly the normal route for young people into employment;
- in Germany, 50% of all school-age pupils have an apprenticeship in a firm as part of a programme of introduction to the world of work;

- in Spain, nearly 10,000 students in Andalusia were given work placements in 1988 as part of their vocational training, with over 4,000 firms involved;
- in several Member States, United States style 'compacts' between schools and local industries to promote urban renewal and regional development have been set up, introducing 'industrial tutoring' and 'enterprise education'.

These examples are only a small selection from the wide diversity of initiatives across Member States at national, regional and local level but they illustrate the opportunities for greater collaboration between parties with an interest in training and education.

## Continuing Training

People already in the workforce are finding increasingly that their skills are no longer relevant. The Community already experienced, in the late 1970s and early 1980s, large scale redundancies of (mainly) men with obsolete skills in traditional industries such as coal, steel, ship-building.

In the face of the current difficulties in recruiting a suitably skilled workforce, it is unlikely that the Community will experience a similar scale of redundancies in the 1990s. A new approach to re-skilling is emerging, with companies treating their workforce as part of a permanent investment to be developed and trained in a continuing process. Changes in attitude are nevertheless proceeding only slowly and an examination of the current situation offers much food for thought.

## Current Situation

It is extremely hard to establish accurate, comparable data at Community level on the in-service training of employees. Statistical records are incomplete, and in some Member States no statistics are available.

Further, Member States differ over the fundamental principles relating to continuing training and their implementation. There are debates over the relative importance of the roles of public authorities and the two sides of industry, and over who foots the bill.

However, just as Member States all face the same economic and social pressures, so their policy responses are tending to converge. In all Member States, the need for on-going training to provide employees with skills that allow enterprises to develop flexibility in the face of new challenges is now widely acknowledged.

An examination of the levels of initial training among the active populations of the Member States, reveals the enormity of such aims:

- 75% of employees in Greece have attained only a basic education certificate;
- 50% of employees in France, and 30% in the Federal Republic of Germany have no vocational qualifications;
- 8% of the economically active population in Portugal is illiterate, while over 75% have no educational or vocational qualifications;
- 28% of young Spaniards between 16-24 currently entering

the labour market have only completed primary education.

Skills acquired on the job must of course be taken into account, but a minimum level of education is becoming an essential prerequisite of the training needed in a knowledge-based economy.

Despite acceptance that skills are increasingly a condition for mobility and adaptability and for raising the vocational and social level of workers, in-service training of workers still tends to be in the form of short courses focused on updating of skills not leading to any recognised qualifications.

In countries such as Denmark, France or Luxembourg, where sufficient data is available, the average is about two weeks training per year with no significant upward trend, a pattern likely to be found across the Community.

The establishment of longer training courses tends to be limited to certain types of large firms (in the electricity and electronics sectors, banking, processing industries) and some small or medium-sized industries in advanced technology areas (computers, services).

The Federal Republic of Germany appears to be an exception although the proportion of vocational training financed exclusively by companies is considerably lower than, for example, in France (29 hours as against 52 hours in 1984).

On the whole, these short training periods are mainly short-term responses to immediate needs, and are rarely part of a continuous training process intended to develop new capabilities and qualifications.

The factors which determine the existence and extent of on-going training include:

- the size of the company with larger companies providing more in-service training;
- the level of initial training already acquired. The adage 'money goes to money' can be accurately applied to in-house training almost everywhere. The disparities between employees with or without initial training tends to be further accentuated by in-house training procedures, particularly in bigger companies.

## New Developments

A new feature is the development of training undertaken by certain sectors of industry, mirroring the increased involvement of industry in the training of young people, described above. This has happened more in certain countries (Denmark, Federal Republic, United Kingdom) than in others (France, Portugal, Spain, Italy) and is characterised of common factors:

- individual sectors are involved increasingly in negotiations on training which are then enshrined in collective agreements (Ireland, France, Italy, Netherlands, Federal Republic, Denmark).
- individual sectors are increasingly determining the content and practical implementation of training schemes. The fact that the concept of the 'right to training' has already emerged and is being applied well ahead of any legislative or other provisions is significant.

- individual sectors are producing forecasts of qualification and training requirements e.g. the joint Committee in the chemicals industry in the Federal Republic of Germany; forecasts in the transport, textiles and trade and distribution sectors in France; organisation of forward planning of skills in the metalworking and electronics sectors in Denmark.

## The Relationship of State and Enterprise

In most Member States, the usual division of roles involves State responsibility for initial vocational training, occupational integration and unemployment, while firms are responsible for the training of their own workers. This simple view of things is tempered by a detailed analysis of the situation in individual countries.

Although in the Federal Republic, the Netherlands, France and Denmark there is a sharp delineation between the various areas of responsibility, the actual situation reveals a more complex picture, including;

- the responsibility for training skilled and semi-skilled workers in Denmark assumed by governmental authorities;
- financial incentives in the Netherlands in key areas of employment, economic and technological growth;
- a drive to promote the acquisition of qualifications in the Federal Republic of Germany, with government financing for training in priority areas.

In the countries of southern Europe, where the role of the State has always been clearly established, both as a source of financing and as an organiser of training through bodies such as IEFP, INEM or OAED, the trend is somewhat reversed in that Spain and Greece alike have reminded firms of their responsibilities and made it mandatory for employers to participate in worker training.

The development of the respective roles of the State and of firms reflects the different types of financing of worker training. The concept of 'co-investment' by the various parties or partners responsible for training is now widely accepted. The relative contribution of the various providers of finance in some Member States can be expressed as follows:

- financing 50%/50% State or Region/Firms as in Denmark, France;
- financing 40%/60% State or Region/Firms as in Federal Republic, United Kingdom;
- three-way financing - Firm/State/European Community as in Greece, Spain, Portugal, Italy.

The individual worker is an increasingly significant element in the financing of training. There are, however, no reliable figures of the amount of time each worker spends on training outside working hours or the travel and personal costs incurred.

The changing approach to who provides training is demonstrated in, for example, tax incentives for training in Netherlands, United Kingdom or Federal Republic. While worker training remains pri-

marily a matter for the firms concerned, new financial partnerships are emerging in line with the recognition of co-responsibility.

## A Community Response

The references to new developments both in initial and in-service training suggest that new forms of partnerships are being developed. This response is a recognition that training provision cannot be considered in isolation from the local, regional or national socio-economic environment, and the needs of the economy; nor can initial training be divorced from continuing training, since the two are closely linked.

Gradually Member States are moving away from a purely national approach to their training and education problems towards partnership at Community level. This is a result of the growing awareness that the European Community is a single if heterogeneous unit, experiencing very similar social and economic pressures. As the Community develops into a single market, new trans-European industrial and economic structures are being created which will reinforce the sense of a shared experience.

The increased mobility of workers, made possible by the wider recognition of qualifications further reinforces the need for a common approach to meeting future manpower requirements. It also raises issues regarding investment in training carried out in one Member State but which subsequently benefits others Member States because of migration (see Chapter 14).

At Community level, much has been done to improve training provision throughout. Following two exten-

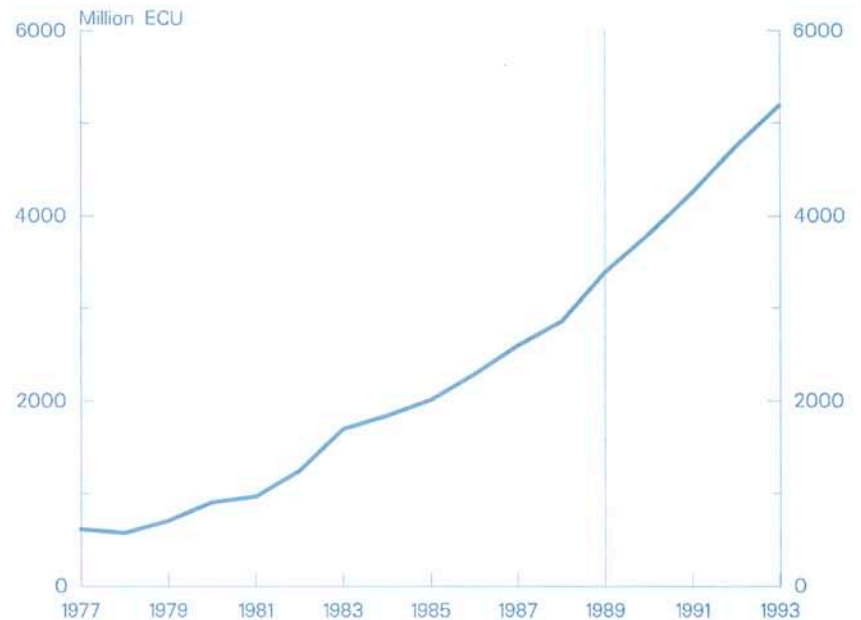
sive 'Transition Programmes' run by the Commission (1977-82 and 1983-87) to complement activity within Member States on improving the education and training of young people, Member States gave a commitment, in the Council Decision of December 1987, to offer all young people at least two years training after the end of compulsory education.

The Council Decision also set up the PETRA Programme for European Youth Training to further the development of youth training policies in Member States. Through the development of a European network of selected innovative projects, PETRA aims to develop a European partnership in the vocational training of young people, as well as emphasising the value of links at national, regional and local level. In particular the Programme stresses the value of new forms of active learning and the promotion of greater initiative among young people.

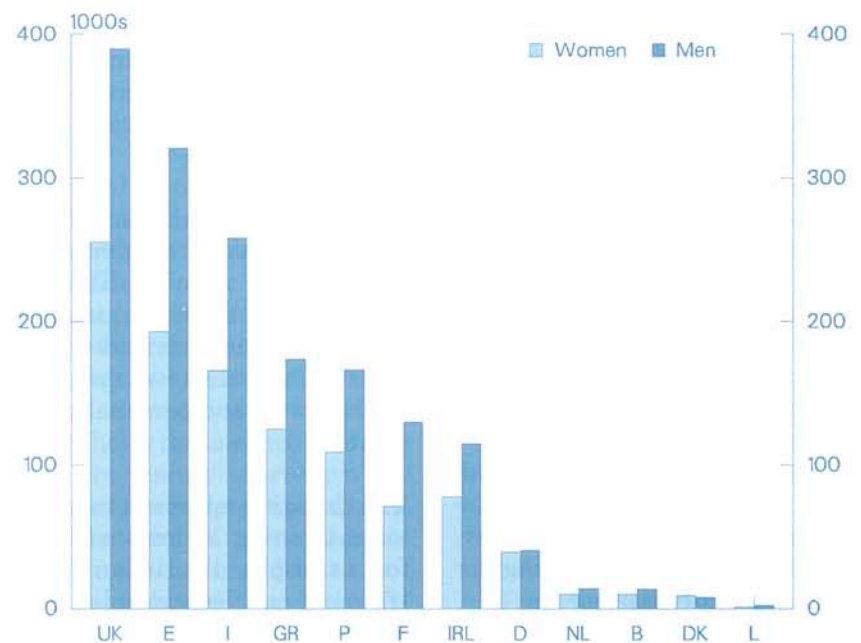
The development of partnerships at all levels is also a major feature of the Commission's policy on continuing training. Of particular interest has been the development of relationships between social partners and public authorities at regional level and at enterprise or sector level.

In all training, (including that of unemployed people, whose particular situation it has not been possible to explore here) there are two focal features. First, the need to remove administrative rigidities and compartmentalisation, which have impeded the translation of new policies into effective action. The Commission has a key facilitating role to play here. Secondly, there is the need to develop a commitment throughout the Community to life-

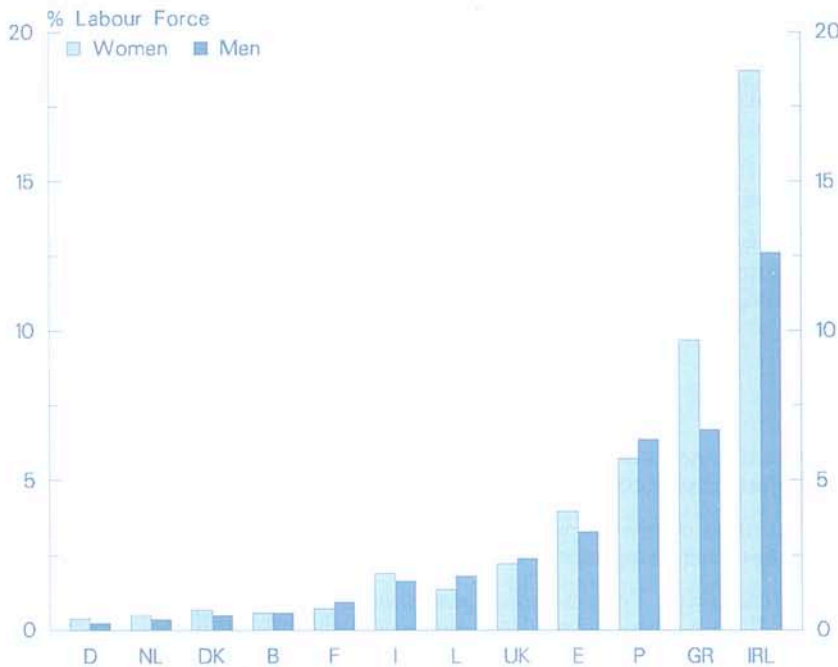
### 87 Social Fund Budget 1977 - 1993



### 88 Number of Persons Assisted by Social Fund 1988



**89 Number of Persons Assisted by Social Fund as a Proportion of Labour Force 1988**

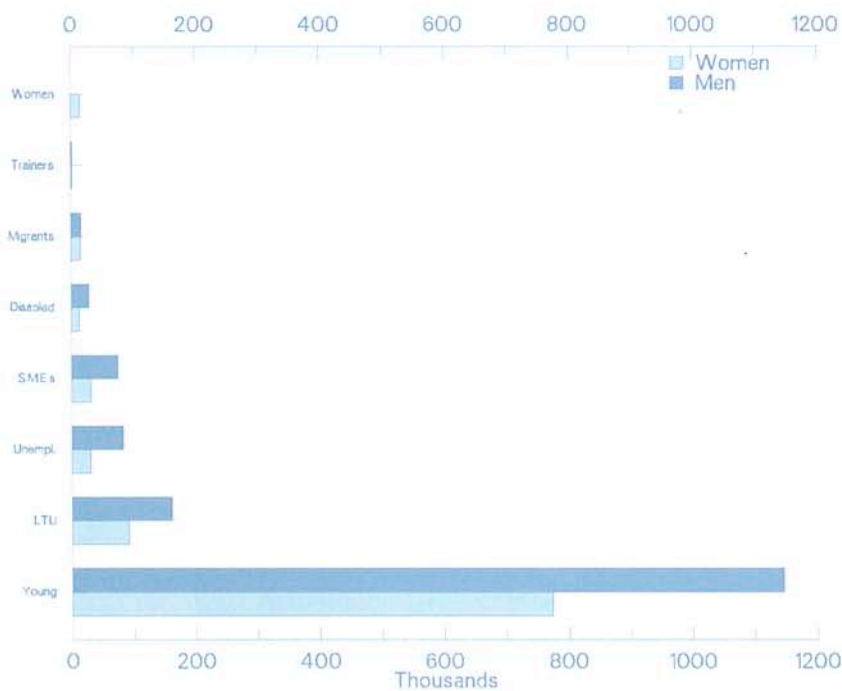


long training and learning, to create a more flexible, adaptable workforce capable of responding to new skills needs. Again, the Commission has a role to play in promoting awareness and influencing training provision through the dissemination of new ideas, and by promoting linkages and dialogue between the providers of initial and continuing training.

In relation to these issues, there is now the opportunity for Member States to revise their training strategies in the light of pressing future needs, and to reflect on the means of developing effective, coherent vocational training and education systems, at both initial and continuing levels.

This challenge must be met to ensure that Europe can respond, with a qualified and able workforce, to the economic and social demands ahead in the 1990s.

**90 Targetting of the Social Fund 1988**



**European Social Fund - Support for Training, Guidance and Recruitment.**

The European Social Fund is the principle source of Community funding for vocational training and employment creation. Community funds are generally matched by national funds. The budget has increased considerably since the late 1970s with a planned increase up to 5,200 million ECU in 1993. The operation of the Community structural funds has been completely revised from 1990 onwards as presented in Chapter 16. The charts show the use of Community funds in 1988, under the current rules.

## **Community Education and Vocational Training Programmes**

### **ERASMUS Programme**

1st phase on-going 1988-1990

2nd phase planned for 1991-1993

**People Involved:** Students in higher education. Participation of 43,000 students and 1,500 higher education institutions in the first phase.

**Objective:** Increase the mobility of students in higher education in the Community and add a European dimension to their initial training.

**Activities:** European network of inter-university co-operation. Grants for students to spend a period of training in another Member State. Measures to develop the academic recognition of diploma.

### **COMETT Programme**

1st phase on-going 1987-1989

2nd phase planned for 1990-1994

**People Involved:** Students in higher education and staff from enterprises participating in 1987-1988. 1,320 projects and 1,400 students.

**Objective:** Stimulate university-industry co-operation in order to improve high level training linked to new technologies.

**Activities:** University-industry partnerships. Transnational placements for students in enterprises. Joint continuing training projects.

### **Youth for Europe programme**

1st phase on-going 1989-1991

2nd phase planned for 1992

**People Involved:** Young people from 15 to 25 years old. Participation in the first phase: 80,000 young people.

**Objective:** Improve, develop and diversify young peoples exchanges in the Community.

**Activities:** Support for young people's exchanges of at least 1 week. National agencies for information and co-ordination of the programme. Study visits and assistance for training courses for the organisers of youth exchange.

### **Exchange of young workers programme**

3rd phase on-going 1985-1990

4th phase planned for 1991

**People Involved:** Young workers or job seekers of 18 to 28 years old. Participation in 1987-1988. 7,000 young people.

**Objective:** Offer training or work experience for young people in another Member State.

**Activities:** Support for short (up to 3 months) or longer (up to 16 months) periods of work or training for young people in another Member State. Exchange network.

### **PETRA Programme**

1st phase on-going 1989-1992

**People Involved:** Young people in vocational training following full-time compulsory education. 154 training initiatives in 1989. 200 youth projects.



- Objective: Support, with a Community added-value, the implementation of the Council Decision of the vocational training of young people.
- Activities: European network of vocational training initiatives in the form of transnational partnerships Initiatives and information projects managed by young people themselves. Co-operation in the research field.

#### **IRIS Programme**

1st phase on-going 1988-1992

- People Involved: Women in vocational training. 71 projects in 1989.
- Objective: Develop the access of women to vocational training.
- Activities: Network of innovative projects in vocational training for women.

#### **EUROTECNET Programme**

1st phase on-going 1985-1989  
2nd phase planned for 1990-1994

- People Involved: Young people and staff of enterprises in initial or continuing training. 135 demonstration projects in 1989.
- Objective: Dissemination throughout the Community of innovations in the area of vocational training linked to new technologies.
- Activities: European network of demonstration projects in initial and continuing training. Co-operation in the research field.

#### **ARION Programme**

Activities began in 1978

- People Involved: Education policy-makers and experts. 3,200 study visits since 1978.
- Objective: Improve mutual understanding of the education systems.
- Activities: Study visits of one week's duration.

#### **LINGUA Programme**

1st phase planned for 1990-1994

- People Involved: Pupils and teachers from secondary and higher education. Whole of the current workforce.
- Objective: Improve the quantity and quality of language training for the citizens of the Community.
- Activities: Support for initial and continuing training of teachers (linked with ERASMUS). Drawing up of teaching materials. Pupil exchanges. Diagnosing the language needs of the business world.

#### **Education of migrant workers children programme**

Activities began in 1977

- People Involved: Primary and secondary schools with migrant children. 15 pilot projects in 1988.
- Objective: Improve the integration of migrant children at all levels of the education system.
- Activities: Pilot projects relation to the teaching of the mother tongue. Teacher training. Education for returning migrants.

### **The Commission's Environmental Training Programme**

In 1982 the European Parliament entered a new budget heading in the Community budget for actions concerned with the broad field of employment and environment. In particular the Parliament called for in the first instance "descriptive analyses in respect of training needs for environmental specialists to conserve and improve the environment". This request resulted from the Parliament's concern that the implementation of Community environmental legislation was being hindered by the lack of suitably qualified personnel.

In 1985 the Parliament received a first report which provided a detailed descriptive analysis of the training needs in the Community and confirmed that the implementation of Community environmental policies was inhibited by the lack of adequately trained personnel. On the basis of the descriptive analysis, a series of more concrete actions has now been undertaken covering a wide range e.g.:

- training for operators of pollution control in industry;
- training and advice for public agencies concerned with waste water treatment;
- training in environmental impact assessment;
- training in environmentally friendly agricultural practice.

During the European Year of the Environment (21.3.87-20.3.88) emphasis was laid on actions - courses and seminars - that would have an impact on public awareness and improve environmental good practice within the Community. The Commission plans to present shortly a synthesis report on all activities undertaken to date, together with a strategy for future action.

## Chapter 10 Unemployment - A Social as well as a Labour Market Problem

*Unemployment has begun to fall, but a decade or more of high unemployment has left a legacy of problems. Those out of work for a long time are still having great difficulty getting back into jobs.*

Unemployment in the European Community has been falling since 1986. However, it still stands at 15 million, or 9.3 % of the working population on the latest Community definition (see Box) and has been an unwelcome but persistent feature of the European labour market for over a decade.

Unemployment rose each year between 1973 and 1986, with the sharpest increases in the periods following the two oil price shocks - rising from 2.4% to 5.0% between 1973 and 1976 and from 5.8% to 11.1% between 1980 and 1986. Between the summer of 1986 and 1988 unemployment stabilised and eventually began to fall (see Graph 2 in Chapter 1).

From 1960 up to the early 1970s, when Community unemployment averaged between 2% and 3%, only Ireland and Italy faced unemployment much above those levels, the rate rarely falling much below 5%.

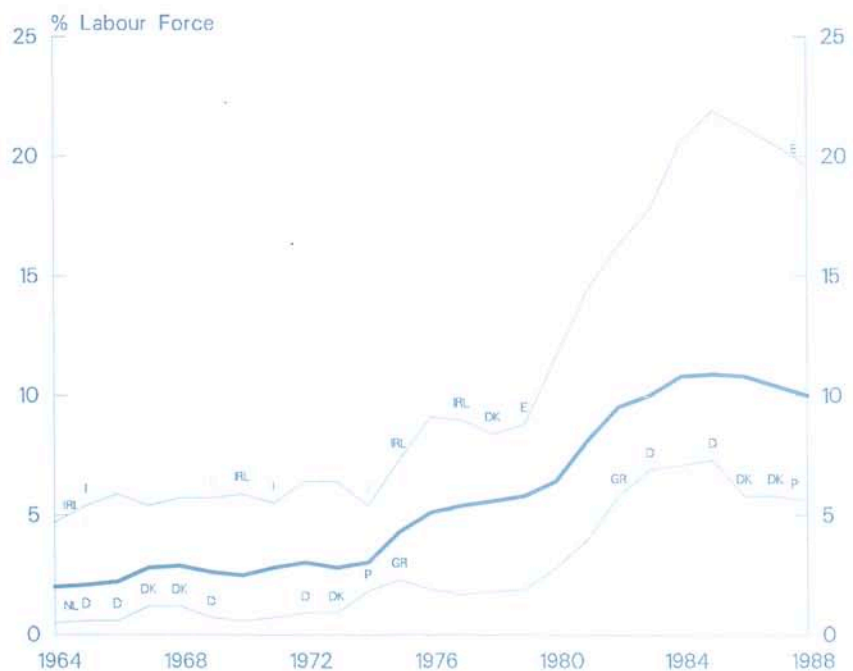
The experience of the late 1970s and the 1980s have been rather different. Ireland still remains well above the Community average (with a rate of around 17%), but it has been passed by Spain which, since the mid-1970s (when it had one of the

lowest recorded unemployment rates in Europe), has experienced a massive increase in unemployment to over 20% in the mid-1980s. It is still around 18%.

