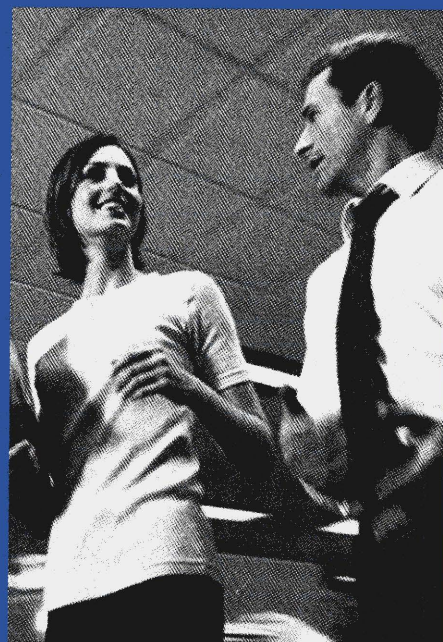


European Employment Observatory

Review : Spring 2002



Employment & social affairs



European Commission

This publication replaces the MISEP "Policies" and SYSDM "Trends" reports previously published by the European Employment Observatory. Policies contributions are compiled on the basis of information provided by national correspondents, through the MISEP network. Trends articles provide a comparative and in-depth overview of selected policies and developments in the labour markets of the Member States on the basis of articles provided by the SYSDM correspondents. Signed articles are the sole responsibility of the author(s).

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Overall Developments

Austria

RESULTS OF THE CENTRALISED EVALUATION OF THE IMPLEMENTATION OF THE NATIONAL ACTION PLAN (NAP) FOR EMPLOYMENT IN AUSTRIA IN THE PERIOD 1998 TO 2002

Since the launch of the "Luxembourg Process" at the employment summit in November 1997, the European Employment Strategy on Common Objectives has been developed on the basis of the principles set out in the employment title of the EU Treaty.

At the Lisbon summit (March 2000), the process was generally judged a success. The Council of Europe underlined the need to carry out a comprehensive verification of the results by the year 2002 and each member state was invited to carry out a study.

The Austrian report concluding this study was drawn up on the basis of a research report prepared by Synthesis Forschung Ges.m.b.H. entitled "Effects of the implementation of the European Employment Strategy in Austria 1998 to 2002".

NATIONAL ACTION PLAN MEASURES PROMOTE EMPLOYMENT GROWTH

In Austria, the general growth in the economy has been accompanied by a clear increase in employment.

As regards real economic growth, the measures implemented in two areas are to be highlighted: these are, firstly, the training activities carried out by AMS Austria within the frame-

work of Pillar I (employability) and secondly the promotion of new company start-ups within the framework of Pillar II (enterprise and the creation of new jobs):

- Without the training of unemployed people in sectors in which businesses have faced staff shortages, real GDP growth (per annum) would have been 0.32% lower.
- Without the acceleration in the annual business start-up rate clearly triggered by NAP measures, real GDP growth would have been 0.23% slower.

Thus the NAP measures have made a contribution of some 0.55 percentage points to **the annual growth in real GDP of 2.34%**.

Without these measures almost no **additional volume of work** would have been created during the period 1998-2002.

NAP measures also had a positive effect on hourly productivity (output per hour worked) which generates real GDP. Without the "training campaigns" launched within the framework of the Austrian National Action Plan, the annual increase in hourly productivity would have been 0.08 percentage points lower, i.e. approx. 1.75% rather than 1.83%.

Thanks to the growth in GDP (accompanied by an increase in hourly productivity) it was possible to achieve an increase in the (demand for) volume of work per year for the period 1998-2002 by, on average, some 0.51% (+ **30.2 million hours**).

It was possible to provide this additional demand for volume of work on the supply side only because businesses and employees were prepared to accept increased flexibility in their working practices in line with the objectives set out in Pillar III

(adaptability).

During the economic cycle from 1997 to 2002, the Austrian economy succeeded in **generating an additional 92,900 jobs**.

The National Action Plan for Employment which has been redefined on an annual basis played an important part in these developments.

An overall analysis of the first five years of the "National Action Plan" 1998 -2002 reveals the following results:

- Intensive promotion of new business start-ups created an additional 7,000 jobs year on year.
- Thanks to targeted training measures for the unemployed it is possible to fill 6,550 vacancies per year in companies which are faced with a shortage of skilled labour.
- Training measures and employment support secure the integration into the labour market of 74,000 of the previously unemployed per year.
- Unemployment levels remained almost unchanged (over the five years), because the level of activity provided by AMS Austria was only just sufficient to counteract increasing unemployment levels (related to the freeing-up of the employment system) through ongoing pro-active measures (to reintegrate the unemployed into the labour market).
- Continuous integration ensures that each year some 12,200 individuals are able to embark on a working career.
- Pro-active measures implemented by AMS Austria in the form of more intensive training initiatives, and financial employment

Overall Developments

- incentives for the unemployed, are successful in: relieving bottlenecks in company recruitment, and the continuous reintegration of the unemployed into the labour market
- Each year it was possible to fill 6,550 vacancies in businesses facing staff shortages thanks to the targeted training of the unemployed.
- Each year training and employment promotion measures ensured the integration into the labour market of 74,000 workers threatened with unemployment.

- The training and employment promotion measures implemented by AMS Austria led to a systematic and lasting fall in long-term unemployment.
- Some progress was made in bringing the working careers of women more closely into line with those of men. However, the mix of measures was unable to close the widening gap between men's and women's earnings.

Other results of the study:

- The measures increased both the level of economic performance

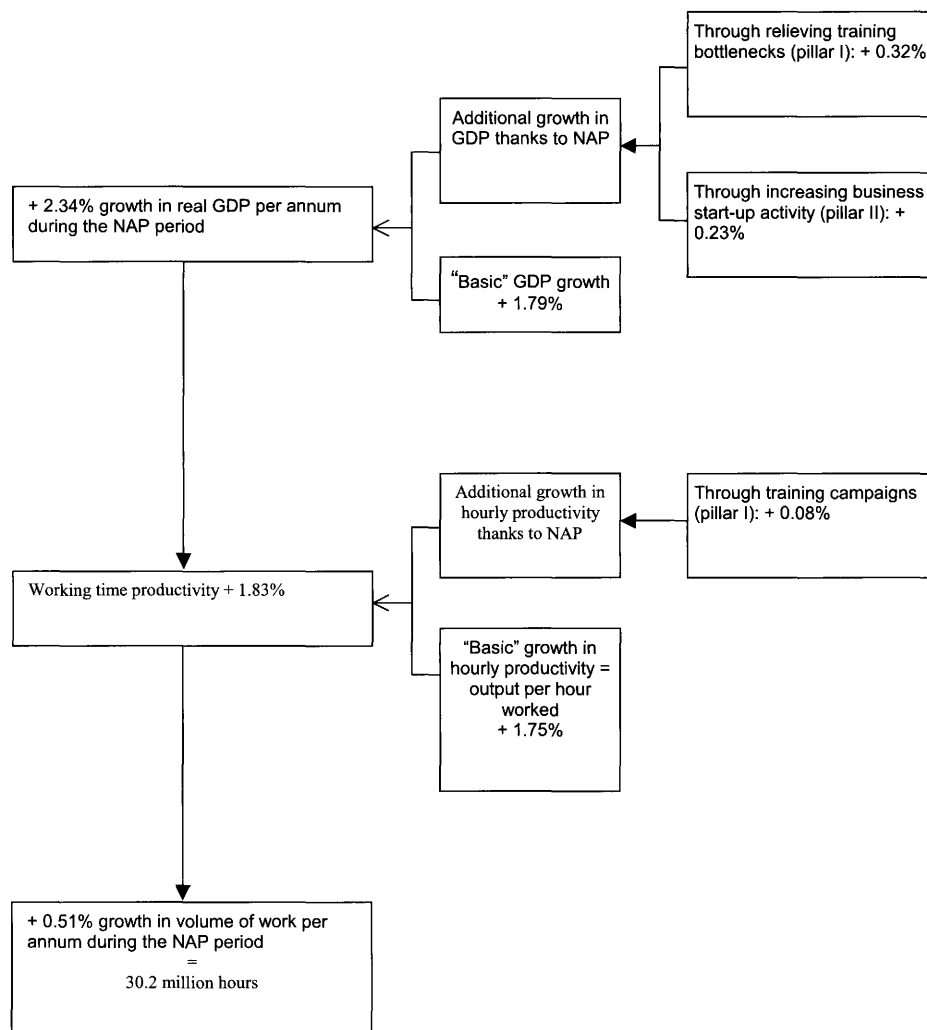
achieved in Austria (0.5% of GDP p.a.)