In most other countries, unemployment followed a similar upward

path from 1975 to 1985, with two countries, the United Kingdom and Portugal, showing the most significant reductions in recorded unemployment between 1986 and 1989.

### 91 Trends in Unemployment Rates in the Community - Average, Highest and Lowest 1964-1988



Currently the Member States can be grouped as follows: Luxembourg on its own with less than 2%; the United Kingdom, Portugal, Greece, the Federal Republic of Germany and Denmark with rates between 5% and 10%; Belgium, the Netherlands, France and Italy around 10%; and Ireland and Spain with 17% and 18% respectively.

### The Effects of Past Recessions

In the 1960s it was normal to think of labour markets in terms of the flow of people into and out of jobs, with some occasionally spending short periods of time unemployed prior to returning to work. In those circumstances, unemployment rarely featured in most people's working lives with the exception of certain disadvantaged groups who

may have found themselves out of work for longer periods.

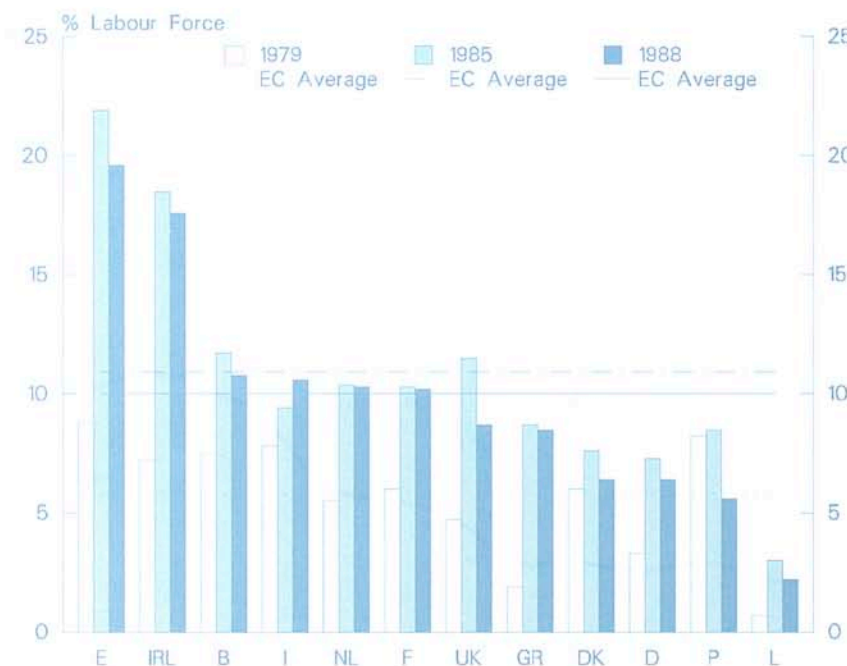
The 1974 oil crisis and the recession of 1981 hit the economies of Member States so hard that at times their impact on labour forces was redolent of the 1920s and 1930s. At the height of these crises, few people were completely immune from the threat of unemployment. Even those who were normally stable and permanent members of the labour force suddenly found themselves out of work, often for long periods, simply because they were in the wrong place, in the wrong job at the wrong time. Equally, those entering the labour market were frequently unable to find any work at any price.

Some groups, especially the young, and some areas, especially where traditional industry was concentrated, were clearly more vulnerable than others. However,

everybody in employment from management to the shop floor was at risk of becoming unemployed through their jobs disappearing and new ones being impossible to find. During those difficult times, few new jobs were created and divisions in society were sharpened by the opening up of a gap between the employed and the unemployed.

Since the last crisis, the recession of the early 1980s, the steady improvement in economic conditions has brought the labour market back to life again. The rate of job losses, especially in manufacturing, has slowed or even halted, and recruitment has picked up again. The unemployed who are better placed, either by virtue of location or skill level, have found their way back into employment and new entrants - the young or women - have managed to enter the labour market, although often by lowering their job expectations and increasing their qualifications.

**92 Unemployment Rates in the Member States 1979-1985-1988**



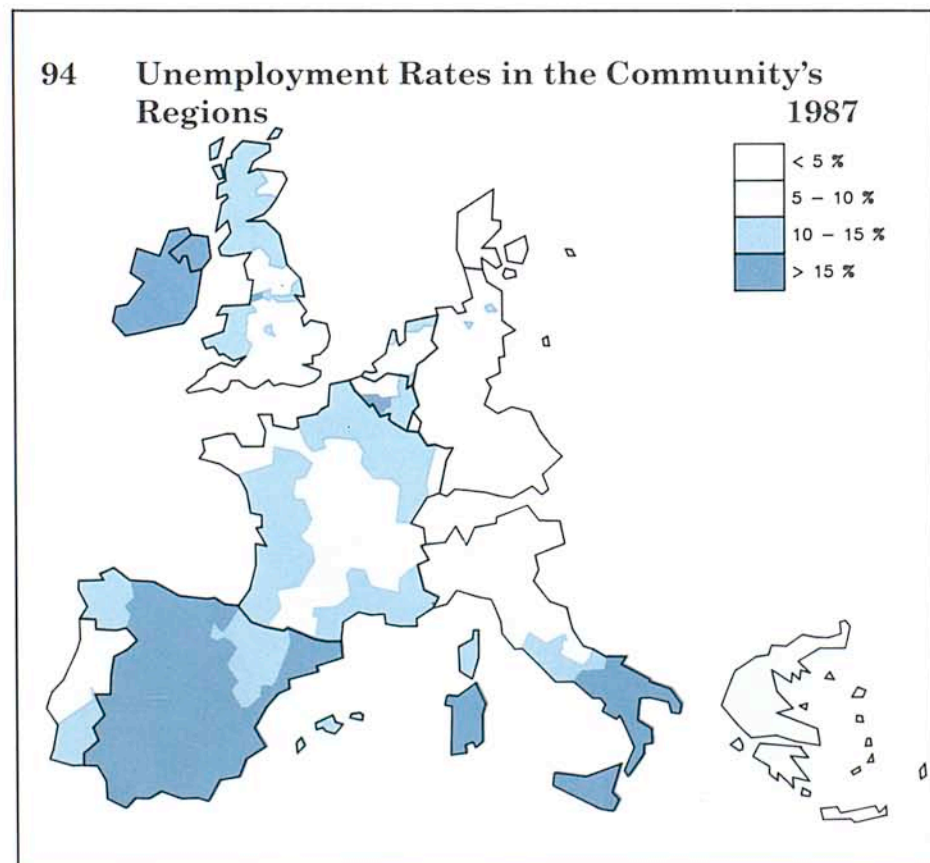
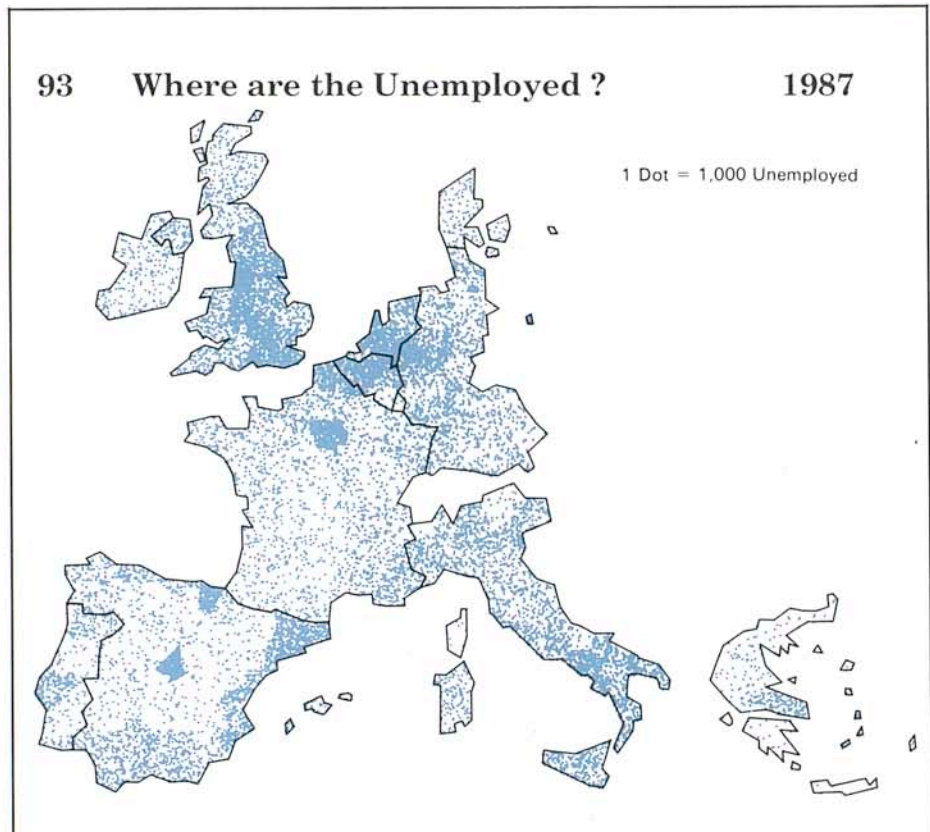
This rosier picture does not hide the fact that the intervening years of recession and persistent unemployment in many areas have left their marks by changing the working of the economies and labour markets of the Member States. Unemployment has become increasingly concentrated among those at the bottom of the labour market and among the poorer sections of society in general. It has contributed significantly to the creation of new forms of poverty and it has become associated with a widening of income distribution in some Member States. The growth of long-term unemployment has become an issue of particular concern.

## Unemployment - the Standard Labour Market Breakdowns

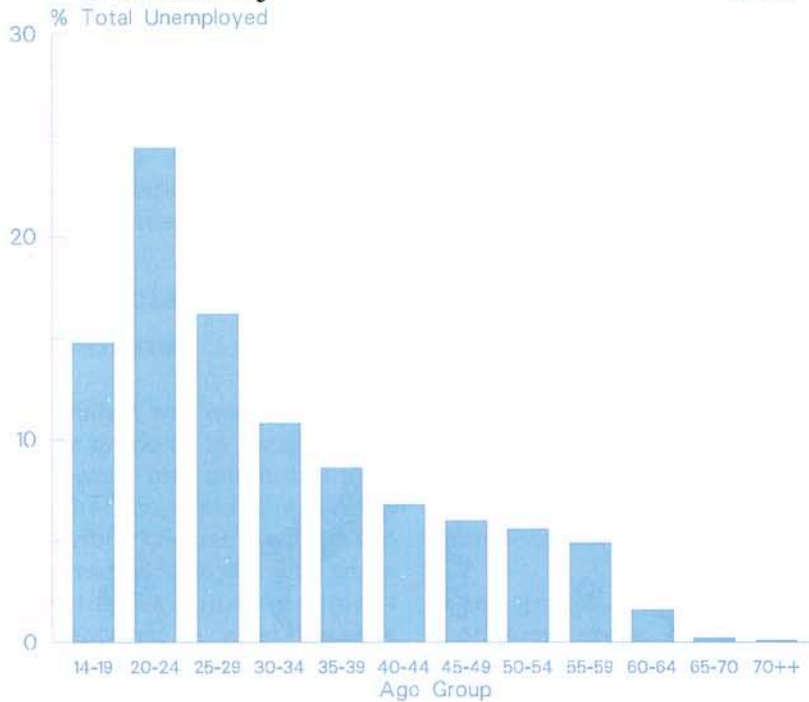
The degree to which unemployment is experienced across the Community varies widely between areas, age groups and the sexes.

In geographical terms, the rate of unemployment ranges from a mere 2% in Luxembourg to over 30% in areas such as Andalusia or Extremadura (see Maps 93 and 94). In general, recorded unemployment rates in industrial areas are higher than in rural ones because it is easier to define exactly who is or is not in employment, while in rural areas, various forms of unrecorded under-employment are common. Figures may also be unreliable due to the spread, throughout the Community, of the black economy (see Chapter 11) which sometimes blurs distinctions between employment, unemployment and under-employment. Criteria for measuring unemployment may also have been 'tightened up'. Indeed, some Member States now only include those in receipt of unemployment benefit in their jobless totals - a practice which may also be combined with actions to reduce eligibility for such benefits (see Box on Measuring Unemployment).

While the overall state of the economy and the specific local economic situation are the two most significant factors determining anyone's likelihood of being unemployed, the risk still varies considerably according to a person's individual characteristics. Age is a particularly strong determinant, with those under 25 generally having twice the rate of unemployment of older people (see Graph 95). In areas in the South of the Community, such



**95 Age Distribution of the Unemployed in the Community 1987**

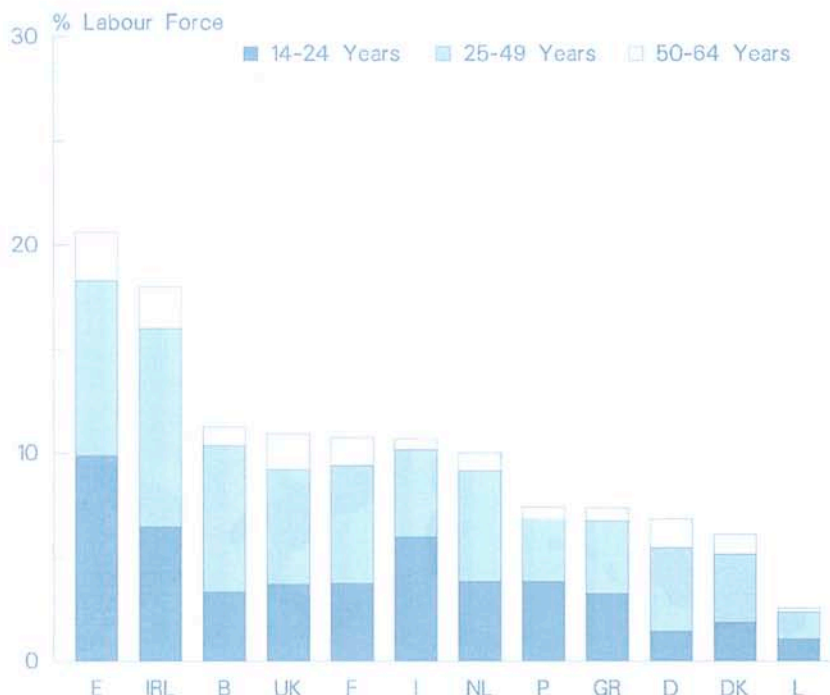


as Pais Vasco, Extremadura, Andalusia or Sardegna, up to 50% of people under 25 are unemployed (see Map 97).

Workers at the other end of the age scale also face problems. The chances of people who lose their job as a result of closure or lay-off obtaining a new one of equivalent quality and pay declines sharply after the age of 50/55, unless they possess scarce skills.

In some respects, women may face more serious employment problems than men, particularly in certain Member States. It is not just a matter of comparing women's employment rates with those of men (see Chapter 7). Women's official unemployment rates can be heavily influenced by their eligibility for social security and unemployment benefits, as well as by labour market and social considerations - the availability of local jobs and whether it is normal for women to work. Women may also be more willing to avoid unemployment by accepting lower rates of pay or poorer conditions of employment - trade-offs that men are more likely to resist.

**96 Age Distribution of Unemployment in the Member States 1987**



**Long-term Unemployment**

While youth unemployment was the major feature of the mid 1980s, it is the growth in the number of long term unemployed, encompassing both young people and adults, that is now the cause of most concern. Half those presently out of work in the Community are long term unemployed, defined as being jobless for over a year. While a proportion of the unemployed have always found it difficult to return to work quickly, the proportion of the total unemployed who have been out of

work for over a year has risen from 45% in 1983 to 55% in 1988 (see Graph 98). In comparison, the equivalent figure in the United States is around 10%.

Until about 1980, long-term unemployment tended to represent a reasonably constant proportion of total unemployment. Some Member States were already familiar with the problem as it affected rural areas, particularly in the Mediterranean region. As the recession persisted and worsened, however, the number of long-term unem-

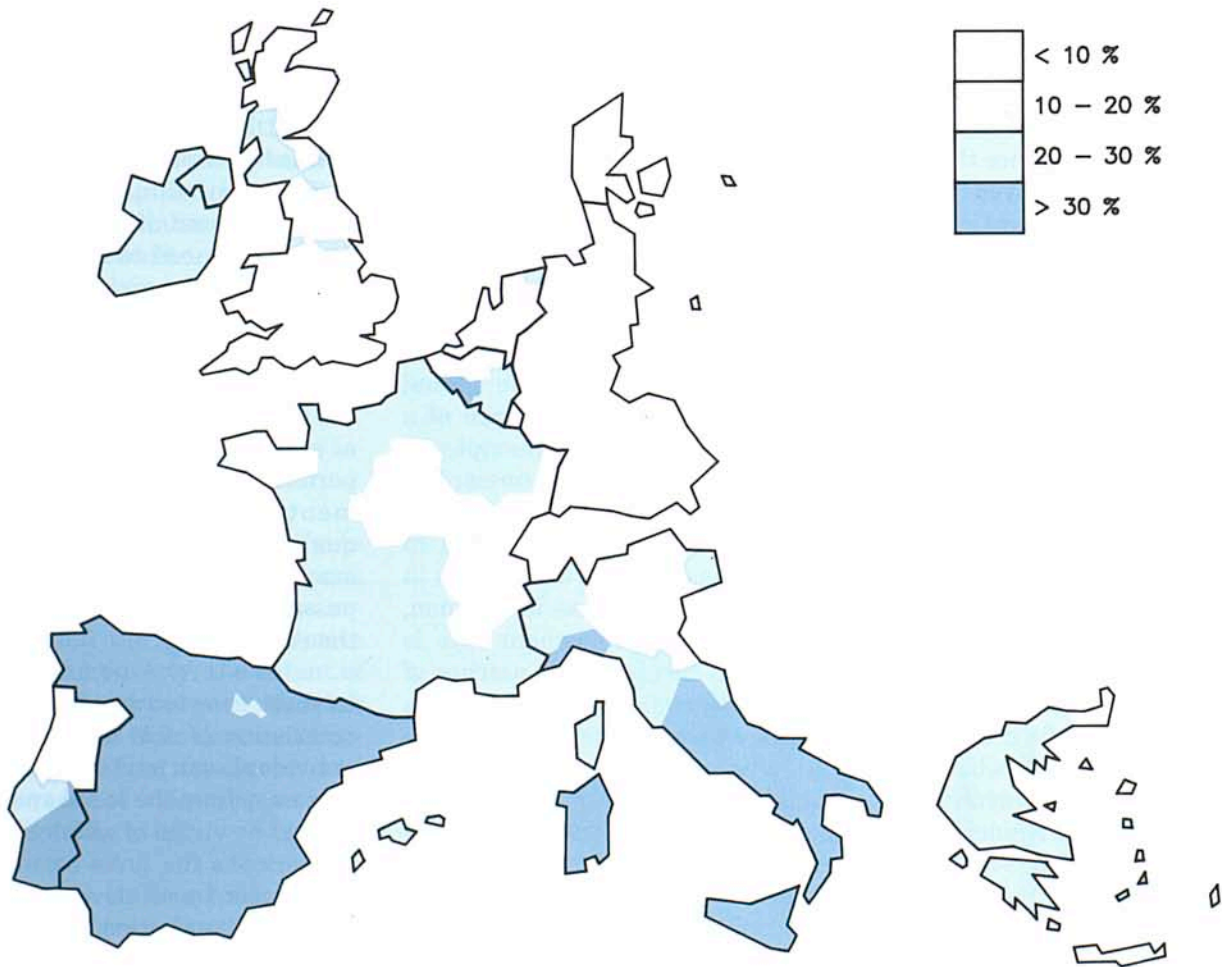
ployed grew as a proportion of total unemployment throughout the Community.

Worsening long-term unemployment was broadly speaking the result of the decline in the demand for labour and of structural changes which had occurred as new technology developed and as the international pattern of production changed under the influence of relative costs. The phenomenon was undoubtedly exacerbated by the fact that certain features of the labour market become factors of rig-

idity. The combined effect was to place the burden of adjustment on those in the weakest position, particularly low-skilled workers, young people and women.

Substantial changes also took place in the regional distribution of long-term unemployment (see Map 99). In certain Member States, for example France and the United Kingdom, the rate of increase in long-term unemployment had been considerably higher than the national rate of increase in those regions or areas dependent on a de-

### 97 Youth Unemployment Rates in the Community's Regions 1987



clining single industry, and in certain urban areas. Regions that were predominantly agricultural, such as parts of Italy and Ireland, had equally experienced growing long-term unemployment as it emerged out of earlier, more disguised, under-employment.

The effect of long-term unemployment on those directly affected was considerable. Prolonged unemployment undermined confidence resulting in pessimism and, for many, a fatalistic acceptance of never finding a job again.

The experience of being unemployed over a long period thus brought changes in attitude and motivation which further reduced the chances of finding a job and which turned long-term unemployment into a problem which was different in kind from the problem of unemployment in general. This was confirmed by evidence that the probability of unemployed people leaving the unemployment register decreased the longer they remained on it.

Over the past five years the Member States have shown growing concern about the problem and a variety of special measures have been adopted - to maintain employability, to create temporary jobs, to provide specific training, to finance private sector recruitment, and to encourage early retirement. Through time, such measures have been increasingly focused on helping the long-term unemployed overcome their specific difficulties. A particular emphasis has been put on local level actions involving a variety of groups and agencies. The style and content of vocational training programmes for the long-term unemployed has also been made relevant to their needs.

Despite these initiatives, long-term unemployment has continued to remain at a high level. Notwithstanding the combined efforts of the Community, the Member States and many different groups, it remains true that employers generally seem to prefer to recruit a person who is already in a job rather than choose an unemployed person. The biggest disadvantage for any unemployed person in seeking a job is the very fact of being unemployed and that disadvantage worsens rapidly as the period of unemployment lengthens. While current policy is paying increased attention to preventive measures - to ensuring, as far as possible, that temporary, short-term unemployment does not denigrate into long-term unemployment - the problem of getting those already in difficulties back into the labour market remains.

### **Unemployment - Socially Concentrated**

Although national figures for unemployment rates provide a broad assessment of the risk of unemployment for an individual in a particular locality, these global statistics mask the existence of a heavy concentration of unemployed people where the risk of unemployment is greatest. These concentrations are to be found in urban areas. In such areas, even in major cities where, as is common, the overall unemployment rate is low, there can be dense patches of unemployment in small areas which, combined with a poor physical environment, creates acute social problems. Map 93 shows the geographical distribution of the unemployed in absolute terms and Map 99 shows the percentage of the labour force which is long term unemployed across the Community.

Labour market statistics generally treat the unemployed as discrete individuals because of the way the statistics are compiled. While this provides detailed information about the unemployed - their previous sector of activity, the region they live in, their age, sex and degree of skill or qualification - these details do not always help policy-makers understand the nature of unemployment in particular areas.

It can lead them to look at strategies to reduce the numbers of unemployed rather than facing up to the wider social problems which often confront the people concerned.

For example, it is easy enough to establish that a high proportion of the unemployed lack skills, but this does not necessarily mean that the provision of training will automatically give the unemployed person all that he or she needs in order to get into employment. Being unskilled may simply be part of a much wider set of social disadvantages which need to be overcome in equipping a person for a new or better job. Such problems are often inherited. The circumstances which deprived the person concerned of the chance to acquire skills - failure at school or insufficient support to permit the time consuming investment in acquiring skills and qualifications at an earlier age - may already have begun to be passed on to younger members of the same family.

In short, concentrating on the characteristics of the unemployed as individuals can tend to divert attention away from the social and family context by virtue of which they live. It overlooks the links between unemployment and poverty and the cycles of deprivation in which unemployed adults pass on their disadvantages to their children. It



recent years this spread of unemployment has reversed part of earlier successes in achieving greater equality of opportunity.

Ignoring the social linkages may also have raised excessive expectations about the extent to which labour market policies could remedy unemployment problems. This may partly explain why policies to combat unemployment or long-term unemployment and which have focused on improving the competitiveness of individuals in the current labour market, rather than on building strategies to strengthen the situations of families and social groups, have had only a limited success in reducing unemployment and in preventing the widening of social differences.

In order to better understand the events of the last decade, it is necessary to step outside the relatively tidy world of unemployment statistics into the realm of poverty and income distribution indicators, even though these are conceptually untidy and less comprehensive. Despite these limitations, they can be used to draw certain conclusions.

## Unemployment and Poverty

The definition of poverty is the subject of much political and academic dispute. The main arguments revolve around the issue of relative and absolute poverty, the extent of both within and between Member States, the role of subjective as opposed to objective measures, and the relevance of income as an indicator of quality of life.

One common national measure of poverty is expressed in terms of the number of households where the disposable income, adjusted for

household size, is less than half the average for the country concerned, adjusting for household size. On that basis, the number of people in poverty in the Community increased marginally from 38.5 million in 1975 to 39.5 million in 1980 but climbed to 44 million in 1985.

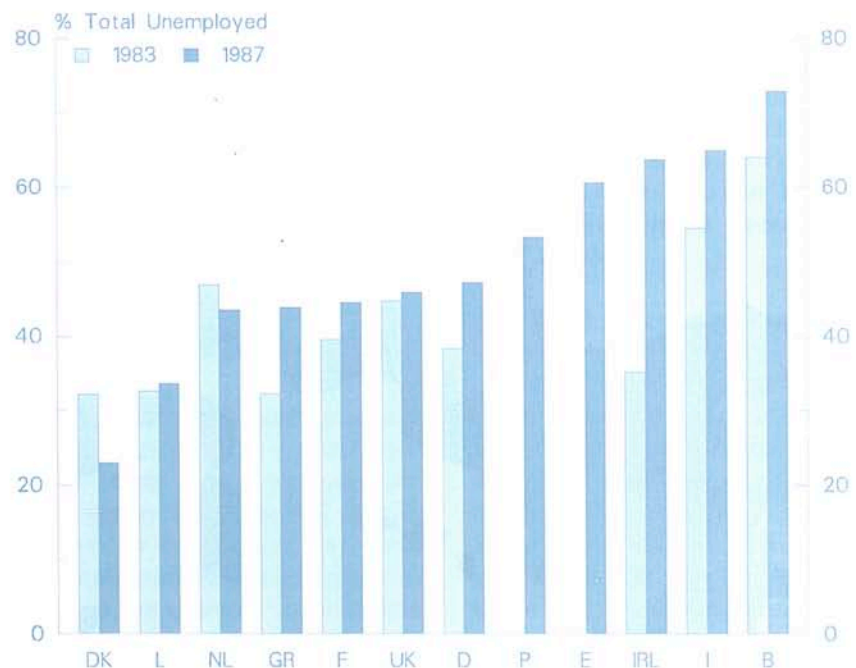
Another indicator of poverty is the number of households dependent on social assistance, which is generally accepted to be set at subsistence level. There has been a sharp increase in such dependence across the Community with a doubling in the numbers since the 1970s in many Member States. These statistics are, of course, not always easy to interpret. Governments naturally complain that attempts to tackle poverty by raising the level of benefit payment has the perverse effect of increasing the number of people who are eligible and thereby

making it appear that the proportion of poor in the population has grown. However, apart from some pensions, social assistance levels have mostly not increased in real terms. Moreover, there is a sizeable population of hidden poor who fail to claim all their entitlement.

On both bases, there is no dichotomy between which Member States have the greatest absolute poverty and the most heightened social differences - Greece, Portugal, Ireland and Spain are the poorest.

Of the many factors which create poverty, old age has traditionally been the most important common cause but, in recent years, there has been a substantial decline in the proportion of the poor who are elderly people (measured on the two criteria - relative income and social assistance). Now it is unemploy-

### 98 The Growth of Long-Term Unemployment in the Member States 1983-1987



ment, rather than old age, which has begun to be the most common cause of becoming poor, greatly changing the composition of the poor. For example, in the UK 60% of poor families were elderly people in 1979 but only 46% in 1983. In Germany, 40% of households receiving social assistance were elderly people in 1970 but only 13% in 1985. During the same period, the percentage of households receiving social assistance in Germany because of 'loss of employment' rose from under 1% to 26%. Similarly in Belgium, the extent to which pov-

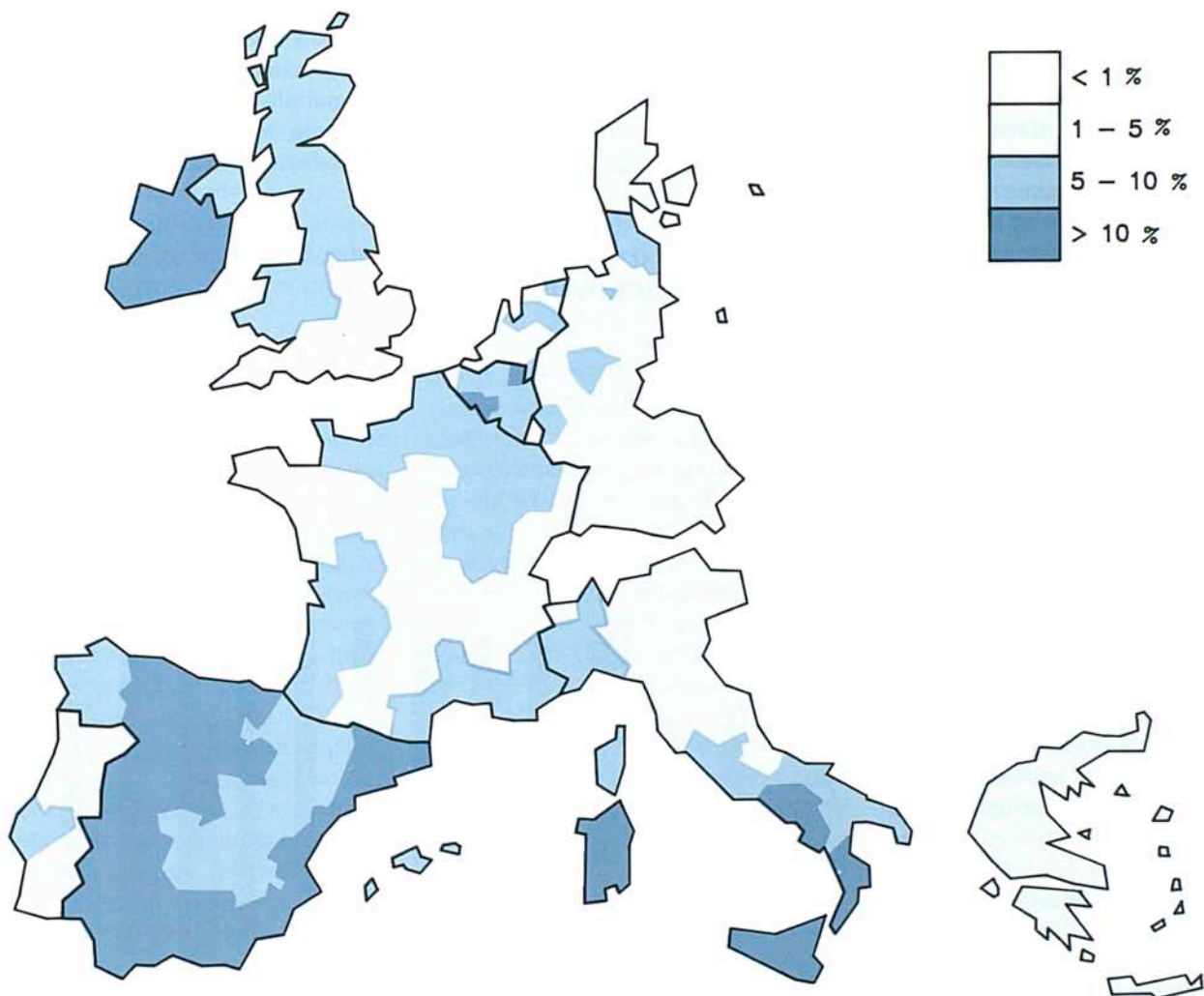
erty in households was attributable to unemployment rose from 8% to 17% between 1976 and 1985, and the proportion in Ireland rose from 12% to 23% between 1973 and 1980.

Other trend changes in the composition of the poor must be taken into any analysis of the growing influence of unemployment on poverty levels. For example, in more rural areas such as southern Italy and Portugal, the percentage of the poor belonging to large families seems to be declining. In Italy 35% of poor families had 5 or more mem-

bers in 1978 compared to 20% in 1983. In Portugal 16.5% of households in absolute poverty were large in 1980 compared with 29.5% in 1974. These countries seem to be moving closer towards the pattern of northern Community countries where only a very small proportion of the poor or those on social assistance belong to large families.

For other groups of the population, the limited data available suggest that in some countries an increasing proportion of the poor or those on social assistance are single

### 99 Long-term Unemployment in the Community's Regions 1987



people and that the absolute number of poor employed people and single parent families has been growing.

While there are long-term trends involved, the changing pattern of poverty in recent years is largely a result of the sharp rise in unemployment since the mid-1970s and the associated changes in the labour market. In its Communication on the Social Dimension of the Internal Market, the Commission declared that growing unemployment was the main reason for social exclusion and marginalisation and the most important factor explaining the worsening income distribution and appearance of new forms of poverty.

Not only have the differing fortunes of those in and out of work contributed to widening social divisions, but there is also evidence of a growing gap between different sections of the unemployed. The selectivity which is inherent in unemployment compensation policies encourages these divisions since protection provided by unemployment insurance schemes is restricted in all Member States to those who have made sufficient contributions in the past and have appropriate employment records.

Those who do not qualify therefore become doubly disadvantaged. The rapid growth of recurrent as well as long-term unemployment and the higher rates of unemployment among young people and women who have not managed to build up qualification for insurance schemes has meant that these schemes are now failing to protect the majority of the unemployed in many Community countries. As a result, many unemployed no longer receive benefits and depend on more basic forms of social assistance, often providing no more than poverty line income,

or on support from families or voluntary agencies.

Although unemployment has become a major source of poverty, finding a job does not necessarily remove the unemployed or his or her family from poverty in all circumstances. A growing segmentation or dualism in the labour market would seem to have reduced the security and stability of employment for a part of the labour force. Many of those with jobs may still find themselves with low wages, poor working conditions, little job security, and low standards of social assistance and welfare. This serves to reproduce and reinforce traditional links between low pay and poverty.

More generally, high unemployment and changes in the labour market have undermined the ability of societies to protect their weaker members, such as people with disabilities and single parents. It has also affected some ethnic minority groups who, in countries like the UK, experience a disproportionate share of the deprivation of the older urban industrial areas where they are concentrated. Young people are also at risk, particularly those who are unable to remain in their families and become chronically dependent on social assistance and basic welfare.

## Unemployment and Family Situation

The extent to which unemployment or an insecure position in the labour market leads to poverty also depends upon the specific family situation. If the family has other sources of employment income or its members are entitled to additional state benefits, poverty may be avoided. On the other hand, the ap-

plication of household means tests can mean that young people and women who would otherwise be eligible to receive social assistance in their own right are forced instead to rely on their families.

These inequalities have been exacerbated in the 1980s by the increase in means-testing for the unemployed in some Member States, which has created "unemployment traps" that discourage other family members from seeking work. The pattern of poverty is also being reshaped by the rapid growth in the number of single parent families, especially since the late 1960s. In some countries, employment opportunities for this group have been restricted by a lack of, or cuts in, child care facilities.

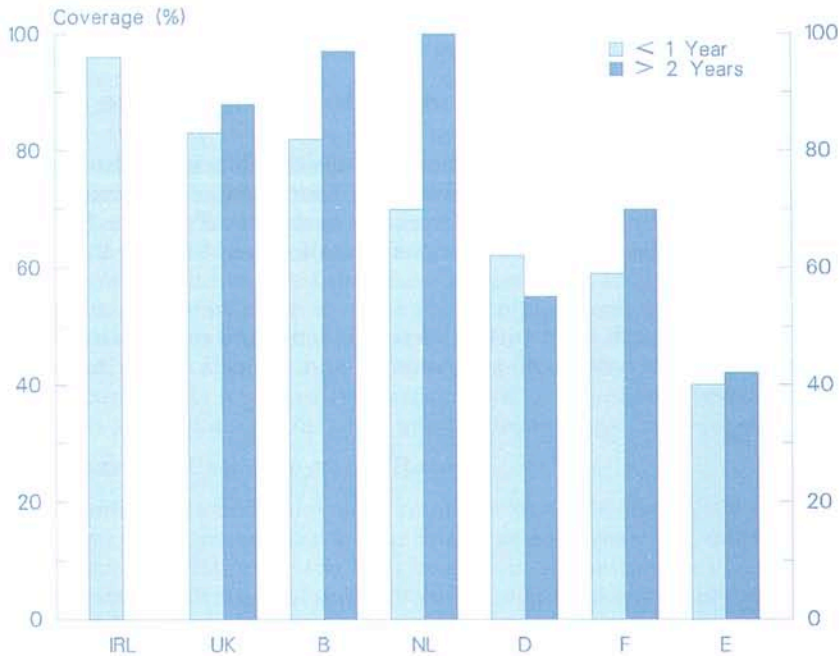
The overall effect of these trends is a marked shift in the composition of the poor away from elderly households and towards younger ones, assisted on the positive side, by more effective national pensions and welfare policies for the elderly.

This pattern may change as today's unemployed become tomorrow's elderly. Their interrupted work and contribution records resulting from the unemployment which afflicted them during their working lives may turn them into the "new poor" in the forthcoming decades when they get old.

The 1992 measures, coupled with programmes of structural transformation and economic development in the southern Member States, can be expected to accelerate the pace of economic and social change and bring overall employment benefits. However, this does not necessarily guarantee the social distribution of these benefits since the relationship between unemployment and poverty will depend on both

entitlement to social security and the extent of family solidarity. However, the social security systems in these countries are generally less well developed than those in the north of the Community and there is much reliance on the family as an alternative - and older - system of "social security". Sections of the population who lose the security of this traditional family structure in the process of rapid modernisation and urbanisation may find themselves at risk at times of labour market difficulty if compensatory public social provisions do not develop quickly enough.

**100 Coverage of Unemployment Benefit Schemes in the Member States 1987**



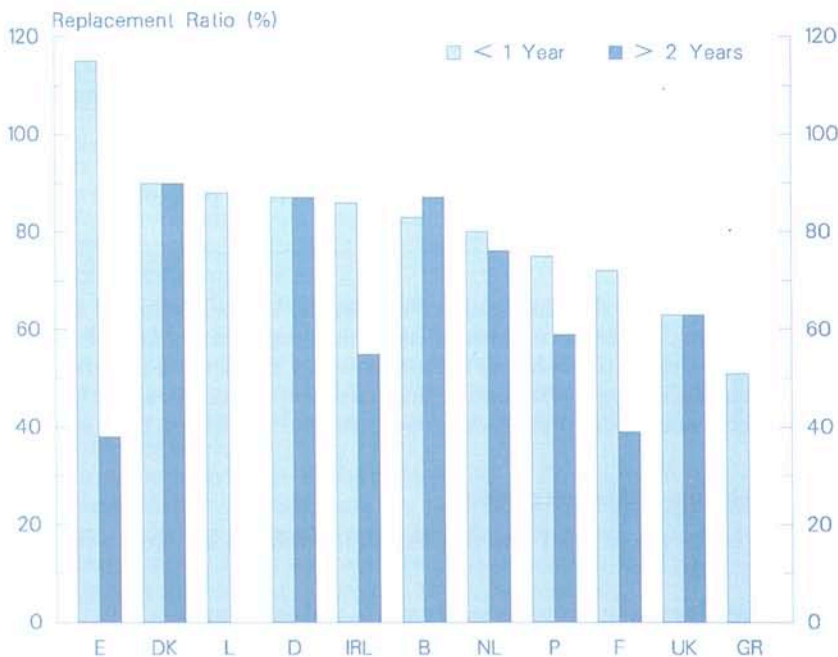
**Unemployment and Income Protection**

The level of unemployment protection can be described in two ways:

- unemployment coverage i.e. the proportion of the unemployed who receive unemployment benefits
- replacement rates i.e. the level of unemployment benefits relative to average incomes that the unemployed would otherwise earn.

The graph gives estimates of the two indicators for a number of Member States. Two categories of unemployed are considered - those unemployed under 1 year, and those unemployed for more than 2 years.

**101 Replacement Ratios of Unemployment Benefit Schemes in the Member States 1987**





## **Long-Term Unemployment - a Commission Action Programme**

ERGO is part of the European Commission's response to the call from the Council of Ministers for a programme to "stimulate successful experience which can form part of national programmes in favour of the long-term unemployed". It re-inforces the work of the European Social Fund which provides financial support for projects and programmes (see Box, Chapter 9).

### **The Programme**

The programme has several facets. Through a network of correspondents and contacts in each of the Member countries, a selective inventory of programmes and projects which benefit long-term unemployed people is identified.

These will include such aspects as:

- counselling
- re-training
- assistance in job search
- individual and family welfare
- incentives to employers
- basic, continuing and adult education
- social and cultural activities
- or a combination of such measures

Criteria of good practice are being worked out and applied so as to identify successful examples in which there are transferable elements.

In addition to seeking information, the programme is acting as a catalyst and support to the projects by enabling them to learn from each other's experience and by encouraging them to adopt practical methods of monitoring and evaluation. At the same time, the lessons learnt from the examples in the field are being fed back to those responsible for planning and implementing national programmes aimed at assisting the long-term unemployed.

Closely linked to the action side of the programme is research to improve the existing systems of exchanging information, monitoring and evaluating the impact of different programmes and projects.

### **Timetable**

ERGO will run for three years. In 1989, the first year of operation, the collection of basic information about what is happening, in the form both of national programmes and of local projects, governmental and non-governmental, is being accompanied by the setting of parameters for monitoring and evaluation. This in turn will lead to the definition of "good practice", and the use of these criteria to select transferable models of good practice. A further part of the programme will be

- to promote support for selected demonstration projects
- to disseminate the essential elements of good practice through publications, audio-visual material and the media
- to establish a programme of seminars, conferences, study visits and exchanges.

## **The Measurement of Unemployment Rates**

The measurement of unemployment is both a conceptual problem and a matter of political debate. Hence it is one of the more difficult tasks faced by statisticians. For the implementation of structural policies in a Community striving for greater economic and social cohesion, comparability between areas and groups is important. For the analysis of trends stable, long-run series are required.

As yet, these requirements cannot both be satisfied by a single series. In practice, either some compromise solution has to be found, or different series developed. Given these statistical difficulties, changes in the levels of unemployment are generally considered to be more reliable indicators than measures of absolute levels of unemployment.

Because the number of administrative changes introduced by governments in recent years have upset comparability over time, there is a tendency to give less attention to unemployment and to concentrate attention on movements in employment, despite the difficulties in obtaining up-to-date statistics.

The main indicator of unemployment now provided by the Statistical Office of the European Communities for comparative purposes is that based on the Community Labour Force Survey. It aims at providing a harmonised unemployment rate for comparison between Member States.

### **Comparable Unemployment Rates**

The comparable unemployment rates are based on the results of the Community Labour Force Surveys (LFS), carried out in the Spring of each year. The definitions of this survey conform to the recommendations of the 13th International Conference of Labour Statisticians. This applies a restrictive definition of unemployment, e.g. a person is only regarded as unemployed if he/she is aged 14 or over, without work, actively seeking work and immediately available for work. It does not include, for example, those who no longer look for work because none is available.

The unemployment rates are calculated as the ratio of the estimated number of unemployed to the civilian labour force (armed forces excluded). The labour force comprises persons in employment and unemployed persons.

The LFS unemployment data are updated using the trend derived from national unemployment indicators, in most cases the monthly numbers of registered unemployed. For Spain and Portugal, the figures are updated using data from the quarterly national LFS in conjunction with the number of registered unemployed. No updating is done for Greece.

The updating of the number of unemployed is carried out for persons aged under 25 years (males and females) and persons aged over 25 years (males and females). The totals are obtained by additions of these categories.

Comparable unemployment rates are published monthly in the EUROSTAT unemployment bulletin.

### **National Unemployment Indicators**

For Community purposes, registered unemployment rates are based on national figures of persons registered as unemployed i.e. persons without a job and seeking work as employees through public employment offices. The data are standardised to a certain extent and may differ from those used by individual countries.

These statistics have been affected by changes in criteria for registration, for example in the United Kingdom where there have been a large number of changes in recent years, and in Belgium and the Netherlands where major groups of people have been removed from the register. They are nevertheless generally higher than the Community's harmonised statistics.

In principle, registered unemployed are persons without a job, seeking work as employees and available for work.

Belgium, Denmark, the Federal Republic of Germany, France, Ireland, Italy, Luxembourg and the Netherlands provide data on registered unemployed, the United Kingdom only data on persons claiming unemployment benefit. For Spain and Portugal, the results of the national quarterly labour force surveys are considered the best national unemployment indicator. For Greece only annual data from the LFS are available.

Detailed explanatory notes are published by Eurostat in "Definitions of Registered Unemployed".





## Chapter 11 Black Economy

*Working “in the black” is as widely condemned as it is practised. More flexible patterns of work may create new opportunities. Are these new practices worse, or merely different from more traditional forms of the black economy?*

### Introduction

There are a variety of concerns about the effects of the black - or hidden, clandestine, parallel or underground, as it is variously known - economy:

- exploitation through the use of child or illegal immigrant labour;
- tax evasion or false claims for social benefits by people working clandestinely;
- the reduction of labour market efficiency as it perpetuates low-tech marginal activities rather than encouraging new employment possibilities;
- unfair competition because the use of ‘black labour’ by some enterprises gives them an unfair competitive edge over legitimate enterprises;
- the distortion of economic and social measures which do not take into account ‘black’ jobs, thereby providing misleading indicators to policy makers.

### Definitions - Black or White?

A variety of concepts and terminology are used in describing the black economy in different Member States. The definition developed by the ILO - ‘professional activity, whether as a sole or secondary occupation, exercised gainfully and non-occasionally on the limits of, or outside, legal, regulatory or contractual obligations’ - may be a legal mouthful, but it is comprehensive and raises the main issues.

What is seen to be ‘black work’ depends on the definition of legitimate work. ‘Black work’ would not exist in a totally unregulated system and what may be legitimate in one country or historical period may not be so in another.

Borderlines are difficult to draw. Child labour is illegal but it is prevalent in sectors such as tourism. On the other hand, most countries accept children performing domestic work or, to a lesser extent, helping in a family shop.

Equally, in most countries casual work below a certain number of hours per week is permitted without the requirement of joining a

social security system or reporting the income for tax purposes.

### Older and New Forms of ‘Black Work’

The sharp delineation made these days between legitimate and illegitimate work, or indeed between employment and unemployment, is a relatively recent phenomenon - a product of the development of large-scale, mass production industrialised processes. The concomitant growth of welfare state systems serves further to accentuate differences between paid and unpaid work and between income from employment and from public funds.

The regulated labour market and social protection systems in the Member States grew up around the existence of large factories and, more recently, offices and chain stores. They are designed primarily to cope with the employment of large numbers of people by a limited number of employers and were developed in parallel with systems to cope with the self-employed.

The social protection systems, based on the universal availability of benefits, were dependent on the

smooth operation of this regulated labour market.

The 'black economy' simultaneously encompasses some of the most backward and some of the most dynamic areas of activity. On the one hand, the spread of these modern mass production systems has progressively squeezed out many traditional activities which, in order to survive, have 'gone into the black'.

On the other, current economic and social changes are reversing the process - weakening the sharp distinction between being employed and being unemployed. New patterns of production and the development of the service economy have brought about much greater labour market flexibility and a much more 'untidy' pattern of employment, which has created new opportunities for the development of 'black work'.

## **The Sectoral Composition of the 'Black Economy'**

Irregular employment in agriculture is found in several European countries for two reasons - the high levels of under-employment of agricultural workers and the high temporary demand for cheap unskilled labour during the short harvest period.