- and the annual earned income of unemployed people taking part in training initiatives (up \square 2,720).

It has been shown that women are better able to utilise the measures and programmes of the National Action Plan to find work than men.

The effect of NAP measures on growth, productivity and volume of work

Effective period 1998-2002; all values standardised as annual values



Key: At average labour productivity levels the relief of training bottlenecks (approx. 6,500 and 3,300 additional jobs) contributed 0.32% to the growth in GDP. Similarly, the increase in business start-up activity (7,000 jobs) made a contribution of 0.23%. Training campaigns - in IT and other skills - resulted in an increase in working time productivity (of approx. 0.08%). A growth of 0.51% in the volume of work combined with a growth in GDP of 2.34% resulted in an increased output per hour worked of 1.83%.

Overall Developments

THE AUSTRIAN FEDERAL GOVERNMENT'S ECONOMIC STIMULATION PROGRAMME

The effects of the Europe-wide downturn in the economy have been keenly felt in Austria. In order to combat the recession and rising unemployment, in 2001 the Austrian Federal Government passed a programme of economic measures.

In the spring of 2001 Parliament will pass this programme of economic stimulation and the associated expenditure totalling □ 857.54 million together with the allocation of these funds to the various areas of activity. This domestic improvement programme will include:

Measures targeting the **construction industry** intended to combat unemployment in the building sector. The experience gained from economic stimulation measures implemented in the past shows that every billion ATS invested can be expected to yield an average of 800–1000 jobs. Measures under consideration in this sector range from training initiatives (“employment foundations”) to a range of building projects.

Measures for SMEs including the launch of a business start-up campaign. The creation of a “double equity fund” is intended to double the equity available to start-up businesses through a guaranteed loan or guaranteed venture capital. This is designed to make it easier for individuals, particularly young entrepreneurs, to start up their own businesses and increase their equity capitalisation.

Increases of 20% in the annual funding of the **infrastructure** over the next 3 years.

Another focus of the programme will be **deregulation/liberalisation**, particularly in relation to the law governing entitlement to go into business (*Unternehmenszugangsrecht*) and the creation of greater flexibility in

working hours.

In the field of *the law governing entitlement to go into business*, this means the freeing-up of subsidiary rights (*Nebenrechte*) which should be structured so as to enable businesses to operate in a flexible manner without creating multiple entitlements (*Mehrfachberechtigungen*).

Efforts will be made to simplify and speed up the business registration process.

Also on the agenda for discussion is the creation of **greater flexibility in working hours** with a strong emphasis on the role of the social partners in business decision-making. The social partners were invited to submit proposals on the further deregulation of working hours, giving equal weight to the interests of employers and employees.

Within the framework of **internationalisation** (export and FDI financing), plans include the creation of modern export promotion instruments, with the aim of optimising finance guarantee opportunities for Austrian exporters and investors, in particular for prospective markets.

The following initiatives are being taken in the **labour market**:

- The economic programme passed by the Federal Government in 2001 will introduce tax measures in the form of concessions both in **research and technology development** and in **education and training** (in the form of the introduction of an additional allowance and a research/training bonus).
- In harmonising the provisions relating to continued remuneration during periods of illness and incapacity for work for manual and non-manual workers in 2000, the Federal Government took a decisive step towards creating a “**single employee status**”.
- The social partners were invited to reach agreement on periods of notice, intended to bring the

employment rights of manual workers more closely into line with those of non-manual workers, in accord with this “single employee status”. This change will be introduced in stages, geared to the needs of the individual sectors of the economy.

The **revision of the Trade Regulations** is intended to abolish the ban on carrying on both employment agency work and a temporary employment business simultaneously.

In the area of the **new regulation of private employment agencies**, attempts are being made to remove bureaucratic obstacles and duplications. In future, those working for a private employment agency will no longer be subject to a special test of suitability. However, it will continue to be the case that employment services can be provided only by those deemed to be personally or professionally suitable on the basis of their occupations. The Federal Ministry of the Economy and Employment will require those working for private employment agencies to show a level of training comparable with that of those working in AMS Austria. After a period of 3 years a comparative study of the performance of private employment agencies and AMS Austria will be carried out and detailed in a report.

The focus of discussions currently being held by experts from the social partners is the updating of the existing **provisions on the principle of reasonableness** in relation to unemployment benefit. It has already been established that there will be no change in relation to accidents at work and rehabilitation, and consequently in relation to the possible verification of the qualifying conditions for the granting of an invalidity or incapacity pension in connection with the existing occupational protection afforded by unemployment benefit.

Overall Developments

Within the framework of the current talks, the Federal government has invited the social partners to devote special attention to two areas, “objective reasonableness – occupations” and “subjective reasonableness – circumstances worthy of consideration”.

Increased efforts to provide support for those returning to the labour market will include discussions concerning the entitlement to assistance with finding part-time employment.

The **reform of AMS Austria** will concentrate on increasing efficiency in finding jobs for the unemployed.

Belgium

THE “ACTIVA” PLAN

On 1 January 2002, a new general system of the use of unemployment benefits came into force, known as the “Activa Plan”. This measure provides a means of increasing the employment rate in general and that of older workers (aged 45 and over) in particular.

The aim of the plan is to reintegrate jobseekers into the normal labour market by granting:

- partial exemption from employers’ social security contributions;
- “active” unemployment benefit (termed “employment allowance”), which the employer can

deduct from the net wage to be paid.

All employers in the private sector are eligible for this scheme. Some employers within the public services may also be considered in cases where they employ contract workers. The employees concerned must be employed on at least a half-time contract.

To be eligible for reductions in employers’ social security contributions, employees must meet the following conditions:

- if under 45 years of age, they must be registered as unemployed jobseekers at the point of recruitment, and must have been registered as unemployed and seeking work for at least 12 of the 18 calendar months preceding employment;
- if aged 45 or over, they must be registered as unemployed jobseekers at the point of recruitment and must have been registered as unemployed and seeking work for at least 6 of the 9 calendar months preceding employment.

To be eligible for employment allowance, the employee must also be fully unemployed and in receipt of benefit at the time of employment. This allowance is set at 500 euro per month for a worker employed on a full-time basis.

Denmark

INCREASED MATERNITY LEAVE

As part of its policy programme to improve conditions for families with children, the new Danish Government has tabled a bill on a reform maternity leave scheme which would make the rules more flexible. According to the bill the maternity leave period will be extended to 12 months at the full rate of benefit (corresponding to the maximum level of unemployment benefits). This is an extension of 20 weeks compared with existing rules.

From the 14th week after the birth the parents will have a right to 32 weeks leave with full benefits which they can freely divide between them. They may either take the leave together or separately.

If the parents so wish, they have a right to extend the leave period by 8 weeks so that they will instead have 40 weeks from the 14th week after the birth. However, they will only receive 32 a payment equivalent to 32 weeks full benefit.

Right to postpone part of the leave period

The parents have a statutory right to postpone between 8 and 13 weeks of the maternity leave period to a later

	Maternity leave (total)	Before birth	After birth			Childcare leave (voluntary)	
			Mother	Child < 1 year	Children > 1 year	Father	Joint leave
Existing rules	32	4	14	8-26	8-13	4	10
New maternity leave rules	52 (60) 84	4	14	0	0	2	32 (40) 64

The weeks in brackets indicate the parents' right to leave at a lower level of benefit until the child is 54 weeks old

Overall Developments

point in time. However, the leave period must be fully used before the child reaches the age of 9 years. The weeks postponed must be taken as a consecutive period of leave. If a person changes job, this right is transferred to their new employment.

According to the bill, it is also possible to conclude an agreement with the employer to postpone up to 32 weeks of the maternity leave period to a later time. The weeks postponed in this way may be taken as the parents please before the child is 9 years old (there is no obligation to take it as a consecutive period).