This has forced both small farmers and under-employed agricultural workers to look for other part-time work, often in the black economy. Building, the retail trade, street trading, tourism, industrial home work and traditional manufacturing are the industries which make use of this type of labour, for example in southern Italy, a large part of Spain, Portugal, Ireland,

Greece, parts of the South and mountain regions in France.

These forms of irregular work are declining in tandem with the decline in the rate of agricultural unemployment and the ageing and feminisation of agricultural workers. Women and the elderly are less likely to complement low agriculture income with irregular work. At the same time temporary work during the peak season is declining, because of mechanisation in response to the absence of pools of local labour.

Building, including repairs and rebuilding, provides an important supply of irregular forms of work throughout the Community. The highest levels of such employment are in regions where agricultural employment is still prevalent and where building remains labour intensive. Elsewhere, the decline in 'black work' on large building sites in periods of slow down of urban development has been compensated for by a substantial wave of self-building, rebuilding and the construction of second homes. Organised 'black economy' wage work is being replaced by more complex, temporary and irregular forms of 'black work'.

Tourism also provides opportunities for irregular employment, notably in the Mediterranean. The rapid expansion of tourism offers an example of the increasing complexity and diversity of the black economy and its parallel development with legitimate activities. The growth of hotels, restaurants and other establishments catering for tourists provides a rich and growing source of irregular seasonal employment for many people, including young foreigners from industrialised countries.

Manufacturing is not a major source of irregular forms of work in the Community today. In some areas - such as the so-called 'third Italy' of small industrial businesses - where irregular employment in manufacturing was important in the late 1960s and early 1970s, these forms of employment have declined markedly.

Competitive restructuring has led manufacturing companies to subcontract. For cheapness, sometimes they resort to local, possibly 'black' suppliers. While irregular suppliers to the Spanish manufacturing sector are to be found in the same country, counterpart suppliers to German industry generally work in other countries. The United Kingdom appears to have less irregular forms of manufacturing employment in part because the ownership of capital is more highly concentrated than in, say, Italy or Spain and also because the legislation regulating industrial homework and part-time employment is more flexible.

Although irregular work is not particularly concentrated in manufacturing, there have been examples of large and persistent concentrations of industrial 'black work': the shoe industry in the Valencia region, the glove industry in Naples and illegal garment and clothing workshops using third country immigrant labour in the Paris region.

In sectors where there are organised large scale frauds - illegal factories or multi-level subcontracting such as in the clothing or leather working trades - they can involve buyers as well as producers. The uniforms of the armies of some Member States are alleged to be made up by undeclared workers in other Member States. Contrary to

the experiences in the United States and the Pacific Basin, the development of the electronics industry in Europe does not seem to have produced a high rate of informal 'black work'.

The service sector is the area of activity where irregular forms of activity are most widespread and where they are expanding. Three factors have encouraged this: the sub-contracting of specialist activities by larger firms; the growth in demand for personal and household services; and the financial problems of national welfare state systems which have obliged families to make their own private provisions - say, private babysitting instead of public child care.

Irregular forms of employment in the services are generally polarised between highly qualified jobs (for example in high technology, accounting, law, professional consultancy or dentistry and medical services) and very low skilled and badly paid jobs (cleaning and other personal services to households).

Self-provisioning - do-it-yourself household or car repairs - has led to the acquisition of skills and created opportunities for irregular second job activities for cash. Multiple job holding can thus result. This is particularly common in less developed regions, particularly those in the South which are still dependent on old fashioned agricultural methods, where many people need several jobs merely to survive.

Even in the central and northern areas of the Community, irregular employment exists in the family help and paid housework sector, as long as there is a supply of workers willing to do the work under such conditions. In every country these

workers are increasingly foreigners from poor Third World countries or 'second job workers' who supplement their main income or obtain temporary income while hoping for other opportunities.

### **Self-Employment.**

The self-employed professions and activities have traditionally been open to tax evasion through under declaration of income. In countries where the labour market legislation permits it, increased flexibility has induced a rapid increase in the number of self-employed particularly in services (see Chapter 6) which has led to a similar increase in the opportunity for part of that work being paid for 'in the black'.

New forms of 'black work' can be linked to other major developments of the 1970s - the search for more flexible forms of work in manufacturing industry and the growth of private service activities. Since the existing regulatory systems were devised for regular employment, flexible industrialisation and the new forms of tertiary activity have created new areas of opportunity and demand for employment that may be described as 'fragments of work' - more or less casual, part-time, of varying intensity and recompense. While greater labour market adaptability has been encouraged by many Member State governments, the regulatory systems have not always been adapted to keep pace with the consequences.

In some parts of southern Europe, the combination of relatively low wages and loose control over working times has contributed to the widespread growth of second jobs among many working in both the public and private sectors.

## **National Variations - Regulation and Circumstance**

National differences are rather marked and vary according to both the history of development of the economy as well as the regulatory system in operation.

Even though much of Italy is now highly developed, it still retains relatively high levels of irregular work which compare with less industrialised countries like Portugal, Ireland and Greece. Traditional irregular work contrasts with the presence of massive industrial complexes. The break-up of these industries has encouraged the traditional ways of irregular working to spring up in new activities.

In Spain, Portugal, Greece, Ireland southern Italy and some agricultural and mountainous regions of France irregular work is often typified by mixtures of agriculture, tourism, 'black work' in building and manufacturing home work.

A country may have relatively low levels of 'black work' simply because of the degree of regulation. The United Kingdom, for example, has a relatively flexible approach to non-standard work such as work at home, different kinds of part-time employment, and self-employment. In consequence, there is less need to evade the system.

In the central and northern areas of the Community (Germany, Holland and Denmark) regulatory systems are less accommodating to non-standard, 'untidy' systems of working. Mixing self-employment with part-time paid employment or casual work may be difficult to do

legally, and the penalties for doing them illegally are severe. This has limited irregular forms of work largely to areas such as personal and family services. France and Belgium resemble more the British model except that traditional forms of activity also persist.

## Workers in the Black Economy

Outside the rural agricultural areas, the most common forms of 'black work' are performed by an employed person (employee or self-employed) who works 'in the black' after normal working hours or who fails to declare part of their income for tax purposes. Such work may be done for conventional employers (but 'off-the-books') or 'in the black' for households or individuals.

'Black work' tends to be done by younger rather than older people and more by men than women. The much publicised cases of unemployed people having jobs on the side may attract the most public and political wrath, but in practice they are relatively uncommon and cases of flagrant abuses of public funds are minimal. The unemployed generally work less in the 'black economy' than the employed since they lack opportunities - living in poor localities, lacking skills, transport and capital. They also fear losing their social security income if discovered. The unemployed are most likely to be found doing some work in the 'black economy' where:

- unemployment benefits or other social security transfers are low or unavailable - as in southern Community countries - and where many of those actually unemployed may not be registered;

- controls over employment, income, taxation and social security frauds are weak;
- local cultural attitudes see working 'in the black' as an acceptable way of life, often because the depressed state of the local economy makes declared work difficult to obtain

There is often confusion between cases where the unemployed do 'black work' and where those receiving unemployment benefits do 'black work'. In southern Community countries where unemployment benefits and coverage are often low, unemployed people may be working in the 'black economy' without drawing any unemployment benefits as part of a basic survival strategy.

In fact, the labour market and wider social consequences of 'black economy' are more serious than the social security and fiscal fraud aspects. While these are harmful to the fabric of the social security and taxation systems, the extent of loss suffered by governments due to non-payment of taxes by those who undertake 'black work' or through the unjustified payment of social security is considered to be much less than that resulting from other forms of fraud.

## The Size of the 'Black Economy'

The scale of the 'black economy' has been a subject of much attention. Many wild estimates have been produced on the basis of back-of-the-envelope calculations of monetary and fiscal aggregates. Estimates deduced from divergencies in national income accounts (i.e. estimates of expenditure being higher than estimates of income) have,

however, been much lower and closer to those based on direct measurement and enquiry.

On the other hand, in many regions of the Community, the 'black economy' is a regular fact of life involving a large proportion of the population. Surveys suggest that 30% of people do some 'black work' on a regular basis, and a further 20% occasionally. However, the amount of 'black work' performed by each individual is generally very small since it involves only occasional hours of work. This makes the total value of 'black work' low compared with the value of declared work. In most northern parts of the Community it is probably around 5% or less, somewhat more in France and Belgium and possibly reaching 10-20% in the southern countries.

## Will 1992 Worsen the Problem?

Since the bulk of 'black work' in the Member States is concentrated in non-traded activities - the service industries, building and the crafts - the effects of trade liberalisation will be limited. There are, however, two possible areas of activity which could give rise to concern. First, in some Member States illicit teams of construction workers have been hired 'in the black' either from other EEC countries or even from outside the Community. The disappearance of border controls in 1992 may make it more difficult to restrict the operations of such teams if national administrative controls are inadequate. The second exception is the use of black labour in the manufacturing industry. 'Underground' factories in the south of the Community producing labour intensive goods - shoes, textiles, agricultural products - could increase compet

tive pressures on the north if they are allowed to continue to flourish.

## A Complex Problem

'Black' work is generally undesirable and divisive. Within a country, it distorts the distribution of income by absolving those concerned of contributing fully to the cost of publicly provided services, and it distorts the workings of the labour market. Between countries, it brings competitive problems through 'social dumping' whenever 'black economy' activities enter into trade, directly or indirectly. On the other hand, the existence of the 'black economy' may also reflect rigidities in legislative or taxation arrangements, making it particularly difficult for work to be organised legitimately in less conventional ways, for example, through multiple-job holding or part employee combined with part self-employment.

Policy reactions towards the 'black economy' reflect this complexity. To some extent there seem to be three parallel tendencies:

- to ignore it
- to seek to reduce its scale
- to transform it into declared work.

In practice, all Member States seek to ensure the payment of taxes, and respect for employment legislation, through appropriate systems of control. Some have specifically strengthened these controls in recent years, in particular to deal with large-scale frauds by enterprises or to reduce false social security claims.

Additional legislation to tackle specific aspects of 'black work' has mostly been limited to certain categories of workers - notably illegal immigrants or legal immigrants employed illegally - and certain sectors, notably construction. Little has been done to deal with the tendency of the growing 'flexible' labour market to stimulate the 'black work' sector.

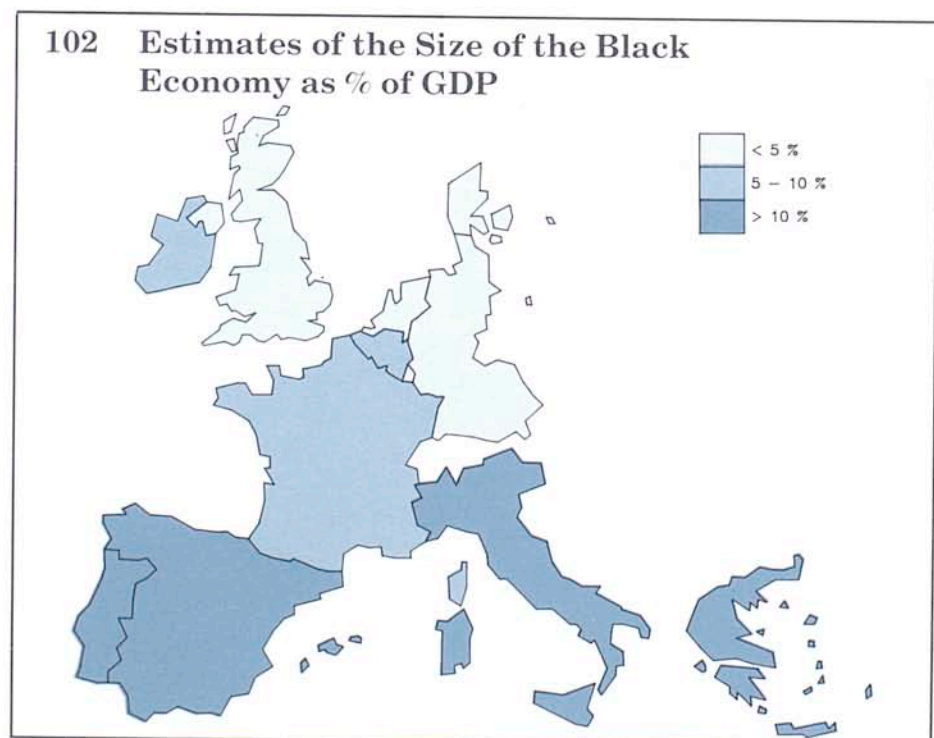
The varied nature of the problem, and the relative lack of success in tackling the issues raises a number of questions. For example;

- Is it possible to eliminate totally 'black work'? Would that require a major increase in the level of control? Could that prove counter-productive in any way?
- How can 'black work' organised in a systematic way, with its high social and economic costs, best be combatted?

- To what extent does individual 'black work' done on a more or less regular basis reflect the complexity of taxation and social security contribution regimes? Is action needed to, say:

strengthen the enforcement of taxation payment systems for categories of workers or the self-employed who are 'at risk' of systematically avoiding the payment of part, at least, of their taxes?

simplify, or make more flexible, the taxation and social security contribution systems so that they can encompass rather than possibly exclude or deter people working in less traditional ways - those who have irregular work patterns; those who combine paid work with self-employment; those who are part-time workers or multiple job-holders?





## Chapter 12 Technological Change - A Strategic Challenge for Employment

*Nowadays, technological change seems to raise demands for more training as much as fears of job losses. What are the prospects for the future?*

From the Luddites of Lancashire to the Canuts of Lyon, workers have historically been presented as suspicious of new technology through fear that it will make them redundant.

Since 1945, there have been two periods when such concerns have peaked. The first was in the 1960s, when the power of the computer and the potential of automation first became visible. Commissions and working parties sprang up to look into the impact of automation on society, and particularly on work and employment. While their findings confirmed that there was cause for concern, the rapid economic growth of the period ensured that the result was an abundance of negotiated claims for more pay and shorter working hours rather than opposition to automation.

The second period was at the end of the 1970s, when a time of high and rising unemployment coincided with the widespread introduction of information technologies in offices and factories.

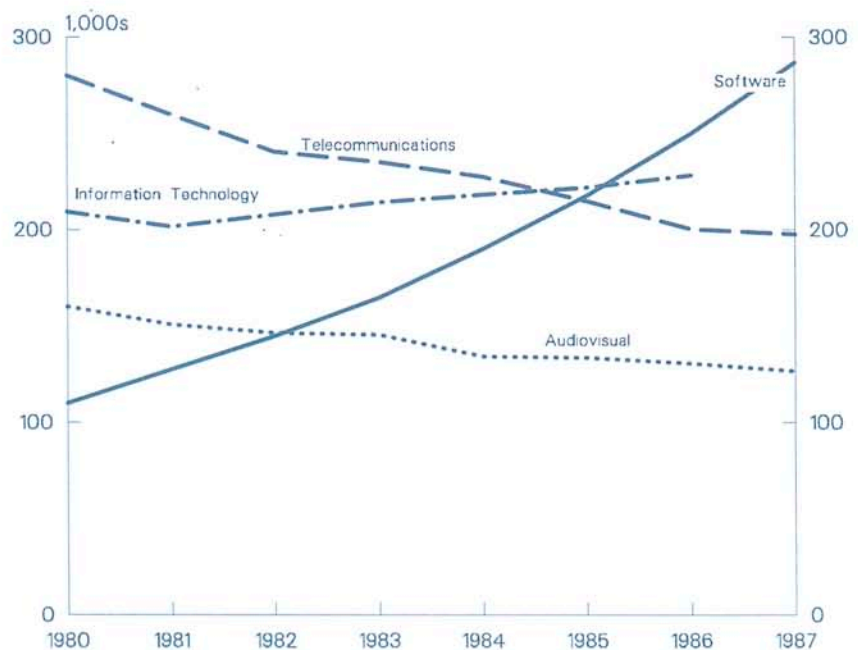
Technological change is a phenomenon of crucial importance, which has now taken on an international dimension. Its social impact, as regards both employment and skills,

is considerable. In order to assess the overall consequences of the spread of the new technologies, especially for employment, direct short-term effects (substitution of capital for labour) and longer-term indirect effects (overall factor productivity gains leading to increased value added and competitiveness) must be considered simultaneously.

### The New Technologies

Of the new technologies such as biotechnology, and those covering materials, space, the nuclear industry and information technology, it is the latter that is pre-eminent because its application is so widespread and enabling.

### 103 Employment in the New Technologies 1981-1987



There are virtually no sectors or occupations which information technology has not already affected - or will not affect in the future. Forecasts indicate that by the year 2000, two out of three jobs will be affected by information and communications technology. Its impact on economies and societies has also been more researched than any of the other new technologies.

In a broad sense, information technology includes micro-electronics and components (memory chips, micro-processors), computer programming and data-processing systems. Its areas of application extend to the office, the factory and, more and more, to the home.

The use of information technology itself has been constantly enlarged, the machinery has become increasingly accessible and its potential applications wider.

Both the manufacturing and service sectors are therefore experiencing radical changes in the structure of employment, the extent of change depending on how intensively different activities make use of these new technologies.

### Impact on Employment

There have been several studies on the impact of the new technologies on employment in firms, industries, sectors and the economy as a whole in several countries (particularly France, Germany, the UK and the USA).

But the studies available tend to give an incomplete view of the problem. A 1982 German study estimated that installing the infrastructure for cable TV would create 21,000 jobs outside the Bundespost;

six years later, some 13,500 had been created. And of those jobs, 62% were in engineering, 12.5% in the telecommunications industry and only 2.5% in the cable industry. A 'banking experts' group set up by the Commission reported in 1987 that "Despite sometimes pessimistic forecasts, notably in the FRG, France and the UK, employment growth has increased overall (and everywhere) by an annual 3% in the mid-1970s and 1-2% in the mid-1980s".

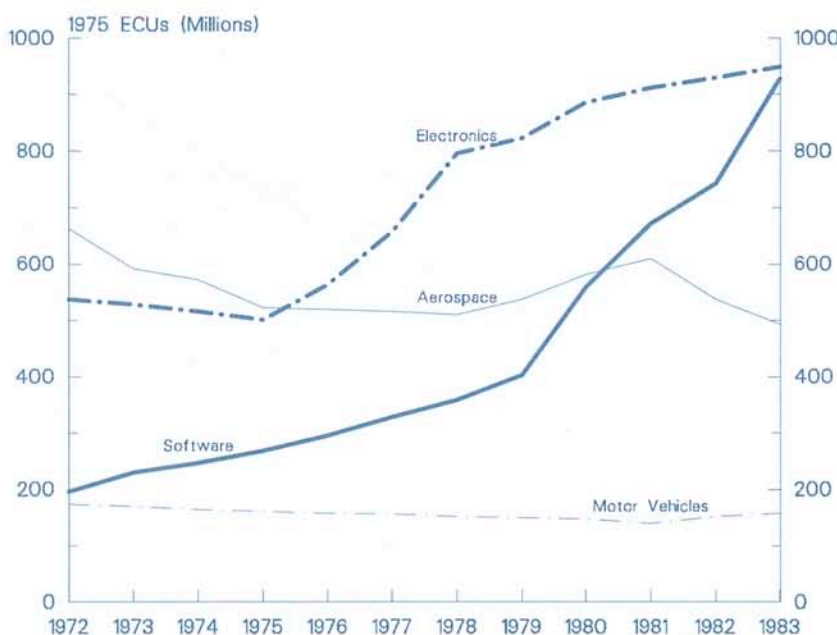
A series of German studies have attempted to assess the impact of new technologies on different industries. One, on the insurance industry, concluded that new technologies have had little impact on productivity and, hence, have not caused any significant drop in employment, which decreased annually by only 0.5%. The most significant impact was on the type of recruitment, which shifted sharply towards people with higher qualifications. Another study (by the Berlin Science Centre) indicated that technology is not an important factor in explaining the decline in the number of jobs.

Because of the changing international environment and the completion of the internal market, the relationship between employment and the emergence and diffusion of the new technologies has become a priority field for analysis.

The Commission's services are directing a study on information technology, beginning in the Autumn of 1989, which has three objectives:

- at the micro-economic level, to study factors in the spread of information technologies (in-

### 104 Expenditure on Research and Development in Selected Sectors 1972-1983





vestment, work organisation, etc...)

- at the sectoral level, to analyse the consequences of this diffusion for employment, skills and qualifications, and to identify possible skill shortages and imbalances;
- at the macro-economic level, to examine alternative scenarios of the potential impact of new technologies on total and sectoral employment in 1992 and, in the longer term, up to the year 2000.

A further aim is to analyse the qualitative implications of these developments for education, training and working conditions. At this stage, it would be unwise to prejudge the results of this wide-ranging study.

## The Need to Adapt

The introduction of new technologies changes the skills structure of the workforce. The types of skills and qualifications in demand are (to quote a 1986 Commission report) those "with increasing requirements involving mental flexibility, responsibility and planning skills and basic understanding of new technologies".

Companies are today much more likely than a decade ago to draw on the European and international pool of skills to fill their vacancies. Although this has led to some complaints of exporting jobs, the overall outcome has been to develop higher value-added employment in Europe.

Training and re-training initiatives are essential to the rapid and successful introduction of information

technology. One key lesson from the 1980s is that the potential for companies to develop by increasing the skills of their existing employees has proved much greater than previously thought.

It is not just a question of adapting the existing labour force but also of developing the future one. A study in the Netherlands examined the potential impact of information technology on jobs within eight key sectors: banking, travel, insurance, processing industries (food and chemicals), engineering (including machinery and transportation), electrical engineering, design/architecture and health services. The study avoided seeking to pro-

duce a bureaucratically tidy, but practically useless, catalogue of projections of job and skill requirements. Instead, it resulted in a campaign to bring teachers throughout the Dutch secondary and technical education and training system closer to those in charge of recruiting and developing human resources in industry. This has helped teachers understand how they can prepare pupils for higher quality jobs in industry.

### Turnover, Productivity and Employment Trends for Innovative and Non-Innovative Firms in the Federal Republic of Germany

Type of firm	average annual change 1979/1985		
	turnover	productivity	employment
innovators	2.0	2.5	-0.5
of which :			
product innovators	1.3	2.3	-1.0
process innovators	1.4	2.6	-1.2
combined product and process innovators	2.4	2.5	-0.1
non-innovators	-0.8	1.5	-2.3

In the period between 1979 and 1985 innovative firms achieved higher productivity growth than non-innovative ones. While the former also experienced a fall in employment, the fall was much greater in non-innovative firms, a fact which can be ascribed to the more favorable turnover figures for innovative firms.

## **Role of Labour-Management Cooperation**

The introduction of new technology has been much smoother than feared, largely because of close cooperation between management and trade unions. The few notable well-publicised conflicts are the exceptions which prove the rule.

The late 1970s were characterised by the defensive stance adopted by the trade unions towards the new technologies in general and information technology in particular. They considered that the threat posed by information technology to existing jobs would result in less employment.

As the use of information technology has become more widespread, union positions have generally changed but the fears have not entirely disappeared. Even in early 1989, German trade unions expressed reluctance to participate fully in the "humanisation of work action programme", recently re-named "Work and technology".

The sharp rise in unemployment in the early 1980s affected the balance of forces at the negotiating table and employers and management in industries with high levels of unionisation began formulating their own demands, rather than just reacting to union pressure. Company strategies often focussed on the concept of "flexibility" to which information technology has contributed.

The concept of "new technology agreements" also emerged. Some 30 such agreements were signed in the UK in the early 1980s, although they have now been overtaken by more radical approaches aimed at speeding up the application of information technology. Central agreements on the introduction of new technologies were introduced in Belgium (1983) and France (the latter in 1988 with the dissent of one major trade union confederation - the CGT). Typically, new technology agreements sanction more flexible working practices by the workforce in exchange for longer advance warnings and better information from management about impending changes through the introduction of "new technologies". Managements have, however, been vague on the specific nature of the commitments to consult the workforce when considering significant new investments. The longest pedigree in this respect is Denmark where national agreement between the trades unions' and employers' confederations to establish a Joint Co-operation Board dates back to 1970.