The new Act is expected to come into operation in April 2002. There will be special transitional rules.

Denmark

NEW RULES ON PART-TIME WORK

The legislative programme of the new Danish Government includes a so-called "freedom package" in the labour market field. The aim of this package is to introduce a higher degree of individual freedom in labour market regulation. As an element of this package the Government has tabled a proposal which will ensure that it will be possible for the individual employee to conclude an agreement with their employer concerning part-time work. According to the bill the individual employee and employer may freely agree that the employee is to work part-time, irrespective of any bans or restrictions in the right to part-time work laid down in collective agreements or other agreements, etc.

This means that the employee may only work part-time if this is agreed with the employer. The employer may thus not unilaterally

Summary of the benefits

Worker's age	Length of time on job register	Social security exemption, percentage and time-period	Employment allowance, amount and time-period
Under 45	12 out of last 18 calendar months	75%: quarters 1 to 5	None
Under 45	24 out of last 36 calendar months	50%: quarters 6 to 9	Month of recruitment and following 35 months: 500 euro if full time (pro-rata if part time)
45 and over	6 out of last 9 calendar months	75%: quarters 1 to 5 50%: quarters 6 to 21	During month of recruitment and following 11 months, 500 euro if full time (pro-rata if part time)
45 and over	12 out of last 18 calendar months	100%: quarters 1 to 5 75%: quarters 6 to 21	During month of recruitment and following 11 months, 500 euro if full time (pro-rata if part time)
45 and over	24 out of last 36 calendar months	100%: quarters 1 to 5 75% quarters 6 to 21	During month of recruitment and following 35 months, 500 euro if full time (pro-rata if part time)

require the employee to work-part time; nor has the employee a right to demand part-time work.

It will be unlawful for an employer to dismiss an employee solely on the ground that the employee has refused to work part-time or has made a request to work part-time. In the case of dismissal on these grounds, the employer may be ordered to pay compensation to the employee.

The background for the new legislation is that some collective agreements on the Danish labour market have included provisions prohibiting part-time work within certain occupational sectors.

Denmark

REORGANISATION OF THE MINISTRY FOR EMPLOYMENT

Following the General Election on 20 November 2001 the former coalition Government headed by the Social-Democratic Party was replaced by a Liberal-Conservative Government.

Following the change of government, a number of changes in the portfolios of the various ministries have taken place. Some ministries have been merged and new ministries set up. These changes have also affected the former Ministry of Labour. Its name has been changed to the Ministry for Employment.

The organisational structure of the Ministry for Employment has been

Overall Developments

changed in response to the new tasks of the Ministry as can be seen in the organisational chart below:

There have also been a number of changes in the Ministry's portfolio. For historical reasons the responsibility for measures in relation to unemployed persons had been divided between the former Ministry of Labour – which was responsible for those unemployed persons who were members of an unemployment insurance fund – and the Ministry of Social Affairs – which was responsible for activities in relation to non-insured unemployed persons.

In order to ensure a more coherent action and a higher degree of synergy the Government has decided to bring these two systems together in the new Ministry for Employment. This also means that those measures which aim at activation and labour market integration of marginalised/disadvantaged groups have now been transferred to the Ministry for Employment. This includes, for instance, activation instruments such as flex jobs, jobs on special terms etc. for persons who are not able to perform a job on ordinary contractual terms on the labour market.

The new programme in the employment and social policy field

With its election platform "GROWTH, WELFARE – RENEWAL" the Government has presented a comprehensive programme for its future policies.

Below a list is given of the most important initiatives in the social and employment policy field which the Government intends to take during the first 100 days:

Social field:

- Setting-up of a "Council for Socially Excluded Groups" which is to monitor measures in relation to the most disadvan-

tagged groups in the Danish society and to come up with proposals for improvements;

- Publication of the reform programme "A Common Responsibility" – expansion of public activities and involvement of private voluntary/benevolent organisations in social work.

Families with children:

- Tabling of a proposal concerning 12 months' flexible parental leave;
- Tabling of a proposal which give individual municipal authorities freedom to grant financial support to families who choose to take care of their own children.

The labour market:

- Tabling of proposal to ensure the right to conclude agreements concerning part-time work;
- Tabling of proposal concerning the setting-up of a national, cross-sectoral unemployment insurance fund and abolition of the prohibition against cross-sectoral unemployment insurance funds;
- Initiation of committee work for the purpose of ensuring that membership of a specific trade union or other association will not prevent anybody from exercising a profession or trade.

Finland

THE SECOND WAVE – FOLLOW-UP TO THE REFORM OF THE FINNISH EMPLOYMENT POLICY SYSTEM

In 1998, Finland carried out an overall reform of the employment policy system. The reform entered fully into force at the end of 1999. The central idea was to strengthen active job-seeking, which required, among other

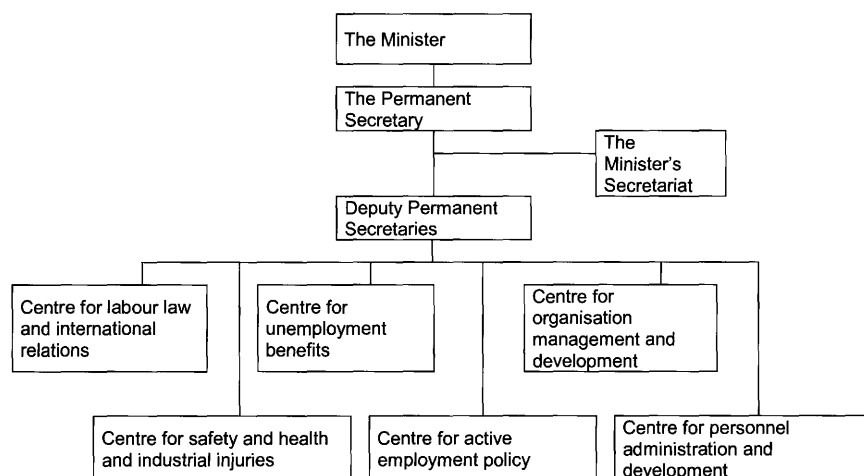
things, a clearer definition of the rights and obligations of the unemployed. The reforms were necessary, since up till 1998 the effectiveness of measures to combat unemployment had been less than desired. During the period of mass unemployment this was due to the fact that it was not possible to offer the unemployed employment measures sufficient for their needs or on an individual basis. The number of unemployed was too great for the resources available at the employment offices.

At the beginning of 2001, the Ministry of Labour launched further contributions to the reform, the so-called "Second Wave". These measures have considered the conclusions of the evaluations of the reform of 1998. The findings show that the changes have resulted in a more vigorous labour policy. In particular, employers felt that their recruitment potential had improved, and training in job seeking was acknowledged as a success. However, the reform did not seem to have done much to boost employment. The preparations for the second stage have been made in cooperation with the regional organisations of the labour administration (Employment and Economic Development Centres (T&E Centres) and employment offices) as well as with the social partners and, where necessary, with other organisations.

The Second Wave aims to help the Finnish employment policy system promote the better functioning of the labour market, taking into consideration the labour market situation of the next few years and the practical defects in the implementation of the first reform. The Second Wave includes several reforms of the service process, the service structure and the active measures.

The current combination of long-term unemployment and simultaneous labour shortages requires accurate employment measures. Unbroken long-term unemployment

Overall Developments



is one of the most important reasons for exclusion and poverty. The need for targeted employment measures has become greater as unemployment as a whole has decreased and the structure of unemployment has become more complicated. As a consequence of the Second Wave of reforms, the government hopes to create 250,000 active measures per year for the unemployed.

Under the Second Wave, one of the most central tasks of the labour authorities is to find jobs for the unemployed, promoting the matching of unemployed people to jobs. Employers are to be found for all potential employees, and this will be supported by subcontractors. Other initiatives and experiments include for example the establishment of joint outlets in municipalities (a collaboration between the labour administration and the Social Insurance Institution (SII)) and the introduction of rehabilitative work experience.

A new package of laws

The package of laws related to the Second Wave which entered into force at the beginning of January 2002 reorganises several employment measures.