A wide variety of agreements have also been concluded between individual firms and their personnel, some of which by-pass trade unions. A few are Europe-wide in their coverage such as that of the city of Nuremberg (see box).

## **New Strategic Challenges at the European Level**

At a time when the European and world economies are becoming more open, the new technologies have taken on a strategic importance and represent a major factor affecting

### **Operation 1000 = 1000: Merlin-Gerin**

Merlin-Gerin is a large French electrical and electronic equipment and systems manufacturer employing some 16,000 worldwide. From 1970 to 1985, its unskilled workers dropped by 80% whereas the number of engineers doubled and skilled workers remained constant.

Because of continuing technological change, it became clear that while the total workforce would remain constant, 1,000 fewer workers would be required at its Grenoble plant. Rather than forcing mass redundancies, the company undertook to train its unskilled workforce.

Various types of training were developed. A four months full-time course enabled the transfer of workers from obsolete to new jobs at the same level. Subsequent two month long upgrading programmes gave workers more basic skills in essentially, "reading, writing and arithmetic", and were followed with between 600 to 1,800 hours of full and part-time specialised courses. The approach was welcomed by the trade unions because it pre-empted the effects of the introduction of new technology. The initiative was tailored to the needs of the majority of the company's workers who had few formal educational qualifications.

Although the initiative doubled the company's training expenditure to 7% of the total wage bill, it was deemed a success since it improved the competitive position of Merlin-Gerin without the company suffering from the upheavals caused by mass redundancies.

employment in the future. Their impact will be especially critical for:

- the current and future competitiveness of European industries under intense competition from American, Japanese and South-East Asian rivals. Given the tendency for these technologies to spread, the majority of sectors exposed to international competition will be affected;
- the development of private and public services, where the application of new technologies is a factor in reducing costs, increasing flexibility and adapting to demand or to social needs;
- the strengthening of employment in the medium and long-term from the growth of manufacturing and private and public services, although the new information industries and technology have just as much of a qualitative as quantitative effect on employment.

The relationship between employment and technological change has to be seen in the context of new Community-level strategic considerations which have extremely important implications for both direct and indirect job creation.

- The growth of information industries has direct and indirect knock-on effects for employment. Recent estimates indicate growth in the world market for information products and services averaging around 17% a year, which means a doubling every 5 years. The information technology sector currently amounts to some 4.4% of GDP. It has the potential to become the largest sector in GDP terms (reaching 6.7% of Community

GDP in 1993 according to some forecasts) but everything - not least employment levels in the sector - depends on the market share of European companies. Failure to control this technology will clearly lead to jobs being lost in the sector. But it also entails potential risks for employment in all the client sectors, particularly manufacturing. Cultural, economic and geographic proximity between the producer and the user of information technology is crucial

to its diffusion and application. Any dependency on foreign imports would damage the competitiveness of productive client sectors and as a result have substantial adverse effects on employment.

- The expansion of the information and communication sectors depends on co-operation in R and D. Together with the substantial growth in market opportunities, the information technology and communication

### Port Authority of Rotterdam

In line with most major ports, Rotterdam has moved from being a highly labour-intensive to highly capital-intensive operation. While this was initially caused by the switch to containerisation, it has brought in its wake a whole series of technological developments such as microchips which handle the complex flows of information and can enable shippers to track their containers by satellite across the globe. These changes have brought a revolution in industrial relations practices.

The Port of Rotterdam in Holland directly employs some 74,000 people and a further 10,000 workers are dependent on the port's supply business. Containerisation led to a ten-fold increase in labour productivity. Cargo handling increased but this was unable to compensate for the increase in labour productivity and the workforce fell by 10,000.

There were several major industrial disputes but ultimately the two sides reached a series of agreements enabling employment to be reduced without compulsory redundancies.

Now that containerisation and the decrease in employment is complete, the port is concentrating on improving its logistic services - transportation, physical distribution and stock-keeping - which can account for 20% of the total costs of manufactured products.

Telematics is indispensable for improving logistics and a new system has been introduced which allows for the electronic interchange of information between all parties involved in the transport of goods through the port.

The port's renewal process has brought considerable changes to at least 15,000 jobs. A forum for employers and trade unions to discuss emerging threats and challenges jointly with the port management and government representatives has been established. It deals with a wide variety of issues such as vocational training, technology transfer services for smaller firms, the design of new technologies and opportunities for new forms of employment.

sectors are confronted with accelerating technological innovation, rising R & D costs and shortening product life-spans.

For several years joint R & D activities between companies and research bodies have been strengthened at the Community level (ESPRIT, RACE, etc.). The structure of R and D in the European groups involved in these projects is now stronger. The European technological base is much better protected, and positive direct and indirect effects in terms of maintaining and creating highly-skilled jobs in Europe have already emerged. But in spite of what has been achieved in certain areas there are still serious weaknesses which could lead to

worsening prospects for employment in the future.

- Mastering new technology in manufacturing is increasingly vital for Europe, in economic, social and employment terms. Against a background of rapid change where company strategy is of the utmost importance, no effort must be spared.
- There must be closer industrial co-operation in order to assure better long-term control of the chain of functions running from R & D through design, production and distribution to after-sales service.
- Significant shortfalls in skilled personnel (computing, office

automation, production technology, etc... ) must be avoided.

- In view of the imminent completion of the Internal Market, development of the infrastructure of the Community network of telecommunication services is crucial to the Community's economic and social integration. Competition as well as co-operation between Community businesses and the harmonious functioning of national administrations and public services require an efficient system for transmitting the flows of information which are vital for integrating the markets of Member States. Without this, some of the positive economic and employment benefit of the completion of the Internal Market could be lost.

### **Guidelines for Introducing New Technologies - The Case of the City of Nuremberg.**

- Get all decision-makers and their advisers to agree on a set of goals (such as improving the quantity/quality of service, improving employees' working conditions, lowering costs).
- Introduce NT when and where there are needs for improving information and communication.
- Provide broad and comprehensive dissemination of information about its introduction beforehand.
- Draft sensible and acceptable guidelines on the working conditions of all employees.
- Jointly demonstrate the value of change for all involved.
- When introducing new computer systems ensure that there are no hierarchical distinctions in their use.
- Invest in employees rather than in equipment.
- Ensure total employee participation in implementing new systems.
- Develop executives into information and communications managers.
- Define objectives jointly beforehand and take up "organisational slack".

The technological changes underway now involve all companies throughout the manufacturing and service sectors. The impact on employment in quantitative as well as qualitative terms has become substantial. This is not just a short-term phenomenon but will continue far into the future. Quantitative analysis of these developments is difficult and in any event it is evident that current trends cannot be understood purely in arithmetic terms. The need to adapt structures of employment at company, sectoral and economy level has become clear.

The future development of employment in the face of technological change is increasingly dependent on new strategic factors, such as the competitiveness of European companies in the context of the completion of the Internal Market.

## Chapter 13 New Partnerships in Employment Creation - Local Development

*Areas and regions of the Community faced with serious unemployment problems have begun to develop successful "home-grown" solutions. Local development actions are transferable but they require the involvement of people as well as investment in infrastructure or new businesses.*

### What is Local Employment Development?

In a general sense, local employment development is the process by which a local economy or labour market adjusts to changes in its economic environment. In practice, local development has become a more active strategy in which people and institutions seek to create additional employment by improving the performance of the local economy. At its best, it is a dynamic process, not just attracting jobs from other areas but generating them locally.

Local economic concerns came to the fore in industrialised areas in the early 1980s when many such areas saw their main sources of employment beginning to disappear because of economic restructuring. Actions also began in less developed regions where tentative economic advancement was halted or reversed by recession.

The principal characteristic of local employment developments at that time - and their ultimate limitation

- was their reliance on spontaneous, fragmented local initiatives. Typically, local people or enterprises tried to salvage jobs from collapsed businesses and to set up new businesses or services to replace those abolished by cash-short public agencies or authorities. These initiatives had a positive effect both in terms of employment creation and as an example to follow. Indeed, in many areas at the height of the recession these were the only positive features on the employment scene.

Positive as these initiatives were, it became clear that it was not possible to rely only on small-scale 'local' projects to reverse economic declines. The concept of local economic development began to widen so as to involve all the initiatives in an area to stimulate economic activity whether by public agencies or private companies or the two working in tandem. It also brought back into play concepts of local forward-looking manpower policy.

The new local partnerships and alliances that have been forged as a result of this awareness have led to many changes, including changes away from the old 'top down' approach of central governments and

have increased the ability of local people to be involved in decision-making affecting their area. Of course, this has been a patchy process across the Community but the overall trend is for governments to take more account of the expressed demands of people involved in local initiatives and to give support to job creation actions at the local level, whether specifically or as part of wider national programme.

Although local development can encompass many measures - infrastructure investment, financial incentives for industrial relocation, promotion of the locality - the newer, pro-active strategies focus on managerial and human aspects of the local environment:

- improving the entrepreneurial ability, knowledge, management skills and "culture" of the local people;
- identifying and commercially exploiting local resources, such as environmental or amenity assets;
- promoting the creation and development of enterprises from within the local economy;

- creating and strengthening networks and partnerships between people and institutions to mobilise, co-ordinate, or combine their energies and knowledge.

The development of entrepreneurial skills is not used here in the narrow sense of developing the ability to create and run an enterprise, but rather in a broader sense of promoting creativity, initiative, responsibility and risk-taking - all of which contribute to strengthening the economy and creating jobs. In this sense, entrepreneurship can be found and developed in all groups of the population - employed or unemployed - in institutions and structures in the public and voluntary sectors, as much as in private businesses.

## Types of Action

Activities and initiatives which have been developed at the local level reflect local priorities which include:

- the need to create new skills and to adopt new attitudes;
- the need to acquire new know-how, and to innovate;
- the need to start new enterprises and to get into new products and new markets;
- the need to reach the disadvantaged people in the labour market, such as the long-term unemployed, women and youth;
- the need to find ways of tackling multiple problems which existing specialised organisations find difficulty in coping with.

The overall result has been a significant widening of the areas of local development action. The proliferation of activities has seen the haphazard emergence of new initiatives co-existing with more traditional forms of action. Only recently, have their activities begun to evolve in a more strategic way. Three themes stand out:

- training
- enterprise creation and development
- innovation.

## Training

With its strongly local focus, training is naturally a highly visible part of local employment development initiatives. There has been an increasing realisation that areas have to rely on their indigenous resources and that the skills and abilities of the local labour force, both actual and potential, are a major part of those resources.

In contrast with established training approaches which seek to ensure the acquisition of specific technical skills to meet the known needs of employers, many initiatives now reflect a broader view. Greater emphasis is placed on the development of general skills and more flexible attitudes - what could be called an across-the-board upgrading of the available human resources.

As localities have come to recognise the deep-seated nature of their problems, they have realised that a rapid switch from using old skills and attitudes - often the remnants of 19th century economic structures - to developing those needed for the

1990s and beyond is difficult. A long term approach is required.

This is particularly true where local economies had been dominated by one type of activity, whether industrial or agricultural, or been dependent on one or two very large employers. It also applies to older workers or the unskilled in the local labour market who are unlikely to be able to benefit from newly created opportunities without a long and gradual transition. As a result, step-by-step approaches have been developed for priority groups where straightforward "training" is inter-linked with work experience, job placement, and enterprise creation (see Box on page 145).

## Enterprise Creation and Development

Most localities have now established at least some local employment activities. While local government is often the instigator of such projects, many initiatives have been developed in conjunction with the private sector, agencies, or local educational establishments.

The importance attached to enterprise promotion for development reflects an awareness that those concerned with local and regional development can no longer rely on attracting footloose investment by major companies and that, anyway, there are serious risks in becoming over dependent on such investment.

Local small and medium sized enterprises (SMEs), whether conventional private businesses, co-operatives or 'social economy' enterprises, have come to be seen as the principal engines of local economic development.

Enterprise promotion activities fall into four principal categories:

- creation of a favourable climate for business (e.g. deregulatory and fiscal measures);
- provision of information, counselling and business services;
- provision of physical assistance (e.g. workspace, equipment);
- provision of financial assistance and creation of mechanisms for obtaining business finance.

Local initiatives for the promotion of enterprises are often seen as being largely concerned with the start-up of new small enterprises - i.e. micro businesses, community enterprises, self employment. Indeed, many localities cater extensively for SMEs in this way. There are even national networks catering to the demands of fledgling small businesses - for example, the 'boutiques de gestion' in France and local enterprise agencies and trusts in the United Kingdom.

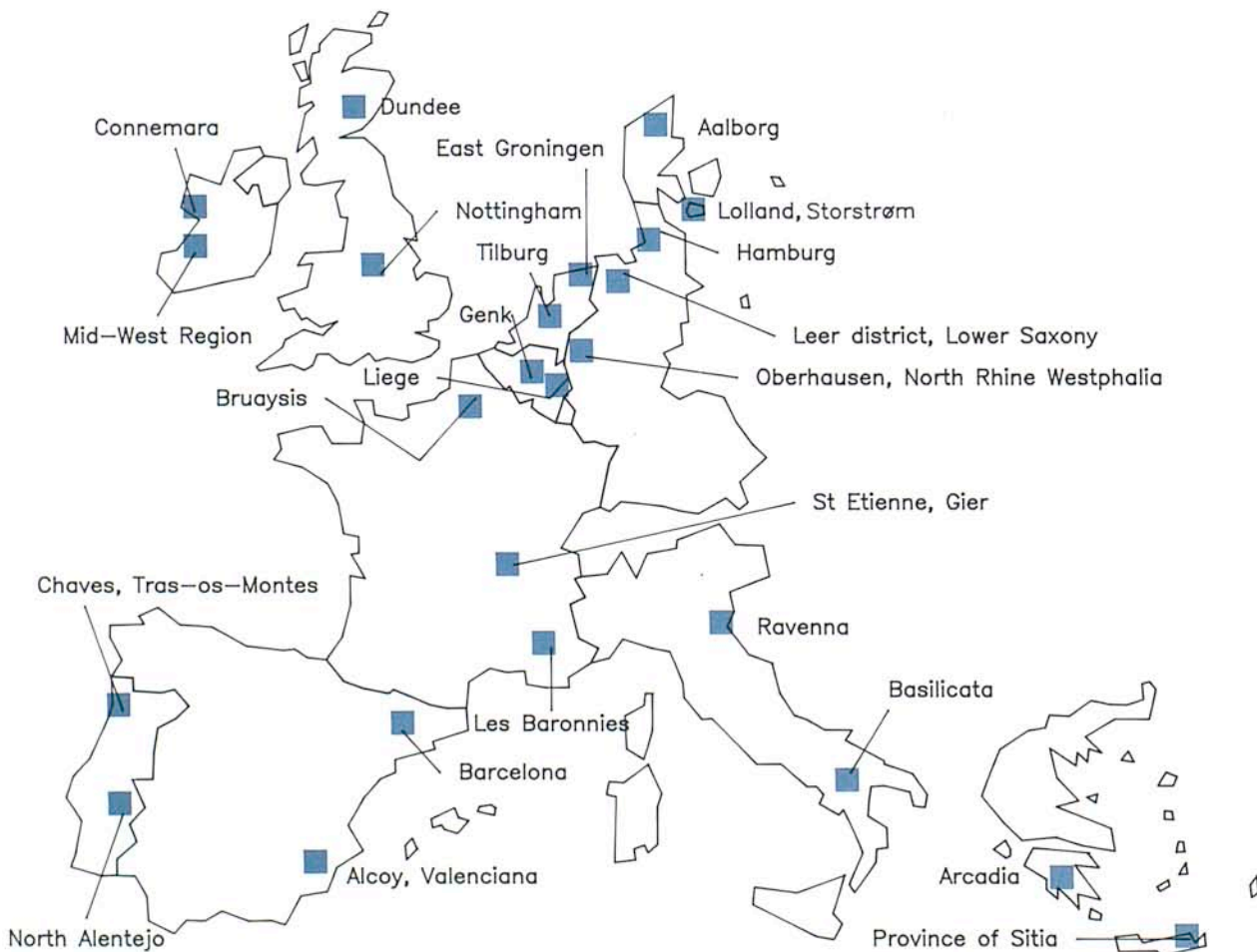
However, many localities have developed more sophisticated

methods. They aim not merely to promote entrepreneurship and increase the number of start-ups, but also to strengthen particular aspects of the local economy, such as exports and high-technology businesses.

### Innovation

An increasing number of localities now operate projects designed to attract or to develop new technology, to support the setting-up of new enterprises in high technology fields, and to promote innovation in pro-

105 Location of Projects in the LEDA Programme



ducts and processes in local businesses.

These initiatives are less closely associated with local delivery than training and enterprise promotion. Rather, they reflect the pace of economic restructuring and technological change.

The range of innovation-related local schemes is too extensive to list comprehensively but the LEDA Programme (see box) provides some illustrations. They can be seen as either 'hardware' (science parks, computers etc) or 'software' (resources and management processes). At the 'hardware' end of the range, many areas have created science or technical parks, such as in St. Etienne (France) and in Dundee (United Kingdom). At the other end of the range, the Tilburg Innovation Project in Tilburg (Netherlands) trains unemployed university graduates and places them in local small businesses as innovation counselors.

In fact, most areas have now recognised that is not sufficient merely to provide the 'hardware' and are concentrating on providing a combination of both 'hardware' and 'software'. Examples include technology centres which provide a combination of specialist facilities and services for use by SMEs, such as the one being created by the Nordtec Programme around Aalborg in North Jutland (Denmark) and the R & D Centre, ATTEX, for the textiles industry in Alcoy (Spain).

## Strategies for Local Employment Development

The concept of long term strategies for local employment development is relatively new. Many of the earlier local responses - particularly to the restructuring in traditional industries of the late seventies and early eighties - were simply reactive and short-term such as attempts to avoid plant closures or schemes to create temporary jobs for the unemployed.

Most of the areas in the LEDA Programme - particularly those in the northern areas of Europe - have progressed beyond these defensive strategies. This shows an acceptance of the inevitability of the impact of the macroeconomic changes affecting their areas by participants in the local economic development process. Their focus has turned from simply seeking to influence the decisions of those responsible for national or international funds, to developing the strengths of the area, mobilising local and external resources, and promoting new economic activity and jobs. The process involves three stages.

**Stage One** can be described as "acquiring the development 'know-how'". This is essentially a preparatory stage for areas lacking spontaneous forms of development - which include a large part of the Community's Objective 1 areas and some Objective 2 areas. For them, merely providing services to small businesses or better infrastructure would do little to generate new employment since there is an absence of entrepreneurial skills. Emphasis is needed on teaching potential local participants in the local develop-

ment process how to initiate and run projects that lead to wealth creation and jobs.

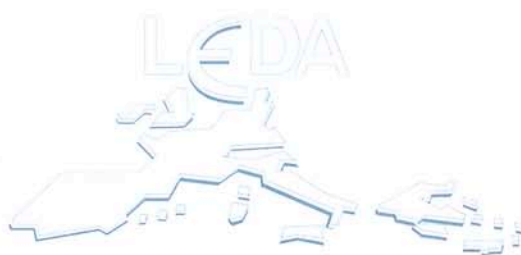
**Stage Two** can be described as "using the know-how of development". If Stage 1 is successful, Stage 2 starts with three strong points: there is a core of local people and institutions leading the way (stimulating/ facilitating projects); some 'software' and 'hardware' infrastructure has been created; and, projects are beginning to be generated spontaneously, although not in sufficient numbers or quality.

At this stage, areas need to improve the effectiveness of their activity such as developing better management and evaluation techniques; developing programmes targeted on priority groups and sectors; upgrading know-how by, for example, emphasising technological innovation and exporting to larger markets; stimulating inter-firm cooperation and the provision of business services, initially with public support if necessary.

**Stage Three** corresponds to a stage of self-sustained development.

A successful Stage 2 will mean that there is now a "critical mass" of projects and initiatives coming forward, as well as a supporting environment of targeted and general business services. The main thrust in this stage is on plugging gaps in service provision and SME finance mechanisms; building on strengths; and exploring opportunities such as new markets, new industries and new forms of inter-firm co-operation. Most local economic development activity should now be focused on "market" provision.





### **The LEDA Programme**

Community level recognition of the importance of the local level in employment creation came in 1984 when the Commission issued a Communication on "The contribution of local employment initiatives to employment creation".

That Communication estimated that these initiatives could result in the creation of one million jobs and sought to ensure that they were encouraged. As a result, local employment initiatives became a priority category under the European Social Fund in 1985.

By 1986 it was clear that a broader view was needed at the local level - combining the 'local employment initiatives' approach with the forward-looking manpower policy approach developed since the late 1970s.

The last two years have seen the development of an action research programme on Local Employment Development Action (LEDA) based on 24 pilot areas and several other associated areas selected because of their positive experience of innovative projects. The 24 areas vary greatly in size of population and were chosen deliberately to cover all parts of the Community. They include both rural and industrial regions but share one common characteristic - high unemployment.

The programme has two aims - to help the areas participating in the programme and to draw out lessons that can be disseminated more widely. The programme does not provide funding but its activities include the support of pilot projects, the analysis of the lessons from local approaches, the provision of technical support and the organisation of meetings of participants from different LEDA areas to exchange experiences and 'know how'.

The programme commissions research from local teams, connected to a local higher education institute, and produces review reports which will be used as the basis for debate and for the development of further employment initiatives in these areas.

The LEDA programme has already identified a diversity of initiatives in its project areas, examples which could be followed elsewhere. For example, in terms of new business development, LEDA has identified the advanced enterprise programme in Shannon (Republic of Ireland) based on the concept of venture teams; the Advanced Business Centre in Nottingham (United Kingdom); the establishment of local venture capital funds in Lolland (Denmark); the promotion in Ravenna (Italy) by a number of local organisations of the concept of a university-level management centre as a major stimulus for local business.

The LEDA Programme seeks to identify the key factors explaining successful local development and employment creation and to make this "know-how" available to areas throughout the Community. Among such activities at the moment are the setting up of a European programme of local employment development management, and the production of a workbook of local employment development 'good practice', all based on LEDA experience. More generally, a Commission policy document on the experiences and conclusions arising from the programme is planned.

## Variety and Dynamism

The variety of local employment development initiatives is characterised by the involvement of a wide range of participants. This is because it consists of activities which require specialists in different fields (training, innovation, finance, organisation and management) and stimulates the creation of local networks which encourage co-operation without formal structures.

Such an environment may not satisfy those who like a tidy, well-structured and hierarchical pattern but this does not detract from its effectiveness.

The presence of many participants can reflect dynamism, but it can also mean fragmentation of action, arguments over objectives and resources, and conflicting or duplicated efforts. However, the argument that democracy is more 'inefficient' than dictatorship is no more appealing when applied at local level than at any other.

While it is possible for many individuals agencies to take the lead in local development, more and more local government authorities have taken on a pro-active role by instigating new activity, supporting other bodies and taking on the co-ordinating role for local economic and employment development. They have thus become both partner and leader.

At the same time there is a growing awareness in the business world that there are links between the health and wealth of a community and the fortunes of a firm operating within it.

Equally, trade unions, both at the grass roots and nationally, are increasingly participating in development actions, although rarely instigators.

Universities and other research and higher education institutions have ceased to be ivory towers without links with the communities in which they are located. The growth of the importance of technological advance in all industries and the increased importance of access to the latest theoretical and experimental has stimulated them into liaising and developing projects with local firms.

Many agencies in the voluntary sector now see economic development and employment creation as the most effective means of tackling social problems. As a result, they have been keen to see their role expanded from one of social assistance to that of contributor and participant in the economic and social development of local communities.

Equally, supra-local structures - central governments and the European Community - have increasingly come to see local participants as an important partner. New contractual relationships between local authorities, regions and central government in France, for example, or the partnership arrangements concerning the operation of the reformed Structural Funds (see Chapter 16) are typical of this new form of relation.