1. An individualised jobseeking plan

will be made for those who have been unemployed for five months. According to the law, these people will receive a jobseeking plan including individualised work, training and coaching places. Implementation of the plan and reporting on it are a prerequisite for receiving a daily unemployment allowance or labour market support, once the period of unemployment has continued for five months.

2. The maximum period for paying combined subsidy to the employer will lengthen to two years. The combined subsidy consists of labour market support and employment subsidy paid to the employer. During the first year, both subsidies are paid, and during the second year only labour market support. The combined subsidy can be granted for the employment of a jobseeker who has been unemployed for over 500 days and who receives labour market support.

3. Coaching for working life has been introduced to replace practical training for those people who have received vocational training or reached 25 years of age. Practical training as an employment-promoting measure has been limited to young people without vocational training who are in receipt of labour market support. A new measure has

been introduced for unemployed people with vocational training or aged 25 or more which can be applied in the workplace. Coaching for working life aims to support the return to working life and upgrade the skills and employability of the unemployed. Persons participating in coaching for working life are entitled to maintenance allowances.

As of the beginning of the year 2002, the allowances for employees' travel, accommodation and other maintenance costs were unified so that the compensation is 7 euro per day. For participation in a measure outside the commuting area, increased compensation is paid, amounting to 14 euro. This is an increase for all measures except for work experience. The compensations apply to labour market training, job-seeking training, work experience and practical training for long-term unemployed young people.

Further information is available from the Finnish Labour Administration website: www.mol.fi.

Germany

REFORM OF THE INSTRUMENTS OF GERMAN LABOUR POLICY FOLLOWING THE INTRODUCTION OF THE 'JOB-AQTIV' ACT

In 2001, an average of 9.4% of all civilians willing and able to work in Germany were unemployed. Of these, 33.4 % were classed as long-term unemployed. As far as the level of unemployment is concerned, the overall unemployment rate hides sharp regional variations. In the "new" Länder (Federal States of former East Germany), the rate of unemployment stood at 17.5 %, compared

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with 7.4 % in the former West German Länder. Variations in the proportion of long-term unemployed as a percentage of overall unemployment were, on the other hand, slight. Long-term unemployment as a proportion of the total number of unemployed stood at 32.7 % in the old Länder as opposed to 34.5 % in the new Länder. The Job-AQTIV Act came into force on 1st January 2002 to prevent or effectively combat (long-term) unemployment and to improve measures to help find jobs for the unemployed. Active labour policy measures are in the forefront of this Act (AQTIV = Aktivieren (activate), (Qualifizieren (qualify), Trainieren (train), Investieren (invest) and Vermitteln (place)).

The new direction of German labour policy

The changes brought about by the Job-AQTIV Act will noticeably broaden and optimise the possible scope for action in labour policy. At the heart of the new regulations lies a change in the way the Employment Office goes about helping people find work.

The aim is for suitable measures to be taken to reintegrate unemployed people into the labour market before obstacles to finding work set in, resulting in long-term unemployment. Employment promotion law has, for this reason, been revised to give it a more preventive edge, thereby making it easier to integrate people into the labour market as soon as possible by early measures.

At the same time, equal status for men and women in the labour market is to become an active component of all aspects of labour policy. In so doing, the preventive gender mainstreaming approach is to be used to supplement the existing policy of equal opportunities, which adjusts current imbalances retrospectively.

On top of this, it is to be made

easier for people to juggle work and family commitments. A separate ruling on the compatibility of family and work makes it clear that this is a challenge for men and women, and that the aim of labour market policy is to provide as large a contribution to this as possible.

Support for vocational training is to be revised by making it more relevant to the needs of companies, while older employees and those with fewer skills and qualifications will be integrated to a greater extent. In addition, incentives are to be created for life-long learning. This is, at the same time, a way of tackling the problems caused by demographic trends.

New approaches in helping people to find work

In order to boost the efficiency of the placement process, employment offices in Germany are now required - once an individual has registered as being out of work - to draw up a comprehensive applicant assessment (profiling) in conjunction with the job seeker, as part of an intense consultation process. This involves determining the strengths and weaknesses of the job seeker, as well as drawing up an individual "opportunities forecast". The profiling involves pinpointing professional and personal attributes such as knowledge, skills and qualifications, skills relevance, vocational experience, plus willingness and aptitude for further training. This also means analysing the labour market segment in which the particular job seeker is to be placed. The objective is to determine thereby the specific requirements of the individual in question, in terms of assistance in finding employment. If necessary, the employment office will also be required to carry out measures to determine suitability (for example in the form of an assessment procedure).

The personalised job-search strat-

egy derived from this profiling exercise is to be set out in a binding integration agreement ("back to work" agreement). This agreement will contain the steps - tailored to the situation in the labour market and to the individual's own vocational background - that need to be taken to reintegrate the job seeker into the labour market, and thus also includes the services that are to be offered by the employment office (such as the utilisation of labour policy instruments) and any activities requested by the job seeker, for a specified period of time. The intention behind this is to implement the basic principle of "support and demand" in a fair and consistent manner. This integration agreement is to be handled in a flexible way and should be either continued or revised to suit any changes in circumstances, and should be reviewed no later than after six months, or after three months for young unemployed people or those seeking training posts. The preventive focus of this reform is also obvious from the fact that it will be possible to make use of all labour policy instruments without observing "waiting times" if the outcome of the profiling exercise suggests this is necessary.

Unemployed people for whom re-integration is predicted to be a more difficult process, or who have not taken up fresh employment within six months of having lost their jobs, are to be given more intensive support from the employment office. The (already available) option of general employment office support via third parties (e.g. private agencies or training institutes) is specified to the effect that employment offices will now be able to commission third parties to carry out all aspects of the placement process or farm out specific tasks involved in finding work. Not only that, unemployed individuals who are still without a job more than six months after losing their previous

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position shall also be given the legal right to commission a third party to help them find work.

Occupational training and job rotation

Because skills and qualifications in the labour market are becoming ever more important, vocational training plays a key role when it comes to finding and retaining jobs. For this reason, young unemployed people and those with few qualifications in particular are to be given the chance to consolidate and widen their skills. Employers who give their employees time out to train may be given financial support.

The adoption of the successful components of the "Jugendsofort" ("youth direct") programme and their introduction into employment promotion law provides for measures targeted at young people, designed to help them acquire vocational training and to integrate them into the labour market (see below).

Employers will have the chance to claim a wages allowance for unskilled employees and employees with few qualifications who are given time out to pursue a course in vocational training while remaining on the pay-roll.

A further priority group intended to benefit from these assisted training measures is that of older employees. Given the increasing demand for manpower, coupled with the demographic trend, the training of older employees has a fundamental role to play in countering the risks of manpower shortages. For example, following a decision by the Alliance for Employment, Training and Competitiveness ("Bündnis für Arbeit, Ausbildung und Wettbewerbsfähigkeit"), the costs of training employees over the age of 50 may be assumed by the Federal German Office for Employment. Among other things, applicants must

be working for a small or medium-sized business with up to 100 staff and must continue to be on the pay-roll.

Alongside this, job rotation is to be introduced as a regulatory instrument of employment promotion law in Germany. Companies which allow an employee to attend vocational training and which, during this time, employ an unemployed person as a stand-in may receive an allowance equal to 50 to 100 per cent of the pay of the stand-in. This will support the company's training endeavours, whilst giving the unemployed a chance to put their skills to the test. The employment offices get the chance to commission third parties with the - sometimes laborious - tasks of preparing for job rotation and of carrying it through.

Incorporation of the tried and tested regulations of the Jugendsofort programme into employment promotion law

With the incorporation of successful components of the Jugendsofort programme into the Job-AQTIV Act, major efforts will continue to be made beyond 2004 to allow young people to acquire good qualifications and to enable them to successfully embark on a career.

A number of measures are aimed directly at the integration of young people into the labour market. For example, employers can obtain an "integration allowance" if they take on young unemployed people without any vocational qualifications and for whom initial training is no longer a possibility, or if they take on people who have just completed "off the job" training.

Other measures are geared more heavily to training policy. As a result, employers and other bodies offering measures to help prepare people for work can receive allowances for the costs of a period of practical training

within a company, known as "Arbeit und Qualifizierung für noch nicht ausbildungsgerechte Jugendliche" (AQJ) (work and qualifications for young people still not suitable for training). Measures to help motivate young people not reached by the support offered by the employment office can be assisted by offering allowances if third parties help with at least 50 per cent of the funding. In order to support the process of transferring young people from off-the-job training into company vocational training schemes, institutes providing off-the-job training measures (support for disadvantaged) will, from 1st January 2002, be able to receive a "Vermittlungsprämie", or job placement premium, of 2000 Euros, if young people switch to a company training scheme early.

State-aided employment

State-aided employment continues to remain an inevitable aspect for the foreseeable future, above all in the new German Länder. For this reason, the investment components have been intensified, with more opportunities to engage with other areas of policy, and in consequence the contribution of labour market policy to structural development has increased.

Where State-aided employment is not carried out within commissioned commercial enterprises, qualifications or practical training are a must if integration prospects are to be improved. Before any fresh assistance is given, a waiting time of three years must essentially be observed. However, individual access to job-creation or structural adaptation measures is made easier too: unless other forms of support take precedence, the only determining factor will be the need for assistance - and not, as has been the case to date, statutory waiting times. In terms of job-creation measures for those returning to work, easier access conditions will apply, whilst there are

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wider opportunities to integrate individuals who receive no assistance in finding a job.

Structural adaptation measures are made possible beyond 2006 and up to 31st December 2008. In future, any measure may be supported if it improves the infrastructure in which employees threatened by unemployment or those who are already unemployed can be recruited. Assistance of up to five years for unemployed workers aged 55 and over is to be extended to cover the whole of Germany, and greater assistance is planned where third parties help provide funding accordingly.

The new “employment-creating infrastructure support” opens up additional opportunities to act, particularly at local level. The employment office can give public-sector institutes allowances for the cost of work to improve the infrastructure if the work is carried out by commercial enterprises which employ unemployed people – on a temporary basis – who found their work through the employment office. The administrative committee, a self-managing body of the employment office, must give its consent to every measure.

Equal opportunities for men and women

Against the backdrop of the two-pronged approach, with gender mainstreaming on the one hand and the promotion of women on the other, the different situations of men and women will, in future, be taken into account in the implementation of all tasks relating to employment promotion, while the support of women is to be improved by correcting any disadvantage. For this reason, “equal opportunities” for men and women is to be enshrined in employment promotion law as a universal task. In addition, women

should in future be assisted not just in accordance with the percentage of unemployed women as a proportion of the total, but also in accordance with their specific unemployment rate. In this way, it will be possible to give women disproportionately higher support until equal status is achieved.

Juggling work and family

It has essentially been made clear that both men and women are affected when it comes to juggling work and family commitments. At the same time, measures have been taken aimed specifically at making these two areas compatible.

Rebates for childcare costs for individuals attending vocational and other training measures have been raised from 120 DEM at present per child per month to 130 EUR (250 DEM).

To overcome the effects of interruptions (for family reasons) to gainful employment more easily, it has been established that an integration agreement for those returning to work may also provide for attendance at job-creation measures, even though such individuals currently have no entitlement to unemployment benefit or assistance, but were previously employed for at least one year and were paying compulsory insurance contributions (national insurance).

Opportunities for receiving some maintenance money have been extended, with support for part-time training widened, making a flexible selection of suitable training measures possible.

People who raise children after having already previously been employed in a position where they paid compulsory insurance contributions are to be given better support. For this reason, entitlement to claim unemployment benefit is to be eased. Periods spent raising or look-

ing after children under the age of three years, as well as times during which maternity benefit was claimed, are to be included in the calculation of insurance contributions to the Federal German Office of Employment.

Wage allowances

Unemployment, long-term unemployment in particular, presents greater risks for a number of groups. For this reason, different wage allowances are to be paid to employers to support them in their efforts to reintegrate target groups back into the labour market.

The wage allowances paid as part of employment assistance for long-term unemployed, the *Jugendsofort* programme and *Strukturanpassungsmaßnahmen Ost für Wirtschaftsunternehmen* (“Structural adaptation measures East for commercial enterprises”) are to be standardised under the *JobAQTIV Act* and integrated into the current integration allowance support instrument.

With regard to the integration allowances for older people and those for severely disabled older people particularly affected, the age limit is to be reduced from 55 to 50 and the ruling, set until 2006, to be laid down in law.

Integration results, research into effects

In future, statements are to be made about the effect of measures on participants in terms of their integration into the labour market. In addition, it should be possible to analyse the cost / benefit ratio of any measure.

To this end, integration data are to be developed further. The retention rate is to be supplemented by an integration rate. This will provide statements about such matters as whether or not a participant is in a

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job covered by social security within a reasonable period of time after the conclusion of the measure. The Job-AQTIV Act will give a further boost to the research into effects in the area of pro-active labour market policy.

Greece

OVERALL DEVELOPMENTS

On the 6 of November 2001, Law No.2956 was published in the official journal of the Greek government. The law concerns:

1. The restructuring of the public employment service (OAED). According to the provisions of Law No.2956, Centres for the Promotion of Employment will be created and will become operational. These centres will have as their aim the insertion and re-insertion of beneficiaries in the labour market. They will be cooperating with business, the social partners, education and training institutions and other actors in order to improve the matching of labour demand and supply. OAED has been responsible for the implementation of government policy for employment and the fight against unemployment, the insertion of human resources in the labour market, unemployment benefits, the promotion of vocational training and the connection of training with employment. OAED was also responsible for implementing the National Action Plan for Social Inclusion. All of the above aims will from now on be realised by a number of "Limited Companies" which will be created according to the provisions of Law n° 2956, as follows :

- Limited company entitled "Human Resources Support Services", having as its main aim the support of human resources

for their insertion and re-insertion in the labour market

- Limited company entitled "Vocational Training", having as its main aim the implementation of vocational training and life long learning policies and programmes
- Limited company entitled "Employment Observatory, Research and Informatics", having as its main aim the development of research, studies and the provision of informatics services and technical support towards OAED and the two companies mentioned above.

2. This Law also considers the issue of temporary employment, for the first time in Greece. The Law provides for the possibility of the establishment and operation of temporary work agencies in the form of limited companies, which can supply salaried persons to other employers (indirect employers) for temporary employment.

Netherlands

NEW IMPLEMENTATION STRUCTURE FOR WORK AND INCOME

From 1 January 2002 a new implementation structure for work and income has become effective. The new implementation structure gives priority to work over income. 131 Centres for Work and Income ('CWI') have been established in The Netherlands. They function as 'one stop shops' where clients can apply for both work and benefit. However, from the first contact the options for returning to paid work dominate. These centres are regulated by the Act on the Implementation Structure for Work and Income ('SUWI') of

the Minister and State Secretary of the Ministry of Social Affairs and Employment, which was accepted by Parliament in late 2001.

The central objective of the Act is to provide a clear and unequivocal structure for the centres. It has the basic assumptions that centres should be client-focused and that tasks not suited for competition should be implemented in the public domain (notably claim assessment) while those suitable for competition (like reintegration services) should be carried out in the private sphere. The new implementation structure intends to reduce the number of benefit claimants, the costs of implementation and the administrative burden for employers.

Jobseekers can apply at the 131 Centres for Work and Income for a job and, if needed, for benefit; employers can apply for personnel. Under this new structure there is one agency responsible for implementing employees social insurance ('UWV') - it carries out Unemployment Insurance ('WW') and the Disability Benefit Programme ('WAO'). The UWV assesses benefit claims and takes care of benefit payments. The agency contracts out the (re-)integration of disabled and unemployed clients with a 'great distance to the labour market' into employment to private sector reintegration service companies. Local communities remain responsible for the (re-)integration of Social Assistance ('Abw') beneficiaries and have become responsible for reintegration of non-beneficiaries and those on Survivors Benefit ('ANW').

In order to facilitate access to these services the UWV, local community social services, the CWI and private sector organisations (e.g. 'working conditions counselling services', reintegration services and manpower agencies) will all be housed in joint accommodation.

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Additionally a National Council for Work and Income ('RWI') has been established. This Council will formulate policy proposals for the Minister of Social Affairs and Employment on various aspects of work and income. RWI also has a budget to (co-)finance specific sectoral, regional and company initiatives around the reintegration of beneficiaries and jobseekers. The Council represents employer and employee organisations and local communities.