## Local Development Agencies

The co-operation of all these participants does not necessarily imply agreement. However, while many conflicts of interest between partners remain, a spirit of co-operation

has replaced conflict, and traditional attitudes and rigid ideological positions have given way to more pragmatic approaches. Local economic and employment development relies on this mobilisation of a large number of local participants and on tapping both local and external resources from the public and private sectors. The need for co-ordination of all this activity often leads to the creation of 'local development agencies'.

Local development agencies come in many shapes and sizes. They may form part of the local authority or be independent. They may concentrate solely on defining policy or on implementing it or combine both roles. They may have broad functions covering several development aspects or concentrate on just one aspect.

In all cases they represent important focal points in local networks and play a crucial role in mobilising their localities through their close links with their client groups. They create new capacity in their areas, both in technical and managerial terms, for developing and implementing employment creating projects.

The European Community has organised exchange programmes for local employment development agents for the last three years. The Community recognises the new reality of local development and the need for partnership at all levels. The reformed structural funds will thus not only provide financial resources for the development and restructuring of regions and local areas but they will also seek to ensure that local level participants can contribute effectively to the development of local strategies and that programmes are built on appropriate analyses of the areas'

## **Local Development Initiatives.**

### **Jugendberufshilfe, Oberhausen**

The Jugendberufshilfe (Youth Training and Employment Programme) in the City of Oberhausen (Federal Republic of Germany) is an example of a highly integrated approach to youth training and employment creation. It is targeted on disadvantaged youth, principally those who left school prematurely and have few, if any, skills

The project provides three interlinked programmes;

- vocational training which includes work experience in local businesses;
- work in building, renovation and gardening;
- small business creation in the service sector.

Funding bodies include the Federal and Lander governments, and private and voluntary agencies. The project also generates income from its own activities.

### **Work-Start Ltd, Dundee**

Work-Start Ltd was initiated in 1982 as a pilot project under the European Social Fund and aims to provide "stepping stones to real jobs" for unemployed people through counselling, basic skills training, work experience and enterprise development.

The project is co-financed by the Scottish Development Agency, the City of Dundee District Council and the Community Projects Foundation. Work-Start Ltd runs Restart Courses, two Job Clubs for the Employment Service, provides business training under its Private Enterprise Programme, and gives assistance to the Dundee Small Business Support Group which it established as a mutual support group for past participants of its business start-up courses. It has recently launched a Women Creators Project which aims to equip women with the necessary confidence, vocational and managerial skills to create successful businesses.

In 1987-88, it had a throughput of 2,300 unemployed people, of whom 45% found employment or took up further education or training opportunities.

### **Advanced Business Centre Nottingham**

The Advanced Business Centre in the city of Nottingham is a joint public/private sector initiative which offers access to modern computer facilities and advanced office equipment for local companies. It aims to encourage modernisation, enhance skill levels and improve the competitiveness of local enterprises. The project is sponsored by Plessey plc, one of the main UK manufacturers of telecommunications equipment and the City Council with backing from central government through the Urban Programme. The availability of facilities at the Centre is flexible - for instance, companies may rent premises and locate there, or the facilities may be hired by casual short-term or long-term users.

Over 40 firms employing approximately 120 people are based at the Centre. In the future, the Centre hopes to offer access to its computing facilities by remote telephone link. With this aim, the City Council has announced plans to establish "linked" satellite centres with community-based schemes and other areas.

needs, strengths, weaknesses and potential.

## **Future Prospects**

A successful approach to development depends on the existence or creation of several necessary pre-conditions, in both 'hardware' and 'software' terms, as well as on the presence of people able to stimulate and facilitate the developmental process. Local economic development is not a low-cost alternative to creating the necessary infrastructure and equipment.

These pre-conditions are the necessary but not sufficient conditions needed to generate employment. The process of local economic recovery can be a long one and local strategies need to recognise this.

Hardware pre-conditions typically include infrastructure, housing and educational institutions. Software pre-conditions concern people's skills, attitudes and knowledge. They can also extend to soft cash types of finance which need an entrepreneurial attitude to risk.

New participants have entered the scene of economic and employment development and old ones have changed their roles. The traditional view of employment creation is that it is either the result of profit-inspired entrepreneurs creating jobs

as a side product of pursuing their main goal, or it is the result of governments providing services themselves through the 'public sector' and their economic management policies. That was probably never a true representation of reality and it is a long way from the experiences observed in the Commission's local employment development programme LEDA (see Box).

Although local development can make a decisive contribution to rebuilding the economic and employment base of local areas, it faces many obstacles and it is no panacea. Local authorities and local branches of national government agencies, for example, may wish to participate more actively but lack the institutional or financial means.

A successful approach needs people or institutions who act as facilitators in the locality. They can be elected local politicians, or come from the public, private, or voluntary sectors. Such entrepreneurial leadership is commonly absent in less developed areas or in declining areas previously dominated by a few large employers. These areas are also often marked by the absence of any adequate evaluation system for local labour market skills and training needs. Effective local development strategies need to correct for all of these deficiencies.

## **Local Employment Development - it Exists in Practice, but Does it Exist in Theory?**

Economics is a powerful analytical discipline. Concepts like 'the circular flow of income' which demonstrate how expenditure in an economy is transformed into income, output and back into expenditure and 'economies of scale' which explain both the basis of productivity growth and the tendencies towards concentration of production provide penetrating insights into the workings of our societies.

However, the clarity and appeal is partly due to a methodological reliance on simplifying complex economic and social relationships. The analysis often assumes away such factors as market imperfections and the existence of middle agents, such as wholesalers and retailers, who separate producers and consumers, making their relationship an indirect one rather than the direct trading assumed by economic theory.

In the same way, local employment and economic development is generally 'assumed away' in economic analyses of regional or local development, which can, in consequence, only attribute economic backwardness or poor performance to a lack of industrial or infrastructure investment or uncompetitive wages.

This is inevitable in a formal, generally static, model where a common standard of entrepreneurship is assumed to exist, where there are only private enterprises (and no public sector or public-private partnership), where competition is generally perfect, and where no account can be taken of the accumulated social, political and economic history of a locality.

In reality, of course, the factors assumed away can be among the major determinants of dynamic economic success or failure. Economic textbooks have begun to acknowledge this by introducing the concept of 'x-inefficiencies' to cover differences in economic performance that cannot be explained away by differences in labour/capital costs or differences in capital intensity.

While the 'x-inefficiency' concept is commonly applied to comparisons between enterprises, or between similar sectors in different countries, it is equally applicable in explaining why different localities, with perhaps similar natural, human and capital endowments, perform so differently.

In many ways, local development can be equated with the management of enterprises - where success is recognised to depend on differences in management performance. Management is, however, not quite the right concept for local development since notions of what it means are largely derived from the private sector where it operates from the top down and is measured against the simple criterion of profitability.

A local economy has no such simple structure. It serves many goals and has many varied participants.

Nevertheless the tasks that need to be performed - reconciling conflicting goals, setting targets, ensuring efficiency, balancing longer term against shorter term issues - are similar to those in a company.

Some of these activities can be dealt with by market forces rather than management, but many cannot. Local partnerships between industry, trade unions, action groups against unemployment, local government committees on economic development, and the creation of local development agencies all reflect the need for institutions or mechanisms to tackle the problems of local 'management'.

The techniques of local 'management' of employment creation are currently under-developed. When they do become more formalised and widely disseminated they will probably highlight the importance of human factors - leadership, motivation and confidence-building - as much as organisational or institutional arrangements in ensuring successful local employment development.



## Chapter 14 Mobility and the European Labour Market

*Labour mobility across the Community is low, yet many see the possibility of working in another Community country as an important advantage. Will the European labour market ever resemble that of the United States?*

### Introduction

Of the many complex concerns regarding labour mobility and migration in the Community, and which need to be balanced, three in particular stand out:

- to ensure individual rights of free movement as embodied in the Treaty and as developed in the Single Act;
- to ensure sufficient occupational and geographical mobility in order to maximise the benefits of the development of the Internal Market;
- to maintain social cohesion and regional balance across the Community and to avoid some of the negative effects of previous migrations, particularly by encouraging economic development in the regions of emigration and underdevelopment.

### Migration in the 1960s and 1970s

The classic Community migration of the 1960s - from southern Italy and parts of Eastern Europe and the

Mediterranean into the Federal Republic and France - was a result of both demand and supply pressures. The growing manpower needs of mass production manufacturing

systems in the north coincided with high levels of unemployment and under-employment in southern Europe, and the rural exodus which accompanied rising productivity in

### The Community as an Opportunity for Mobility

Regular surveys of European opinion are organised by Eurobarometer. The December 1988 Report included responses to questions about the opportunity that Community membership could give for greater mobility.

Those surveyed were asked what they felt about the advantages of the Single Common European Market in 1992 in terms of residence and employment.

#### Residence

The opportunity for any citizen of a country within the European Community to go and live without limitation in any country of the Community, for instance, to retire there or to study there is an:

Advantage	Disadvantage	Don't Know
80	12	8

#### Question Concerning Work

The opportunity for any citizen of a country within the European Community to go and work in any other country of the European Community is an:

Advantage	Disadvantage	Don't Know
77	14	9

agriculture. This can be seen in Graph 10 in Chapter 1 which showed how, in the period between 1965 and 1985, the decline in agricultural employment was initially offset by industrial employment and later by the growth in the services sector.

While these rural declines are continuing, particularly in Portugal and Greece, the demand conditions of the past are unlikely to return, given the decline in manufacturing employment and the change in the organisation of production. The migratory movements out of

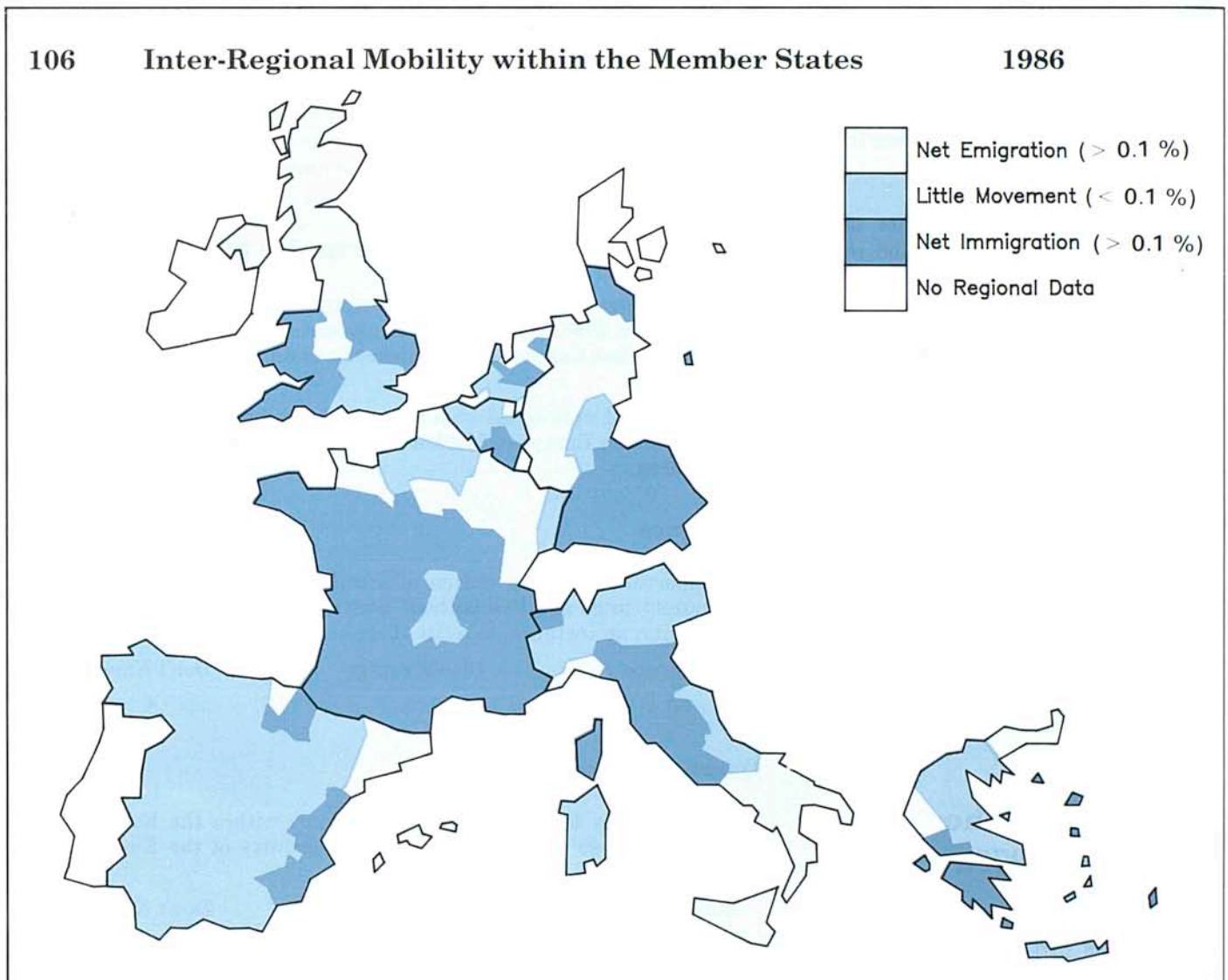
agriculture in recent years have tended to be into nearby towns or even villages with economic development potential.

Not all urban centres have benefited. Many towns and cities linked to major industries in decline have lost population. The urban centres which have grown are generally those which are linked to branches of government, new service activities, and science and research, and which are physically attractive and conveniently located.

## Experiences of Emigration Countries

### Italy

Southern Italy, largely agricultural and with little industry, was the source of 60% or more of Italian migrants up to the end of the 1970s. They were mostly unqualified workers from a rural background. The numbers declined considerably from over 150,000 people a year in the 1960s to less than 10% of that amount by 1979.





By the early 1980s, the migratory flow had ceased and the balance had even begun to be reversed with the return of Italian migrants and with the arrival of workers from outside the Community. A new phenomenon - albeit limited in scale - has been the emigration of the more qualified young from northern Italy into Germany and Switzerland.

Mobility within Italy is reasonably high, and considerably greater than Italian migration - for example, 1.2 million Italians change their town each year as against 50,000 who leave the country.

### **Greece**

Greek migratory experience is similar to that of Italy: strong emigration - over a million people - towards northern Europe during the 1950s through to the 1970s. Of those, 80% went to the Federal Republic of Germany. The late 1970s saw a decline with increasing numbers of returning migrants and the arrival of illegal workers from outside Europe. Construction work and other economic developments activities in the Middle East have been an off-setting factor to some extent, creating some emigration of qualified workers.

The return of previous migrants is seen as a positive development. However, to prevent the pressures for emigration re-emerging, there will have to be economic development within Greece. However, the country does not have the highly diversified economic base - both in terms of sectors and geography - enjoyed by Italy. Apart from Athens, there are few centres of economic development with the potential to serve as a base for future employment growth other than those related to tourism.

### **Spain**

Spain also experienced strong emigration - a million workers - during the 1960s and early 1970s. Since then, there has been a steady return of migrants. Between 1971 and 1986 the number of Spaniards leaving for economic reasons fell from 130,000 a year to 9,000. In 1986 some 19,000 Spaniards returned to their country, of whom over 10,000 came from the Community.

A new phenomenon has been the arrival of workers from outside the Community and even from inside, for example, from the United Kingdom. In 1986 17,000 work permits were granted by Spain to Community workers most of whom went into the services, tourism or leisure sectors.

The development of social protection systems over the last ten years in Spain has reduced pressures for emigration. Migration within the country continues, however, particularly towards Madrid and the coastal areas. In contrast, the main industrial centres which have undergone major restructuring - the Basque region and the Barcelona area - no longer attract migrants.

### **Portugal**

Portugal had experienced considerable emigration - 2 million workers leaving during the 1960s and 1970s - mainly to the Community but also to the United States, Switzerland and the Middle East. Of those emigrating to the Community, most go to France and the Federal Republic of Germany. Portuguese workers have been particularly attracted into the construction industry.

Internal mobility in Portugal has been considerable, and marked by three movements: from the inland

areas to the coast; towards more developed areas such as Lisbon and Porto; and towards the small inland towns which have provided a form of local urban development to absorb the rural exodus.

The current state of the Portuguese economy could lead to further major migratory movements within the country, or between it and other countries in the Community. There is a high concentration of low productivity agricultural employment and there are serious unemployment problems in the coastal areas caused by the crisis of shipbuilding and steel around Lisbon. There is also the uncertain future for many of the small traditional businesses in the northern region.

## **Experiences of Immigration Countries**

### **Federal Republic of Germany**

In northern Europe, immigration and mobility patterns have also changed during the last decade. The Federal Republic of Germany received many Turkish, Portuguese, Spanish and Italian workers during the 1950s and 1960s as well as large numbers of refugees from Eastern Europe. These migrants also moved within the Federal Republic during the crisis in the manufacturing industry in the 1970s. During the 1970s immigration generally ceased. However, given the decline in the population of working age and the end of the rural exodus to the cities, there was some continued immigration, principally of southern Asian workers.

The most skilled jobs in the high technology centres such as Munich largely go to nationals. They could, however, begin to attract qualified people from other Community countries.

Despite large differences in rates of unemployment, mobility from the north of Germany to the south has been limited to these highly skilled workers. As elsewhere, those with limited or no skills are becoming less mobile, concentrating on the local market and often in the informal economy.

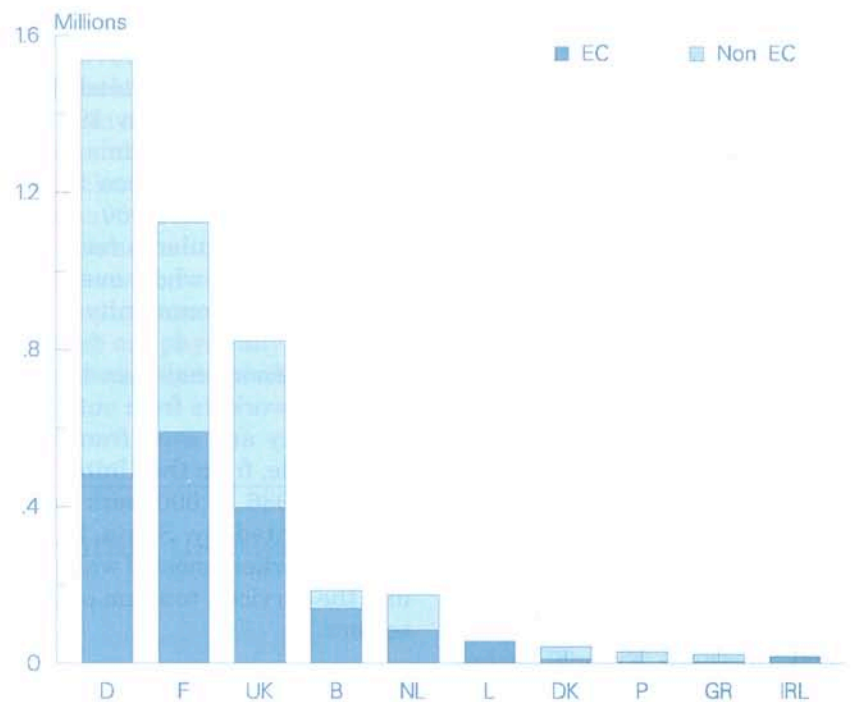
### France

French experience is similar to that of the Federal Republic in respect of both the non-national labour force and internal migration. Immigration ended over a decade ago and internal mobility has diminished. Emigration from France has declined and movements into urban areas have slowed. The Paris region is no longer growing, although it still attracts the young who tend to leave by their late 30s.

In the 1960s, the north-eastern corner of France attracted employment and migration. Since then, the area has become a source of emigration with the crises in coal, steel and textiles. The new trend has been the growth of the previously poorly populated south-west region of France which has attracted skilled labour to an area without an industrial tradition. It has prospered thanks to growth sectors such as high technology and the attractions of the good quality of life it offers. As elsewhere, in France it is the large towns which create the jobs requiring high qualifications.

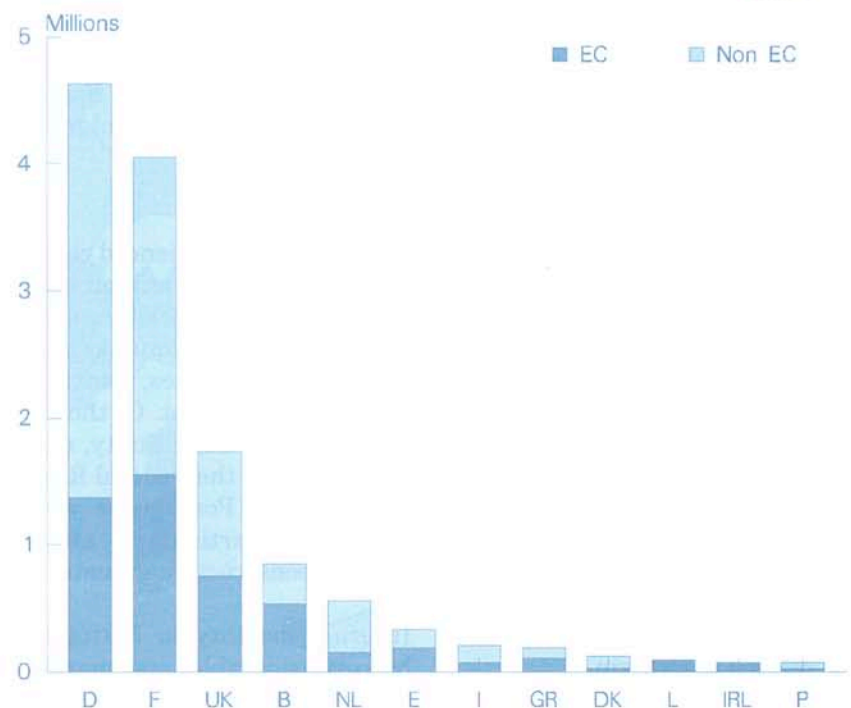
### 107 Foreign Workers in the Member States

1986



### 108 Foreign Residents in the Member States

1986



## Future Prospects - A Genuine European Labour Market?

The European labour market is currently more of a concept than a reality. Some migration movements continue in the Community - notably from Ireland towards the United Kingdom and increasingly to other European countries. The general pattern, however, has been for migration to fall, and for some of the migrants from traditional emigration countries - Spain, Portugal, Greece and southern Italy - to return to their countries of origin. Part of the explanation of this reduced internal mobility may reside in the mobility of non-EC migrant workers.

The number of Community nationals working on a more or less permanent basis in another Community country is relatively low - under 2 million with a further 2 million or more non-EC migrant workers, the bulk of whom are working in the Federal Republic, France and the UK (see Graph 107). The mass movements of labour in the past are now seen as a reflection of imbalanced development rather than as a model of future European mobility.

Foreign residents - including migrant workers and their families - total 12.5 million of which 5.5 million are Community nationals (see Graph 108).

Some specialised European-wide labour markets are developing but movement within professional groups has been small, despite the progress being made to encourage movement by ensuring the mutual recognition of qualifications.

Multi-national companies commonly treat their management and senior maintenance personnel as operating within a European, or indeed world, labour market. Geographical moves which take place within the company's 'internal' labour market are currently concentrated on the most highly skilled or specialised roles but the numbers are growing and raise issues such as the co-operation between the social security systems of the Member States.

Will this lack of mobility between Member States continue or will the combined effects of the 1992 market changes and the completion of the legal framework to ensure genuine free movement create an entirely new situation? Rather than renewed movements from poorer to richer parts of the Community, will there be a higher level of mobility in general with larger numbers of Community nationals - particularly the more highly qualified - living and working in other Member States either temporarily or permanently?

In short, could the European Community labour market eventually become more like that of the United States or is that merely a pipe-dream? There is evidence on both sides which makes it hard to give a definitive answer. There are a number of arguments which would imply greater mobility, not least the aspirations of Community citizens which are in sharp contrast to the actual low levels of mobility between Member States. The possibility of being able to move from one Community country to another in order to work is seen as a major advantage of Community membership by almost 80% of the people interviewed in the Eurobarometer survey.