A National Client Council has been instituted for regular consultations with the central CWI and UWV organisations (and local communities) regarding the state and realisation of client participation. In addition this National Client Council consults the RWI and sends proposals to the Minister of Social Affairs and Employment regarding work and income.

Finally, the Act gives responsibility for supervision of the new implementation structure to a new Inspectorate for Work and Income under the Minister of Social Affairs and Employment. The independence of this Inspectorate is regulated by law.

Netherlands

THE SOCIAL MEMORANDUM 2002 AND LABOUR MARKET POLICY PRIORITIES

The continuing tightness of the labour market makes it more necessary than ever to create job opportunities for those persons who are able to work but are, for whatever reason, in a marginal position. From 2002 those persons who have been in receipt of benefit (such as national

assistance and invalidity benefit claimants) for more than a year, or who are in subsidised employment, will receive a tax credit of up to EUR 2,723 (NLG 6,000) spread over three years if they accept non-subsidised employment. Employers in such cases will receive a discount of EUR 700 (NLG 1,543) on their tax payments. This 'entrant's allowance' will also apply for women returning on to the labour market. Additional measures are being taken to help older people, the low-skilled, and members of ethnic minorities find employment. Agreements are being made with local authorities on a comprehensive approach to tackling unemployment. The aim is that, by the end of 2002, all long-term unemployed persons will have had their position reviewed and been offered work or training if required. This was written by the Minister and the State Secretaries of Social Affairs and Employment in Social Memorandum 2002 (September 2001).

In early 2002 the new integral implementation structure for social security and employment services will become operational. This organisation will focus strongly on helping people (back) into work. An act will also come into effect in 2002 aimed at promoting more rapid intervention during an employee's first year of sickness in order to prevent them ending up on invalidity benefit. This act will tighten up the rights and obligations of both employers and employees. The Work and Care bill, which among other things provides for short-term paid care leave, will also come into force in 2002. The new Social Security Intelligence and Investigation Service (SIOD) will begin operating in early 2002, with the task of tackling major social security fraud.

The labour market situation

The level of employment in the Netherlands grew strongly between

1997 and 1999, by an average of over 3 percent per annum. There was a 2.4 percent rise in employment in 2000, and the increase for 2001 is expected to be 1.75 percent. The Netherlands Bureau for Economic Policy Analysis (CPB) is forecasting that this growth will level off in 2002 to 0.75 percent.

Unemployment has fallen sharply, from 8 percent in the mid-1990s to 3.8 percent (270,000 people) in 2000. The number of (registered) long-term unemployed fell to 82,000 over the same period. The ratio between the number of benefit claimants and the number of people in work fell from 78 benefit claimants for every 100 workers in 1994 to just over 66 per 100 in 2000. This ratio has fallen further in 2001 to 65.5, but according to CPB forecasts is set to rise again to 66 in 2002.

Fewer people are likely to enter the labour market in the years ahead. In the 1990s the labour supply grew by an average of 1.6 percent per annum, which meant that more than 110,000 people were entering the job market each year. Growth of 1.1 percent per annum is projected for the next five years. The number of unfilled vacancies has increased, from around 190,000 at the end of 2000 to 216,000 now. On the other hand, there is a large group of persons who for various reasons have difficulty finding work or who receive too little encouragement to seek employment.

The high employment growth in recent years has been achieved mainly thanks to the pay moderation which has been maintained since the early 1980s. Its lower labour costs meant that the Netherlands was in a better position than other European countries to benefit from the favourable international economic climate. The minister and state secretaries observe that while other countries have begun following the Dutch example of wage cost moderation, the willingness to moderate pay

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claims in the Netherlands is actually decreasing.

Labour costs per unit product have risen 11 percent faster in Dutch industry since 1997 than the average in the European Union. In fact the competitive position of the Netherlands compared with Germany, its most important trading partner, has fallen by more than 16 percent. The increase in unit labour costs combined with slowing economic growth is projected to lead to an increase in unemployment in 2002 for the first time since 1994, by an estimated 40,000.

Labour market policies

Given the trend in wage costs, the persistent tightness on the labour market and the need to raise the labour participation rate further, the minister and state secretaries believe a co-ordinated approach is called for. They feel it is very important that more 'investment-oriented collective labour agreements' are negotiated, which establish a relationship between responsible pay increases, qualitative investments (in training, prevention of labour drop-out, provisions for combining work and care tasks, and provisions for retaining older workers) and flexible pay structures.

The Cabinet has made agreements on this with the two sides of industry, and wishes to foster the process by providing support through the tax system for initiatives such as training and flexible pay structures. More flexible pay structures can prevent pay levels rising to a degree which, whilst affordable in the short term, is structurally higher than the economy can withstand. In particular, the Cabinet wishes to promote pay structures, for example profit sharing, which keep pace with economic developments. Tax concessions for profit sharing will be introduced in 2002, and EUR 45 million (NLG 100

million) has been set aside for this for 2002, rising to EUR 68 million (NLG 150 million) annually from 2003 onwards.

Comprehensive Approach

In an effort to prevent long-term unemployment, a scheme was introduced in 1999 under which work or training is offered within 12 months to people who are too far removed from the labour market to be able to find work by their own efforts. The aims of this 'comprehensive approach' have already been achieved for young people, and the scheme is now being extended to cover all long-term unemployed people. The aim is that by the end of 2002 all long-term unemployed people will have had their position reviewed and been offered work or training if required. Benefit claimants will not be entirely free to reject a job or training programme which is offered to them; the comprehensive approach must be combined with the consistent application of sanctions. Concrete agreements have been reached on this with local authorities within the framework of the 'Common agenda for the future'.

21 percent of the newly unemployed in 2000 joined the ranks of the long-term unemployed (i.e. unemployed for longer than one year), compared with 26 percent in 1999. The percentage of newly unemployed people becoming long-term unemployed without having followed training or another programme fell from 16 percent in 1999 to 14 percent in 2000.

The low-skilled

To provide extra support for low-skilled job-seekers, many of whom belong to ethnic minorities, the Cabinet proposes to offer financial incentives to employers who offer training to formerly unemployed workers to enable them to obtain an initial qualification. Over EUR 45

million (NLG 100 million) will be set aside for this from 2002.

Ethnic minorities

Agreement was reached last year with the small and medium-sized business sector to help members of ethnic minorities find work; to date, this has enabled more than 20,000 to find jobs. The agreement runs until 2002, but is to be extended. Agreements will be also be made at the end of 2001 with a growing number of large companies on providing jobs for members of ethnic minorities. A special project organisation (Ruim Baan voor Minderheden) has been set up to support implementation of the agreements. The Centres for Work and Income (CWI) will provide one-to-one mediation services to help ethnic minority job-seekers with little prospect of finding work.

On taking office, the Cabinet formulated the objective of halving the unemployment differential between indigenous and ethnic minority citizens during this Cabinet term. This objective has been achieved; unemployment among ethnic minorities has fallen from 16 percent in 1998 to around 10 percent in 2000.

Older persons

The labour market participation of older persons is far below average. For most sections of the population (categorised by age, sex and education), the participation rate is more than 50 percent; by contrast, only one in three older persons (aged 55-65) is in paid work. The Cabinet is seeking to boost this figure by an average of 0.75 percentage points per annum. To achieve this, the government is working together with employers' and workers' representatives towards an age-conscious personnel policy and towards introducing disincentives to early retirement in pension schemes. The Cabinet also wishes to make it more financially attractive for employers to recruit older workers by reducing the employer's invalidity

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benefit contribution by EUR 712 (NLG 1,570) per employee.

In order to discourage the shedding of older workers, the unemployment benefit system will be modified so that employers bear a greater proportion of the costs of dismissal. The Employers' Contribution to Unemployment Costs for Older Workers Bill will be tabled in the Lower House of Parliament during the present Cabinet term. In addition, to prevent unauthorised use of the unemployment benefit system, the 'gatekeeper function' of the benefits system will be strengthened. In appropriate cases, an investigation will be carried out to determine whether there is any attributable cause for the unemployment.

To make it more attractive for older people to work, the supplementary employed person's tax credit will be introduced specifically for older people, over and above the credit which applies for all employed persons. The additional allowance will rise from EUR 227 (NLG 500) per year at age 58 to EUR 681 (NLG 1,500) at age 63 and over. In addition, from 2002 employers will be able to offer older workers a bonus, which will be tax-free up to a certain level.

This bonus also rises from EUR 227 per year for a worker aged 58 to EUR 681 per year for a 63 year-old employee.

Women

The labour market participation of women has risen sharply in recent years, mainly as a result of part-time work, from 34 percent in 1985 to 52 percent in 2000. However, there is still a wide discrepancy compared with men (76 percent). The Cabinet is committed to increasing the activity rate of women to 65 percent within ten years. In order to boost the participation of women in paid employment and to encourage men to take on more care tasks, more will have to be invested in facilities which make it easier to combine work and care tasks. As an example, employees now have a statutory right to work more or fewer hours, unless there are pressing employer interests which prevent this. From 1 January 2001 a tax concession will be introduced for employers who offer their workers paid parental leave. The most important law for achieving a better balance between work and personal life is the Work and Care Act, which comes into force in 2002. In addition

to existing leave entitlements, such as parental leave and leave in case of family calamities, this Act establishes new leave schemes such as the right to short-term paid care leave and paid adoption leave.

The labour market participation of women could be increased significantly if women who have been out of the labour market for some time, for example to look after children, are given more encouragement to return to work. The Cabinet has formulated an action plan for this and will also introduce new fiscal measures to encourage women to return to work. One such measure is the introduction of the labour market entrant's allowance in 2002.

This offers a tax discount totalling EUR 2,723 (NLG 6,000) spread over three years. Employers receive an additional discount of EUR 700 (NLG 1,543) if they take on someone returning to the labour market.

The full Dutch text of the Social Memorandum and the budget for 2002 can be found (in Dutch) on the Ministry's website at www.minszw.nl

Placement and Vocational Guidance

Finland

THE JOINT SERVICE EXPERIMENT OF THE MUNICIPALITIES, THE LABOUR ADMINISTRATION AND THE SII

The joint service experiment of the labour administration, the municipalities and the Social Insurance Institution (SII) began in Finland at the beginning of the year 2002, as a result of the preparation of the development project under the labour market support system. The aim of the experiment is to establish one-stop shops run by local authorities to reduce long-term unemployment. This will promote employment, maintenance of working capacity and rehabilitation of those in receipt of labour market support. At this stage, the two year experiment is focusing primarily on major cities.

The Minister of Labour, Tarja Filatov, has motivated the need for one stop shops, stating that it is possible to get better results and better client service by co-ordinating different functions. The experiment increases the joint responsibility of different authorities concerning the client. It is possible for the unemployed to get diversified help for his situation from one place. The one-stop shops can also take care of matters pertaining to the health of the unemployed.

The experiment involves 23 one-stop shops; one or more of which can be located in the same municipality. The experiment reaches the clients of 19 employment offices. According to an estimate, the one-stop shops can provide services for 11,000-12,000

clients during the year 2002. The one-stop shops employ 90 employment office officials and 80 municipal employees: employment consultants, social workers, public health nurses, rehabilitation consultants and joint service secretaries.

The one-stop shop is not an independent office, but rather a way of arranging services. The representatives of different authorities work in the same premises and make joint assessments of the client's situation and service needs. The intention is to form a service package, the components of which supplement and support each other. The joint services aim at improving the employability of the clients in the open labour market. The experiment does not change the division of work between the competent authorities as far as individual services are concerned.

The Association of Finnish Local and Rural Regional Authorities believes that, if the experiment succeeds, it has very good chances of contributing to the breaking of long-term unemployment and the prevention of exclusion.

For the experiment, 8 million euro have been allocated in the state budget proposal for 2002. This will cover, among other costs, the wages of the officials of the labour administration. The spending of the appropriation requires extra financing of an equal amount from the municipalities. The SII will pay the costs of the experiment on its own part.

Finland

JOB-FINDER TRY-OUT – A REMUNERATION MAY

BE GIVEN FOR FINDING A JOB FOR AN UNEMPLOYED PERSON

A three year job-finder try-out is about to begin in the regions of the major employment offices in Finland. The aim is to find jobs for unemployed jobseekers with the assistance of job-finders outside the labour administration. It is possible to obtain remuneration for finding a job.

The job-finder try-out will commence in the employment offices of Espoo, Helsinki, Jyväskylä, Lahti, Oulu, Tampere, Turku and Vantaa. The aim is to find jobs on the open labour market for unemployed clients of the employment offices whose unemployment threatens to be prolonged or has already turned into long-term unemployment. The employment offices involved in the try-out themselves select the groups of unemployed for whom the job-finders will seek jobs. Such groups may consist of e.g. immigrants, aged jobseekers, disabled persons or persons with an academic education, who have been unemployed without interruption for six months or longer.

The legislation on public procurements is observed when procuring job-finder services. At the end of January 2002, the employment offices participating in the try-out will begin open competitive bidding on the procurement of job-finder services for the year 2002. On the basis of the competitive bidding, the employment office can select several job-finders for the try-out. With the selected job-finders an agreement is made which stipulates the terms of the procurement of the job-finder services. The job-finder chooses among the client groups selected by the employment office those persons for whom he will begin to find jobs.

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Job-finder services can be provided by enterprises, associations, foundations and individual persons who function as private traders. The invitations to tender made by each employment office provide information on the selection and assessment criteria of the tenders of the job-finder.

The job-finder obtains remuneration for any job placement, the consecutive duration of which is at least six months and where the working time is over 75 per cent of the regular working time in the branch. The remuneration varies according to the duration of the unemployment and the duration of the employment relationship created. The amounts paid are formed on the basis of the competitive bidding. A job in the open labour market means a job where no employment or combined subsidy is paid to the employer, nor any employment-policy project subsidy or subsidy granted as part of the programmes of the European Structural Fund. Training compensation paid for apprenticeship training does not prevent the payment of remuneration. Remuneration can be paid for all jobs in the public and private sectors (including enterprises, associations, foundations, households, municipalities and the state). No remuneration is paid if the job-finder employs his clients himself.

France

THE PROGRAMME OF PERSONALISED ACTION FOR A NEW START

Mobilising the Public Employment Service

The "Programme of Personalised

Action for a New Start" is a government programme created in response to the commitments made by France to its European partners at Luxembourg and Nice. It combines: the concerns of the Personalised Service for a New Start established since 1988 to combat and prevent long-term unemployment;

the orientations of the French national action plan against poverty and social exclusion (presented at the Council of Ministers of 6 June 2001);

the provisions of the new unemployment insurance convention approved by the Minister for Employment and Solidarity in December 2000.

The "Programme of Personalised Action for a New Start" (PAP/ND) actively mobilises all the members of the Public Employment Service:

- the decentralised services of the Ministry of Employment (Regional and Departmental Directorates of Labour, Employment and Vocational Training - DDTEFP) who are responsible for the policy of action at a local level and coordinate the monitoring of job seeking
- the National Association for the Vocational Training of Adults (AFPA) in devising and delivering training projects and
- the National Employment Agency (ANPE) is the pivotal operator in its implementation.

The aim of the programme is to facilitate the return to employment of all jobseekers, whether they are covered by the unemployment insurance regime or not, by offering them enhanced, individualised service and follow-up until they return to work.

This offer takes the form of the

establishment of the Personalised Plan of Action (PAP), which constitutes the "route map" for each job seeker.

The service provision of the National Employment Agency (ANPE)

The PAP/New Start provisions do not represent a new approach to the mission and intermediary role of the ANPE. They are part of the service provision established by the Agency and are based on the experience acquired in the implementation of the "Service for a New Start into Employment" ("Service pour un Nouveau Départ vers l'Emploi" - SPNDE).

This service is structured around proposals for action made on the basis of the profile, degree of autonomy and needs of job-seekers.

The target audience

In the long run, all jobseekers will benefit from a Personalised Plan of Action.

From 1 July 2001, a PAP will be systematically offered to all newly registered jobseekers, and also, progressively, to priority target audiences (in particular those in receipt of minimum welfare benefits and the long-term unemployed, the main target of the "Personalised Service for a New Start").