Secondly, there are the expected reductions in the obstacles to mobility. The completion of the Community legislation (see Box) could have a major effect. The Commission is tackling the Catch 22 administrative obstacles which persist in some Member States, but it is not clear to what extent non-institutional obstacles - language, ignorance of the opportunities, culture, climate, and housing - also deter mobility.

Thirdly, there are the imbalances in demand and supply of specialists across the Community with apparent excess supply in certain professions in some countries and shortages in others. Movements between Member States could be a reaction to the needs of this "market".

Fourthly, increased commercial and economic integration will inevitably bring closer contact and co-operation between European citizens and in turn lead to employment opportunities being offered and sought.

On the other hand, there is the argument that mobility between Member States is low because it reflects the preference of European citizens in contrast to their counterparts in the United States.

Even the established cross-frontier labour markets - between France and the Federal Republic, and the Benelux countries - which provide local models of possible future Community labour market development are modest affairs. Hardly more than a quarter of a million people currently cross frontiers regularly to work and over half are working in a non-Community country - Switzerland.

Although mobility in the Community is low compared with the United States, there is a fair degree of mobility within national boundaries. This is concentrated in the north of Europe and northern Italy, and is less prevalent in the south of the Community.

Surprisingly, unemployment has stimulated few moves even in northern Member States. In the Federal Republic and the United Kingdom, for example, there has been little movement, except for highly skilled workers, from the northern regions of high unemployment to the south where it is much lower. Social protection systems which permit a 'survival strategy' for the unemployed and housing shortages in the low unemployment areas are the most common explanations for this lack of migration.

Similar reasons are given by commentators for the reduction in migration from southern European countries. Potential migrants may feel that even inadequate social security added to the availability of housing, the proximity of their families and the existence of some work, either legitimate or in the black economy, makes staying put preferable to the upheavals involved in working in another Member State. Policies to improve

the quality of life in both urban and rural areas, and to stimulate local development and improve education and training opportunities are equally important in encouraging people to stay in the more deprived areas.

On balance it seems clear that European-wide mobility will increase in the coming years, but the extent of that rise is dependent on a number of complex factors, many of which are linked to the development of the Internal Market.

Removal of the remaining obstacles to free movement is unlikely, in itself, to bring forth a new wave of migration. However, there undoubtedly remains a large potential for migration from many areas of southern Europe if development strategies and local initiatives are not able to generate sufficient new employment opportunities to offset those gradually being lost through agricultural decline.

The most likely prospect would seem to be a gradual, progressive increase in the general level of Community-wide mobility, led by the more highly skilled, who already have a wider concept of their labour market, and who will thus be the first to exploit the greater opportunities of free movement.

## Frontier Workers

Frontier workers are defined as people who live in one Member State, to which they normally return daily or weekly, but are employed in another Member State.

Statistics on migration and mobility, particularly on frontier workers, are notoriously difficult to obtain. The issues are partly conceptual - the frequency of return determines whether or not a person is a migrant or a frontier worker. Moreover, data is either non-existent or collated in non-standard ways.

For example, cross-border flows between the UK and the Irish Republic are excluded from statistics on frontier workers although many Irish workers do in fact return regularly, but not weekly. In other cases - for example between Portugal and Spain - no reliable statistics exist. In addition, illegal workers are left out of official data sources.

The largest volume of intra-Community frontier workers is between the Federal Republic of Germany and its neighbours, with the largest single movement of frontier workers - from France to Germany - numbering 35,000. Other major flows are from France, Belgium and the FRG into Luxembourg (between 20,000 and 25,000) between Belgium and the Netherlands (20,000), between Belgium and France (nearly 15,000), and from the Netherlands to the FRG (over 10,000).

However, the most important group of frontier workers in the Community are the Germans, Italians and French who work in non-Community Switzerland - some 25,000 from the FRG, 40,000 from Italy and over 60,000 from France. Most frontier workers - probably 70 per cent - are men.

While there are examples of two-way movements of frontier workers - such as between Belgium and Holland - the movement is mostly one way: from the lower wage countries to neighbouring states where wages are higher or job opportunities greater.

## Policy Concerns

While the number of frontier workers is relatively small, the issues raised by the phenomenon are important because they give an indication of the problems that may be faced as mobility within the Community increases. Common difficulties include access to vocational training and treatment under social security legislation.

Frontier workers have some established rights. In an 1985 communication (COM(85) 529) the Commission stressed that Article 7 (2) of Regulation 1612/68 concerning social and fiscal advantages applied directly to frontier workers. In addition, social security regulations (1408/71 and 574/72) apply fully to employees and the self-employed. Furthermore, special provisions apply to benefits under the sickness and unemployment insurance schemes.

These regulations ensure that frontier workers are entitled to benefits in one of the countries concerned and even apply to members of the family, provided an agreement to this effect exists between the two countries.

Nevertheless there are still problems in particular over:

- taxation such as assessing taxable income, tax exemptions, family tax allowances, etc. In 1979 the Commission proposed in a Directive that the country of residence be chosen as the country of taxation but the problem has not been resolved since the Directive is still pending in the Council;
- the activities of some temporary employment businesses in frontier regions which have given cause for concern;
- the absence of regulations covering the validity of driving licences and insurance cover for service vehicles temporarily imported.

## **Freedom of Movement of Persons and European Occupational Mobility - The Legal Framework**

The Treaty lays down as a general and fundamental principle, the freedom of movement of workers (Articles 48 to 51) and the freedom of establishment (Articles 52 to 58):

- freedom of movement of workers 'shall entail the abolition of any discrimination based on nationality between workers of the Member States as regards employment, remuneration and other conditions of work and employment' (Article 48(2)). It includes the right to accept offers of employment, to move freely within the Community for this purpose, to stay in a Member State for the purposes of employment and to remain in a Member State after having been employed there (Article 48(3) (a) (b) (c) (d)). Article 51 provides that the necessary co-ordination measures shall be taken in the field of social security;
- freedom of establishment 'shall include the right to take up and pursue activities as self-employed persons and to set up and manage firms' (Article 52).

Certain exceptions and limitations to the basic principle of free movement are set out in the Treaty. The provisions of Article 48 'shall not apply to employment in the public service' (Article 48(4)) and Article 55 lays down that the provisions relating to the right of establishment 'shall not apply to activities which are connected, even occasionally, with the exercise of official authority'. There are restrictions, too, on 'grounds of public policy, public security or public health' Articles 48(3) and 56(1).

On the other hand, the reference in the Single Act to a frontier-free area clearly represents a willingness to go beyond the freedom of movement of active persons and to establish the freedom of movement for people as Community citizens.

In order to implement the Treaty objectives, a series of Regulations and Directives have been adopted to guarantee rights on geographical and occupational mobility and social integration in the host Member State for workers and members of their families.

- Geographical mobility: any national of a Member State may leave his country of origin, enter and stay in another Member State in order to look for and take up gainful employment, whether temporary or permanent, and to subsequently live there after having worked there.
- Occupational mobility: any national of a Member State may enjoy the same terms of employment and working conditions as nationals of that country, enjoy the same training facilities and use the various public employment facilities.
- Social integration: migrant workers enjoy equal treatment in respect of social facilities whether or not such facilities are directly related to employment. These rights extend to members of the worker's family and include rights to grants or financial aid for access to general education and vocational training on the same terms as national students.

Court of Justice judgements have defined, and frequently extended, the field of application of such Regulations and Directives to cover, for example, part-time workers, and certain jobs in the public sector. Rights have also been established with regard to re-uniting migrant workers with their families and the rights of these families.

The Commission has proposed a revision of these Community Directives and Regulations designed to enlarge their personal and material scope and to extend the period of validity of residence permits and to extend the conditions on family reunification. Regulations have also been adopted in order to ensure coordination of national legislation on social security, based on the following basic principles:

- the application of a single body of legislation in any one case;
- the retention of acquired rights and rights being acquired;
- equal treatment between nationals and citizens of other Member States.

These principles ensure the provision of social protection (in the case of sickness, invalidity, old age, industrial accidents and occupational diseases, unemployment, family benefits, death) for employed workers (Community nationals, Stateless persons or refugees) moving within the Community and for members of their families (regardless of nationality).

Officially Community legislation ensures freedom of movement of employees. In practice, a number of obstacles and loopholes remain. A series of legal actions has been begun by the Commission, which has in some cases reached the Court of Justice of the European Communities to deal, in accordance with Community legislation, with national situations created by legislation, regulations, circulars and administrative practices adopted by various Member States since 1968 seeking to restrict access to jobs or training to their own nationals. Many of these cases of discrimination arise as a result of unequal treatment of nationals and employees from another Member State due to a lack of conformity between national and Community law.

The Commission has withdrawn its proposal on the right of non-active persons to mobility and residence within the Community which had been in the Council since 1979. It has presented three new proposals concerning students, pensioners and inactive persons respectively.

#### **Qualified Workers and Professionals**

In order for qualified people to achieve genuine freedom of movement, their qualifications must be recognised by other Member States. Professionals must also have the freedom to provide services as well as to set up their own businesses.

The traditional Community approach to this problem has been through the establishment of minimum standards. Community rights established in this way concern various occupations:

- commerce and crafts: the legislation aims to recognise the right to exercise an occupation in another Member State provided that occupation has been exercised for a certain time in the Member State of origin;
- medical and para-medical professions: minimum standards of training and the mutual recognition of diplomas have been achieved for doctors, nurses, dentists, veterinary surgeons, midwives and pharmacists;
- architects are covered by a directive on the recognition of diplomas, and lawyers by a more general directive.

Because progress was slow, a new approach has been adopted, involving a general system of recognition of education diplomas, covering both employees and self-employed workers.

In January 1989, therefore, a Directive was adopted covering persons who had acquired a qualification through no less than three years of training after secondary education. In this way, the worker has more chance of taking up an occupation in another Member State, where access to this activity and/or its exercise are subject to qualifications and conditions.

Once in force, the system should give access to all the occupations covered by regulations except those covered by specific directives and those entailing the exercise of official authority (Article 55 of the EEC Treaty) or covered by Article 48(4) of the Treaty.





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## **Part III Community and National Policies**

**Chapter 15 National Labour Market Policies**

**Chapter 16 Community Policies**



## Chapter 15 National Labour Market Policies

*Labour market measures are now well documented and much discussed among experts. Less clear is what the future objectives of national policies should be.*

### Introduction

Direct spending on labour market policies to reduce unemployment and promote employment probably accounts for 20-25% of total government efforts to help generate employment.

Until the recession of the mid-1970s, labour market policies had tended to be passive and social, aimed at maintaining the incomes of the unemployed rather than using the available resources to tackle fundamental labour market problems. Even though this has changed somewhat, it is unlikely that more than a third of the money earmarked for labour market policies is spent on active measures.

Restrictions on public budgets have brought pressure for employment measures to be managed more efficiently and effectively. This has led governments to develop policies of "active unemployment" - encouraging the unemployed to use their periods of unemployment to develop skills in demand on the labour market.

Such approaches were first adopted in the United Kingdom and Denmark, where measures included actions to encourage the longer term unemployed to enter training

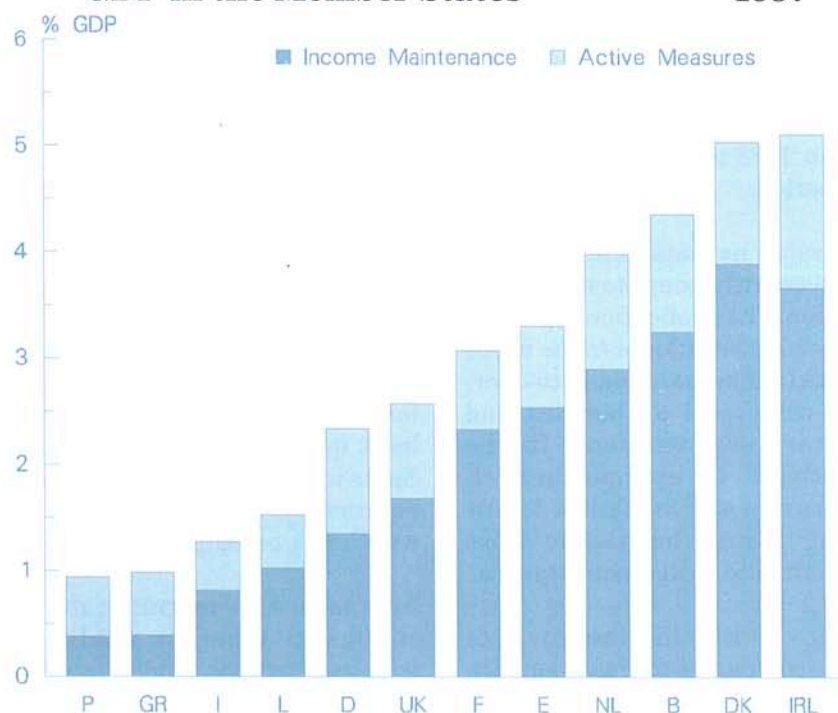
courses or set up their own businesses. At the same time, as training places increasingly outnumber applicants and the inducements for early retirement removed skilled people from the workforce, governments such as that of the Federal Republic have been anxious to use resources to improve the skills of their workforces.

### Types of Measures

The variety of measures adopted by governments have frequently been found to contain inconsistencies and duplication, as demands on them have increased and policy emphases have changed. As a result, Member States have started to:

- simplify and reduce the number and nature of the measures;

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- focus on key objectives;
- broaden their approaches by designing overall policies which can be adapted to local conditions.

One aim is to make measures more client-oriented: the jobless should be able to understand the implications of what they are embarking on, and employers should be able to assess the qualities and skills of the people they receive.

Simplification often results in the consolidation of existing programmes. For instance, the various UK schemes for the long term unemployed were reduced to a single, but massive (ECUs 4bn) measure in 1988: the "Training Programme". The plethora of work-creation schemes in the public sector in Belgium have, in the course of 1988-89, been reduced to two.

New ideas - such as job clubs - are increasingly tested through pilot schemes in selected areas. These pilot schemes have been a feature in various Member States including France, Belgium, the U.K., the Netherlands and Ireland, where the Jobsearch programme went nationwide in 1988 after a two year local trial period.

Successful national measures do not necessarily adapt to every local situation. The application of policies may need to be tailored to the needs of particular areas, often in co-operation with local authorities and voluntary organisations. In the Netherlands, for example, local offices are now able to use 10% to 30% of their annual budgets in ways most suited to local circumstances.

Schemes which offer incentives to private companies to create jobs are favoured in some countries, but are

in decline elsewhere. Incentives in the form of exemptions from social security contributions (Belgium, France, Spain, Ireland and Italy) seem to be more popular with clients than the provision of finance for services (Netherlands and the UK). Exemptions from social security contributions tend, however, to be expensive (ECU 5bn in Belgium) and can lead to accusations of promoting unfair competition if not designed carefully. These measures generally fall into the category of State aids which are subject to the provisions of Articles 92 and 93 of the Treaty requiring the prior authorisation of the Commission before being implemented.

## **New Approaches to Training**

Training has assumed increased importance with higher proportions of both government and company budgets being devoted to it. In order to encourage businesses to undertake additional training, governments have been strengthening their support systems.

At the same time, governments have begun reforming the vocational training provided by the educational system, the prototype being the German dual system. In 1988 the French government introduced a 25% tax credit for training subsequently increased to 35%. The main target group is smaller firms who can both improve their training for new workers and retrain their least qualified workers. Similarly, Spain introduced FIPlan, a national vocational training scheme paid for with levies on employers, in 1986.

Approaches to learning are also changing. Whereas traditional training methods tended to consist of either classroom-style passive

learning or on-the-job apprenticeships, now more programmes bring together both.

Greater differentiation is made between systems for "normal" youths and for the disadvantaged. The revised Dutch and French apprenticeship systems are similar to those of the German dual system. Other approaches towards disadvantaged youths such as the Irish Youthreach or the Spanish Escuela Taller (workshop-schools) place great emphasis on teaching basic numeracy and literacy, as well as work skills.

Programmes for the long-term unemployed are moving away from "make work" schemes to providing real training opportunities while working. Formal classroom training has been reduced to a minimum in the mainstream programmes for the long term unemployed in most Member States: the Danish "job offers" approach, the French TUCs, the German ABM and the UK Enterprise Programme.

## **Adaptability and Self-Reliance**

An almost universal feature of manpower measures have been moves towards schemes which prepare or encourage the unemployed to return to the market.

Since the mid-1980s, considerable efforts have been made to integrate young people, and to a lesser extent older long-term unemployed, into working life. One particular approach has been the use of flexible contracts, for example, fixed term employment or employment-training contracts, generally up to 3 years. Although governments provide financial incentives to employers for hiring people on open-

ended contracts at the end of their three-year stint, the side-effects of this approach have sometimes caused controversy because the resulting job creation may be at the cost of making employment more precarious. In some countries legislation, or simply prevailing practice, has enabled a plethora of contractual arrangements to be established (such as “zero hours contract” or “on call” employment contracts in the Netherlands).

The success of schemes offering inducements to the unemployed to set up their own businesses seems to depend largely on what they receive in the way of support. The UK “Enterprise Allowance Scheme”, which gives grants, currently provides nearly 200,000 places annually, whereas the loans scheme in Belgium accommodates only 5,000.

The trend to self-help has extended to those seeking training and careers advice from the Employment Services offices - self-service systems now exist in the Federal Republic, the Netherlands and the U.K.

## Reducing Working Time

Policies which seek to restrict working time in order to boost job creation are less favoured now than in the past but still used in some Member States: for example, the Belgian government has continued to provide inducements to companies to reduce working time, rather than increasing wages; in the Netherlands, too, reducing working time is still considered an important method of stimulating employment. In countries such as the Federal Republic and Denmark, this is still considered a question for collective bargaining.

Although much of the recent employment creation in several Member States has been in the form of part-time work, little of the effort by governments has been aimed at specifically creating part-time jobs. Temporary work, on the other hand, has sometimes been used as a means of initially integrating the disadvantaged into working life. In the Netherlands, START, the special agency established by the government in 1977 for the disabled, has become a cost-covering organisation with 750 staff. In other Member States, temporary work tends to be in the form of short term unskilled work.

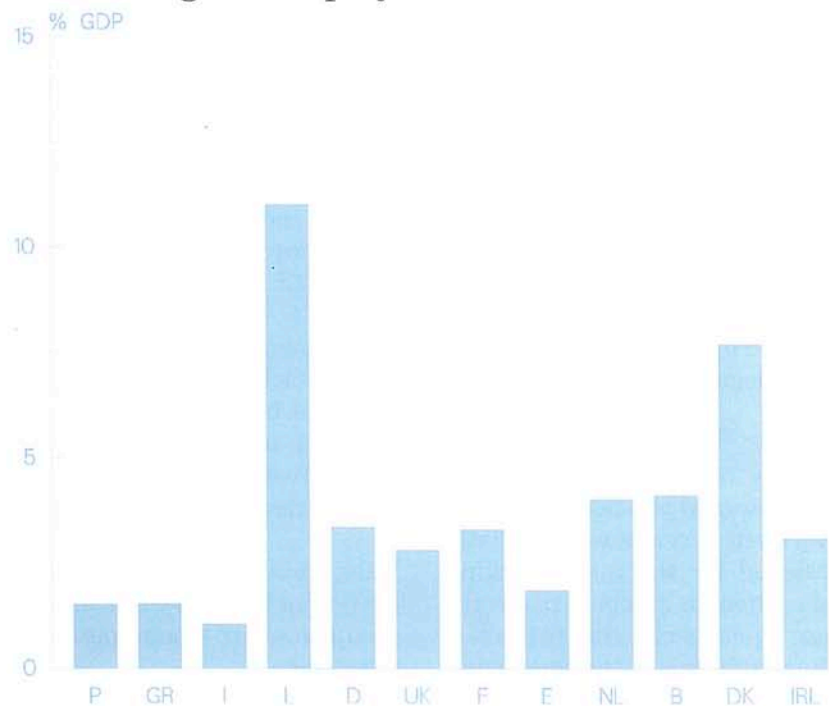
## Tightening the Rules on Benefit Eligibility

The right of the jobless to reject work offers because they do not suit

their training or previous occupational background has become more restricted. In the UK, for example, encouragements for the jobless to take work which may pay less than previous jobs have been increased. Now the jobless are closely monitored and required to demonstrate that they have been active in searching for reasonable employment. Like their counterparts in France and Spain, the jobless increasingly face the likelihood of being struck off the unemployment register for failing to meet eligibility conditions.

As well as making it more difficult to register as unemployed, governments have increased checks on whether the unemployed are doing jobs “on the side”. However, the actual registration procedures are being eased. Registering as unemployed is no longer required in the

**110 Labour Market Expenditure in Relation to GDP if each Member State had Community Average Unemployment 1987**



UK. The Belgian government is gradually dismantling its system of daily registration for the unemployed with various groups of young and older unemployed no longer having to register daily. Instead, it is seeking to control illegal work, especially in the building and other casual work sectors, through the introduction of social security cards. The German authorities, too, are focusing on certain industries such as building and hotels. In the UK special inspectors have been created.

### **The New “Social Purpose” of Employment Services**

Changes in labour market policy are reflected in the continuing reviews of the role and function of public employment services being undertaken in many Member States. The range of services offered by governments varies widely between countries. There is no obvious trend except that most public employment services increasingly focus on the disadvantaged.

This emphasis arises partly because the traditional focus of these services has been on finding employment for job seekers rather than on assisting employers to fill jobs. The growth of private sector employment agencies has been stimulated by this narrow focus and has filled gaps left by the public services.

This shift needs to be seen in a longer historical perspective. Public employment services were initially established for the mass working classes when, in an effort to ensure greater equality of access to the few jobs available during the depression of the 1920s and 1930s, the public

services were given monopoly rights. These continued into the postwar period, but have since gradually been ignored or eroded.

At times the public services have sought to compete with the emerging private sector, but their market share of total placements at most reaches 20 or 30% and is usually barely into double figures. The public employment services with the largest “market shares” are in the Federal Republic and the U.K.; next comes Spain with one fifth of all placements and then France (one sixth), The Netherlands (one tenth) and down to Ireland with very few placements.

With the disadvantaged constituting the main client group of all the public employment services, the activities to help them are increasingly similar between Member States: “friendly” interviews (at regular intervals - every three months) followed by programmes tailored for the individual such as: joining job-clubs to encourage and help them look for work; training; and joining “make-work Community programmes” to maintain or regain the discipline of working life.

Collaboration between voluntary bodies and government, with the latter providing the finance, have developed in some Member States, especially in urban areas of high unemployment. In the Federal Republic, such action programmes are not used but areas of higher than average unemployment may be given favourable treatment in special job creation projects.

Italy, Ireland and Spain maintain a particular focus on youth as a target group in their labour market programmes.

### **Organisational Changes in Employment Services**

Many countries have two tier systems with Employment Ministries - which develop policy - and Employment Agencies - which implement it. Such role distinctions are not always so clear in practice.

Changes are under way. The Dutch Ministry of Social Affairs and Employment is turning its Manpower Directorate into a separate Agency, with its own budget, a tripartite governing body and with strong input from the regions. The British government, on the other hand, has just recentralised the system, bringing both employment and training measures back into the ministry from the Manpower Services Commission. However, it is also stressing the need for more influence at the regional and local levels by employers and trade unions.

In Belgium regionalisation has decentralised responsibility in this field. In the Federal Republic, the Lander have always undertaken many initiatives, and in the Netherlands, the local employment offices work closely with municipal authorities. There is a move to streamline services in Spain with greater government involvement and in Denmark the placement and training services are being brought into a single directorate.

There is a recognition of the importance of better information about local labour market trends. Portugal and Italy have developed labour market “observatories” at local level to detect emerging training needs and avoid skill shortages.

## THE MISEP SYSTEM

Coordination of employment policies at the Community level is backed up by a regular exchange of information on national developments through the "Mutual Information System on Employment Policies" (MISEP).

### Aims

The overall aim of the system is to gather, synthesize, translate and disseminate information from the Member States which can serve each of the national ministries responsible for employment measures in their daily decision-making.

The system functions in three ways :

- by regularly collecting and disseminating information provided by Member States;
- by acting as a clearing house for multilateral questions and answers;
- by storing the information and providing a base for research and enquiries.

### Operation

It consists of a group of national representatives ("correspondents") who meet and exchange information directly. They hold positions at the operational level within their respective national administrations responsible for employment. They are appointed to participate in the system by, and act under the responsibility of, their national administration.

### Basic Information Reports

Comparable information on labour market operations and policies from Community Member States is published regularly. These reports cover the following areas :

- Official institutions : ministries, employment services, training agencies, etc.
- Legal framework and procedures : the legal system governing work and employment; main labour legislation; labour market institutions and processes; allowances for the unemployed; and matching labour supply and demand.
- Employment measures, categorised as overall measures, employment maintenance, aids to the unemployed, training, retraining and occupational mobility, job creation, special categories of workers, working time and placement. For each measure, standard information is given on its aim, legal basis, contents and effects.
- Information and research.

### InforMISEP

Since 1983 a quarterly bulletin has been produced on the latest developments in employment policy. Published in English, French and German InforMISEP presents information on changing measures and systems in Member States. The information serves to regularly update the basic information reports.

### Access

Information available within the system has been computerised and the data base has been transferred to the Commission's host organisation ECHO. It is publicly available through Euronet-Diane.

### Future Strategy

During the five years of its existence, MISEP has enabled those directly involved to benefit from enhanced information flows. With the political recognition of its importance, the products arising from the information will in the future be designed to meet the needs of its users.

Computerisation is being introduced universally and there is a strong desire by national agencies to learn from the experience of other Member States and to develop compatible systems.

The relationship between public and private services is changing. Even in Member States where private services are, in theory, illegal there is increasing contact and co-operation between the public authorities and the private sector. The German public employment service is allowing its professional services to be by-passed by the new "SIS" approach which involves direct contact between job seekers and employers. In Greece, a new three tier system is being introduced in an effort to reach the private sector. The UK government is pursuing a policy of privatising parts of the public service which it considers should be run commercially.

The involvement of the private sector raises other organisational questions - should unemployment benefits be paid by employment offices or should the job finding and benefit functions be separate?

The purpose of the benefit system is increasingly being reviewed. Is its aim to replace earned income or merely to tide people over for short periods? Issues of 'poverty gaps' have also re-emerged.



## Chapter 16 Community Policies

*The completion of the Internal Market gives a new profile and impetus to Community actions to promote employment. However, the main building blocks have been in place for a long time.*

The achievement of high levels of employment with good quality jobs is a central objective of the European Community and an ultimate measure of its success. This task is not a simple one, however, and is pursued in practice through a wide variety of policies and actions which extend across the economic and social domain, and which need to be balanced and developed in the pursuit of an efficient and equitable Community.

The cornerstones of the Community's actions to support employment are:

- the completion of the Internal Market supported by the economic policies contained in the Co-operative Growth Strategy;
- taking account of the Social Dimension of the Internal Market;
- actions to support the catching up process of the less favoured countries and regions through the Structural Funds;
- specific employment policy actions and guidelines;
- policies, actions and co-operation with regard to vocational education and training;

- the Social Dialogue at Community level.

To benefit fully from these policies the co-ordination of national and Community policies will have to be improved and strengthened to arrive at a better convergence of economic performance across the Community which will allow the progressive realisation of the Economic and Monetary Union.

### **The Completion of the Internal Market and Supporting Economic Policies**

The completion of the Internal Market will generate substantial productivity gains and invigorate the Community economies. Translating these productivity gains and the new dynamism into greater prosperity and higher employment requires the right macroeconomic environment and appropriate policies. Any job losses wrought by the structural changes can be more than offset by net new job creation if appropriate economic policies are followed.

In the medium term the completion of the Internal Market should result in a higher level of GDP and employ-

ment with lower inflation. However, the room for manoeuvre created by the Internal Market needs to be accompanied by increased economic growth in order to achieve higher employment levels. If this is done, improved macroeconomic conditions for growth and the completion of the Internal Market will reinforce one another.

The Community's blueprint for economic policy - the Co-operative Growth Strategy for more employment - has been set out in recent Annual Economic Reports. Implemented in full, the strategy will enable the Community to provide an economic environment for sustainable non-inflationary high growth rates. The aim is to combine moderate growth of real wages per head with an appropriate increase in demand. Improved profitability and the prospects of sustained demand will thus boost employment, create investment and slow down the rate of substitution of labour by capital.

This policy needs to be accompanied by efforts to improve the adaptability of markets in goods, services, labour and capital. The success of this strategy requires a considerable contribution from governments and the social partners. The basic guidelines of the strategy have at-

tracted the support of Member States governments as well as of the Community's institutions and the social partners within the framework of the Community's Social Dialogue.

## The Social Dimension

The Community is a political and social, as well as an economic entity. It is thus natural that such a fundamental and far reaching step as the completion of the Internal Market should contain a social dimension. The Community works to the benefit of all and the advantages that will undoubtedly accrue to industry through the removal of barriers must also be matched by developments which ensure that the benefits are widely spread.

In one sense, the Social Dimension can be seen as encompassing all the various dimensions of employment and social policies which are described in later sections of this chapter - including such basic elements as the freedom of movement, equality of opportunity or the deployment of the Community's Structural Funds.

However, the completion of the Internal Market presents new challenges and opportunities which, in many ways, transcend and extend the scope of these various actions. The Commission sees a need for a new, wider declaration and commitment to the basic principles of social justice and opportunity as the Community moves into this new stage of development. Thus, taking into account the February 1989 Opinion of the Economic and Social Committee as well as the Resolution passed in March 1989 by the European Parliament on the Social Dimension of the Internal Market, the Commission has presented in May 1989

the preliminary draft of a Social Charter which is seen as both a declaration of intent on the part of Member State governments, and a basis for the future development of policy initiatives and commitments at all levels in the employment and social field.

The Community is also an environmental entity, with a commitment in the Single European Act to the achievement of the Internal Market with a high level of environmental protection, which can also contribute to achieving sustainable economic and employment growth.

## Community Support for Countries and Regions

The improvement in the economic and social situation of the less developed parts of the Community has been a primary objective since the Community's inception when some of the Community Structural Funds were created. The European Social Fund and the Guidance Section of the European Agricultural Guarantee and Guidance Fund (EAGGF) started in 1960 and 1962 respectively. The European Regional Fund was added after the first enlargement of the Community in 1975.

There have been two major recent developments: the vastly increased scale of the Funds and the moves to improve the co-ordination of the Funds and to concentrate their impact. These two developments came together with the major reform of the Funds agreed in 1988 and now being implemented.

The European Council meeting in February 1988 decided to double the budgetary commitments of the Structural Funds between 1987 and

1993. A parallel increase in the Community's borrowing and lending instruments is also desired.

The importance of these commitments to the catching-up process can be shown by the fact that the Community's contribution could represent 4-5% or even more of GDP in Greece, Portugal and Ireland. In Spain and Italy it will represent a smaller percentage of national GDP, but in the poorer regions in which its impact is concentrated, it will represent a similar percentage of GDP.

A Community-wide dynamic macro-economic environment is essential for the acceleration of the catching-up process. However, the countries which will benefit from Structural Fund support will need to pursue the policies set out in the guidelines of the Co-operative Growth Strategy so that they can achieve employment-creating growth above the Community average.

The new Regulation concerning the reformed Structural Funds sets out five priority objectives:

- promotion of the development and structural adjustment of the regions whose development is lagging behind (Objective 1);
- converting the regions, frontier regions or parts of regions (including areas and urban communities) seriously affected by industrial decline (Objective 2);
- combatting long-term unemployment (Objective 3);
- facilitating the occupational integration of young people (Objective 4);

- in the context of the reform of the Common Agricultural Policy, speeding up the adjustment of agricultural structures (Objective 5a) and promoting the development of rural areas (Objective 5b).

The European Regional Development Fund (ERDF) is concentrating its support on Objectives 1, 2 and 5(b) with the aim of stimulating productive investment, creating or modernising infrastructures and supporting development schemes. Objective 1 areas will receive up to 80% of ERDF financial support.

The European Social Fund (ESF) is providing assistance to:

- combat long-term unemployment and facilitate the occupational integration of young people, under Objectives 3 and 4;
- promote stability of employment and develop new employment opportunities for people threatened with redundancy or already unemployed in accordance with the rules of eligibility and in interaction with the other funds, under Objectives 1, 2 and 5(b).

For the first of these aims, the ESF will provide backing for employment policies by Member States aimed at the long-term unemployed and young people. In the second area of its operation, the ESF can intervene on a wider scale, especially in the less developed regions, to help groups of people who contribute to the economic development of the regions and areas concerned (see Box in Chapter 9).

The guidance section of the Agricultural Fund has contributed to the adjustment of agricultural struc-

tures throughout the Community in view of the reform of the Common Agricultural Policy. With the other funds, it has supported the development and structural adjustment of the less developed regions of the Community as well as rural development in other selected rural areas. These actions are designed not only to assist people employed in agriculture by modernising farming and supporting agricultural incomes but also, by encouraging non-agricultural activities on farms, to maintain viable communities in rural areas by means of rural development measures including forestry.

These programmes and actions are carried out in co-operation with the Member States. Their role is not to replace Member States' own actions but to provide backing or encouragement for the implementation of policies designed to promote employment. Community policy does, however, seek to achieve greater convergence between the strategies implemented in the Member States, particularly in relation to Objectives 3 and 4 of the Structural Funds set out above.

## Specific Employment Actions and Guidelines

A distinction is commonly drawn between macro-economic policies - which affect the overall level of employment - and specific employment policies - which affect the structure or distribution of that employment. In practice, there is a great deal of inter-action between the two and contrast between supply-side and demand-side policies are now seen as an exaggerated dichotomy between essentially interdependent actions. For example, an increase in

the availability of skilled labour by the provision of training can encourage firms to recruit, expand and seek market opportunities just as much as improved order books.

For other actions, the dynamic, longer-run effects may be different from the more immediate effects. Employment protection measures, for example, which may be seen by some employers as factors discouraging them from recruiting workers in the short-run, can serve to raise the quality of labour, improve working practices, improve productivity and ultimately increase employment in the longer run.

Equally, legislation on equal opportunities which might have been seen as dampening some employers' enthusiasm for recruiting more women into their labour force, has, in practice encouraged women to participate more fully in the labour market, which has in turn created a new source of labour from which firms can recruit.

The pursuit of employment objectives at Community level through specific policies has taken a variety of forms:

- Community legislation, generally in the form of directives;
- policy guidelines, normally contained in communications from the Commission to the Council;
- direct actions through programmes;
- co-operation between Member States;
- information and information exchange systems.

## Community Legislation

Legislation is important in relation to certain aspects of employment policies covered by the Treaty. The principle areas concern the free movement of people, the assurance of equal opportunities between men and women, health and safety at work, and some aspects of contractual employment relationships.

Free movement is enshrined in the Treaty but has required a considerable volume of legislation in order to be implemented in practice. At the moment, the freedom of movement of workers and members of their

families is guaranteed, but there are a number of loopholes and a thorough updating of the basic instruments is under way. Freedom of movement for self-employed workers needs to enshrine the right to provide services as well as the right of abode. It is essential to establish a general system for the recognition of diplomas and a greater degree of conformity between Community law and national instruments and practices.

The Council is currently considering a series of proposals which focus on these aims.

Equal pay between men and women is embodied in Article 119 of the EEC Treaty. Equality of opportunity is provided for in five directives, based on Articles 100 and 235 of the EEC Treaty, enacted between 1975 and 1986. Together these guarantee women equal treatment in pay, employment, and social security. While this legislation represents a major step forward, the volume of legal cases that arise each year, together with the evidence on income differences between men and women, clearly indicates that Community legislation has yet to be effectively implemented at national level and that accompanying concrete actions which address the root of the segregated labour market need to be continued and extended.

Labour law is also an area that has been the subject of Community legislation. The directive on collective redundancies, passed in 1975, has been an important instrument in assuring Community-wide protection for workers in the case of mass dismissals.

The Commission has subsequently sought to extend social legislation with proposals for directives on part-time work and temporary work and on the information and consultation of workers in the case of trans-national takeovers.

While the majority of the Member States now have national legislation at least up to the level which the Community was proposing, these proposals have not been adopted. The development of the Internal Market and the Social Dimension has revived these issues, particularly with the worries over social dumping. The Community is proposing that certain social clauses be included in the European Companies Statute and is also con-

### A Common Employment Policy in the Community

Regular surveys of European opinion are organised by Eurobarometer. The December 1988 Report included a question about employment policy in the Community.

The question "are you for or against creating between the 12 countries of the European Community by 1992 a common economic and social policy, particularly in the area of employment" produced the replies 79% for, 9% against and 12% don't know for the Community as a whole. The breakdown by country was as follows:

	For	Against	Don't know
B	81	10	9
DK	41	36	23
D	77	13	10
GR	69	9	22
E	78	4	18
F	85	7	8
IRL	85	3	12
I	92	1	7
L	83	7	10
NL	78	8	14
P	70	3	27
UK	70	10	20
EC	79	9	12

sidering within the framework of the Social Charter how it will make proposals for ensuring a minimum protection for the growing number of workers who fall within the definition of 'non-standard' work, mainly temporary or part-time.

## Community Policy Guidelines

Since 1975, the European Commission has produced some 20 policy communications to the Council concerning the problems of employment and unemployment, including the specific difficulties of young people, the long-term unemployed and women in the labour market.

The pattern has been for the Commission to prepare analyses and policy recommendations in the form of communications and for the Council of Ministers to respond with resolutions or conclusions setting out its political commitment to develop overall policy frameworks and undertake specific actions. While Council of Ministers resolutions are not legally binding, they represent a useful orientation for the Community. Hence the Commission will continue to present its analyses and policy recommendations both in the context of the Employment Report or in communications on specific topics.

## Action Programmes

Over the past decade or more, the Commission and the Member States have drawn considerable benefit from undertaking Community-wide programmes which concentrate on innovative aspects of policy with regard to specific issues of concern - whether this be disability, poverty, local development, youth training and so on. These pro-

grammes generally involve a combination of actions - most commonly demonstration projects - combined with exchange visits, evaluations, conferences, seminars, and publications. These actions serve to bring people and experiences face to face across the Community, and to provide a body of research which can be used for analysis.

This work has generally been financed by budgets in addition to those made available to the Structural Funds, and has been actively supported by the European Parliament. A range of programmes has been developed, some of which are concerned directly with employment - the local employment development programme LEDA (see Chapter 13), the action programme against long-term unemployment ERGO (see Chapter 10) - others which concentrate on training and education - such as EuroTecNet, COMETT, ERASMUS, etc. (see Chapter 9) - and some which focus on other issues but which are linked to employment or unemployment concerns, such as the Poverty programme. The Commission is also proposing, with the support of the European Parliament and the Economic and Social Committee, a demonstration programme of projects illustrating how actions in the environmental field can also contribute to employment creation. These programmes offer a rich source of information on a wide range of experiences which are almost invariably considered to be valuable and positive by those who participate in them. At the same time the results from the programmes contribute to developing both national and Community policies by drawing on the different national experiences and by building more harmonious Community approaches where appropriate.

## Co-operation between the Member States

The Commission services hold regular meetings with the Director-Generals of Employment of the Member States - involving participants from the Employment Ministries and the Employment Agencies - and the Director-Generals responsible for Vocational Training. This is in addition to the work of the Tripartite Consultative Committees on Vocational Training and on the Free Movement of Labour.

These meetings provide a forum for policy discussion and the exchange of information. They are supported by other actions - for example, the exchange programme for officials of the placement services of the Employment Ministries and Agencies and the similar programmes which exist in the field of education and training.

## Information Exchange

The transfer of information between Member States about successful national practices with the potential of being adopted elsewhere and which can be supported by Community information co-ordination, is one of the more basic activities of the Commission.

Information exchange systems at Community level include MISEP, ELISE, EURYDICE, and SEDOC.

MISEP is an information network on national labour market measures. It publishes a quarterly report on the recent measures adopted in each of the Member States and a basic information report on the employment and labour market structures in each Member State. The information is available in report form but it is also ac-

cessible through the ECHO computerised database (see Chapter 15).

ELISE was established by the Commission to promote local employment development and initiatives, and one of its major tasks is to promote information exchange. ELISE has an extensive database and documentation system available both on paper and, increasingly, through a network of computer links.

EURYDICE develops information on the education systems of the Member States and on Community activities in the field of education. It provides a database, a question and answer system, and it disseminates its information through brochures and comparative analyses.

The SEDOC job vacancy information system links national employment agencies so as to ensure a European-wide exchange of information on unfilled vacancies. Its procedures are being modernised in the run-up to 1992, exploiting the possibilities of computer-based data inter-change systems in order to be able to provide easily accessible, Community-wide information on job opportunities and other relevant information about living and working conditions.

CEDEFOP, the European Centre for the Development of Vocational Training, based in Berlin, was set up in 1975. Its aim is to encourage the promotion and development of vocational training and in-service training at Community level through the exchange of information and experience.

The European Foundation for Living and Working Conditions, based in Dublin, undertakes research and analysis into employment-related issues, as part of its programme of

work, including the problems of long-term unemployment and issues concerning the development of local communities.

## **Policies and Actions to Develop Vocational Education and Training**

Technological change, demographic change and the completion of the Internal Market all increase the pressures on national education and training authorities to ensure that the skills of tomorrow's workforce match the needs.

The implications are far reaching and include the need for greater emphasis on forecasting future skill needs, more effective human resource development, an increase in the volume of education and training at all levels, greater continuity between compulsory schooling, initial and continuing training and better links between enterprises, education, research bodies and local communities in strengthening the investment in education and training.

The core of the Community's effort in the field of vocational training is the pursuit of its responsibilities under the Treaty of Rome (Article 128) to 'lay down general principles for the implementation of a common training policy'. This is in parallel to the promotion of higher standards of training, integral with the priority objectives of the Structural Funds.

Co-operation in the training and educational fields at Community level now has to move up a gear in the period up to 1992 to permit a new phase of development, building

on the co-operation already established.

The Commission is committed to raising the level of training standards, particularly through continuing training and the occupational integration of young people.

Respect for diversity and clarity about the respective roles of the Member States and the Commission are uppermost in Community concerns. It is vital to preserve and respect the rich diversity of systems and practices in the Community and to draw the best from this common heritage in promoting higher standards for the future. It is important to identify clearly those responsibilities and measures to be pursued by or within Member States and those which can be implemented by the Commission itself.

The main objectives in this next phase are seen to be to:

- develop a Europe of quality, in which the skills, creativity and dynamism of people are encouraged through a commitment to life-long learning while developing, at appropriate levels, initial as well as continuing training;
- devise arrangements whereby educational and training reforms and restructuring within Member States can be designed in full awareness of the experience of other Member States;
- make further progress towards the mutual recognition of higher education diplomas, vocational training and qualifications.

A wide range of actions have been developed to support the promotion

of the above objectives - see Box in Chapter 9. In addition, new emphasis is being given to human resource development within industry, paying particular attention to the problems of ensuring an adequate supply of scientists and technicians to meet the needs of industry, including SMEs, and to the mobility of persons and ideas, the exchange of experiences and information on the different systems and the conduct of joint projects.

## **Social Dialogue**

The European Community has always placed stress on the co-operation of the social partners in developing economic and employment policy both through the consultative Economic and Social Committee and through meetings between the social partners and relevant ministers from national governments.

In the 1980s, the Standing Committee on Employment - which includes the employment ministers and the social partners - has played a major role in dealing with employment issues at its twice a year meetings. In addition, since 1985, a new Social Dialogue has been initiated at Community level which brings together the two sides of industry to discuss issues of common concern and relevance. This dialogue has produced opinions on the impact of new technology on employment and on vocational training.

This year the Dialogue has been renewed with a stronger support structure to enable longer term work to be developed. Working groups have been established on the development of the European labour market and on education and training, and their opinions will be produced on these issues by the autumn.





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## Sources and Methodology

The principal source of the historical data regarding the European Community used in this Report is the Statistical Office of the European Communities (Eurostat). Some additional material has been supplied by other Commission services. Chapter 3 makes extensive use of United Nations data and International Labour Organisation estimates. Sources used for the individual maps and graphs are set out below. The short-term forecasts have been prepared by the Directorate-General for Economic and Financial Affairs on the same basis as those presented in the Annual Economic Report.

It is the Commission's intention that the data used in the preparation of "Employment in Europe" be made available in electronic form.

### Sources of Graphs and Maps

#### Eurostat

Community Labour Force Survey (LFS) and derived data: Graphs 2, 4, 5, 6, 8, 12, 14, 15, 16, 45, 54, 60, 61, 62, 63, 64, 65, 68, 69, 70, 71, 73, 74, 75, 76, 77, 84, 85, 86, 91, 92, 95, 96, 98, 107, 108.

Population, Labour Force and Employment Statistics: Graphs 1, 6, 8, 10, 13, 17, 72, 79, 80, 81, 82, 83.

Regional Statistics: Graphs 18, 19, 20, 21, 22, 23, 24, 25, 78, 93, 94, 97, 99, 106.

Industry Statistics: Graph 58; Boxes pp 62-65.

#### Commission services

DGII - Economic and Financial Affairs: Graphs 3, 7, 9, 26, 27, 28, 29, 30, 31, 40, 41, 42, 43, 44, 46, 47, 48, 49, 50, 51, 52, 53, 55, 57.

DGV - Employment, Industrial Relations and Social Affairs: Graphs 87, 88, 89, 90; Unemployment Benefits and Replacement Ratios, DGV/B Graphs: 100, 101.

United Nations: Graphs 32, 33, 34, 35, 36, 37, 38, 39.

#### Other Material

Statistics and other quantitative estimates other than the above which have been used in certain chapters have generally been drawn from studies undertaken on behalf of the Commission. The following are the most important sources used:

Chapter 5: Studies on the Cost of Non-Europe Graph 55, Boxes p.61; Panorama of EC Industry (Graphs 103, 104); Europe in 1993, Economic Outlook by Sector (Graph 56); The Sectoral Impact of the Internal Market (DGII); Employment Structures and Trends in Telecommunications.

Chapter 6: Studies on: "New Forms and New Areas of Employment Growth"; "The Changing Nature of Employment"; "Job Creation in Small and Medium-sized Enterprises" (Graphs 11, 66, 67).

Chapter 10: Analyses and studies conducted within the framework of the Poverty Programme and by the European Foundation for Living and Working Conditions.

Chapter 11: Reports from a study group on "The Underground Economy and Irregular Forms of Employment in Europe" (Map 102)

Chapter 15: Misep Reports Graphs 109, 110

## Notes

Except where otherwise stated, all Community graphs are EUR-12

Graph 34: GDP per capita in current 1988 purchasing power standards

Graphs 38 and 39: exports.

Graph 96: height of bar = unemployment rate as % of labour force

within bar = share of different age groups in total unemployment.

Map 106: inter-regional migration within Member States as % of the population of the region.

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European Communities – Commission

## **Employment in Europe - 1989**

Luxembourg: Office for Official Publications of the European Communities

1989 – 176 p. - 21.0 x 29.7 cm

DE, EN, FR

ISBN 92-825-9769-5

Catalogue number: CE-55-89-366-EN-C

Price (excluding VAT) in Luxembourg: ECU 11.25

The 1989 Employment in Europe Report is the first of a series which will be produced annually. It aims to reach a broad readership within the Member States, covering business, trade unions and interest groups as well as governments. It covers a wide range of issues in the employment field, considering the Community as a 'heterogeneous whole', placing the Community into its world context and discussing the policy implications of the analysis.

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Price (excluding VAT) in Luxembourg: ECU 11.25



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