By 1 July 2002, all jobseekers, whether or not they are in receipt of unemployment benefit, and however long they have been on the register, will have a Personalised Plan of Action.

This is an ambitious objective, which the ANPE will achieve thanks to the active co-operation of other actors within the Public Employment Service, its co-contracting partners - Local Missions, the "Cap Emploi" network and APEC (Association for the Employment of Technical and Managerial Staffs) - and its contractors.

Placement and Vocational Guidance

The Personalised Plan of Action

Development of the Personalised Plan of Action (PAP)

The Personalised Plan of Action is worked out at an occupational interview with an adviser from the local Employment Agency where the jobseeker is registered. This first interview enables the adviser to draw up an occupational file for jobseekers; to identify their profile, strengths and skills and assess how they match up to the job market; to pinpoint possible obstacles to their search for work, potential needs for training or retraining; and, lastly, to gauge their degree of autonomy for the performance of the actions which have to be undertaken.

The analysis of the jobseeker's situation is made with regard to the realities of the labour market. It leads to a shared decision on a main course of action. It concludes with an identification of the steps to be taken and the means used to speed the return to employment. The Personalised Plan of Action (PAP) formalises these elements, together with the commitments of the jobseeker and the adviser.

Follow-up and adaptation of the PAP

The Personalised Plan of Action is not fixed once and for all. Indeed it develops as the jobseeker's personal situation changes and with the progress of his/her efforts to find work.

Jobseekers will be able to determine these adaptations, as necessary, with an adviser from the agency, or from another specialised agency or a partner from a co-contracting network. That adviser will also help and support them in implementing the planned action and mobilising the resources best suited to their particular needs.

Six-monthly updating of the PAP

Until they return to work, jobseekers will be systematically invited every six months to come and meet their advisers to update their plans. An assessment of the actions undertaken will be made, their position re-examined and, if necessary, the plan of actions to be taken will be reassessed.

This assessment interview will provide an opportunity for the adviser to offer more intensive support.

Regular enhancement of the services and their adaptation to the developing situation of jobseekers will accelerate their re-entry into the labour market.

The provisions of the new unemployment-insurance convention

For the jobseekers who are beneficiaries:

- The jobseeker's allowance (ARE) is no longer decreasing;
- the qualifying period is more favourable (4 months worked out of the last eighteen) and casual work is taken more fully into account;
- each beneficiary receives a Personalised Plan of Action with enhanced levels of service and action offered;
- new forms of assistance in training, mobility and redeployment are available;
- jobseekers' rights are guaranteed;
- their obligations are unchanged.

The role of ASSEDIC and of companies

The role assigned to the ASSEDICs (the unemployment insurance organisations) and to companies in the new convention will accentuate the transparency and fluidity of the labour market.

Companies are committed to registering all their job vacancies at the ANPE. They will participate, together with their professional organisations and with ASSEDIC, in defining

action and training plans for combating the recruitment difficulties encountered in certain sectors.

The jobseeker's obligations remain the same.

Jobseekers' obligations are governed by the labour code. They have not, therefore, been changed by the new unemployment insurance convention. They are three in number:

- jobseekers must take steps to find employment actively and on a permanent basis;
- they must attend the ANPE and the *Service du contrôle de recherche d'emploi*, when called upon to do so;
- they must renew their registration every month and inform the agency of any change in their situation within 72 hours.

Ireland

FAS STRATEGIC REVIEW

Last year in a significant new development, a strategic review was undertaken by the Government's main labour market agency, FAS, which was launched in December 2001. As part of its Strategic Review, FAS has identified the external challenges it faces to achieve its vision 'to be the leading Irish state agency by delivering real values to our customers', having identified those customers as belonging to three main groupings:

- Jobseekers, whether in employment or unemployed, including a special focus on people who are disadvantaged, e.g. low skill/low pay employees and unemployed people who are experiencing difficulty in accessing the labour market;

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- Apprentices and people in traineeships, in response to needs of the economy ;
- Targeted sectors/companies and employees that will require upskilling and employees in companies in difficulty.

These key external challenges have been classified as:

- To anticipate trends in the labour market and to influence the development of appropriate labour market policy ;
- To respond to the anticipated short-term needs in the economy;
- To promote and support quality training and, in particular, life-long learning among the Irish labour force;
- To identify trends and needs in skill requirements and provide the training necessary, for targeted sectors of the Irish labour force, to compete dynamically and successfully in a global environment;
- To provide focused support, to those experiencing difficulty in entering the labour market, and to prevent the drift into long-term unemployment;
- To promote employment and to mobilise labour supply, from all available sources, to help employers meet skills and labour shortage;
- To continue to respond to Government guidelines and policies as well as EU initiatives.

The revised strategy to 2005 will include an emphasis on training of the labour force. This will target not only the apprenticeships programme, but engage in the upskilling and continued training of those in the national workforce.

Key changes in the revised strategy to achieve this are:

- A significant emphasis on servic-

- es to employers and employed people;
- A greater focus on mobility and flexibility, through the “upskilling” of the workforce;
- Further development of the Standards Based Apprenticeship programme, including further educational /training options for crafts persons;
- The provision of portable skills.

This approach is in the context of instilling the concept of lifelong learning among the labour force which will enhance the quality of labour and the competitiveness of firms.

Launched in December 2001, the revised strategy also aims to further stem the flow into long-term unemployment, by strengthening the preventive strategy through increasing earlier intervention with the newly unemployed. The agency aims to provide a focused service for the individual and to equip them with the portable skills necessary, through training, to regain employment. The strategy aims to:

- Give more assistance to help people move from unemployment into employment;
- Continuing to improve services for unemployed people, particularly those who are marginalised, with an emphasis on:
 - a focused approach, tailored to individual needs
 - using the Employment Services as a “gateway” to all labour market services
 - a guarantee of service to unemployed people.

This approach has been seen to be effective with recent large scale redundancies. FAS has stepped in immediately to provide information, advice and training to those facing redundancy.

As part of its new Strategy, FAS intends over the medium term to

move to a situation where all job-seekers will register with the Employment Service. At that point, FAS will provide a preliminary guidance service. For those who remain unemployed after three months, FAS will guarantee more intensive guidance and counselling in relation to the range of job placement, training and other employment supports available.

This approach builds upon the Government of Ireland’s Preventive Strategy. The most significant new dimension to policy arising from the EU Guidelines has been the implementation of the Strategy of engaging systematically with people at an early stage of unemployment. This strategy represents an important tool in preventing the drift to long-term unemployment. Guideline 1 of the European Employment Strategy commits Ireland to assist the unemployed after a certain period by offering them a job or employability support. Systematic engagement with young unemployed (under 25) as they cross six months of unemployment commenced in September 1998. A similar process has been in operation since July 2000 in respect of adults (25-55 year olds) as they reach nine months of unemployment.

The Department of Enterprise Trade and Employment, via its main agent, FAS, operates this programme jointly with the Department of Social, Community and Family Affairs, where D/SCAFA refer those who are on unemployment assistance for more than six months (under 25) or nine months (25 plus) to FAS, to receive training and be sent for interview where a placement is available. This programme has been in place since September 1998 and has proven to be very successful; up to the end of October 2001 some 69% of all people referred to FAS had left the Live Register.

By the end of 2005, the timeline at which the strategy is set to reach its completion, the intention of FAS is to

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see a realignment of programmes and services to meet current and future needs, and to see a development of a culture of adaptability, co-operation and partnership in the design and delivery of the organisation's services.

Sweden

SELF-SERVICE SYSTEMS ON THE INTERNET FOR PES CUSTOMERS

The introduction of self-service systems on the Internet has greatly changed the way the Public Employment Service in Sweden delivers labour market information, placement service and vocational guidance. Interactive on-line systems make it possible to do most things related to job searching and recruitment on the net.

It is quite obvious that self-service systems on the Internet have met a demand from the public, and the on-line systems have been a success. The number of users has continuously increased since the beginning of 1995, and at the end of 2001 around 550,000 – 600,000 persons used one or more services on the website every month. This means that 15% of the Swedish workforce now regularly use the PES website. After only six years, the majority of AMS' information and brokerage services are accessed through the Internet. This has allowed the staff of PES to concentrate more on managing activities within the framework of different labour market programs for different groups of jobseekers with more need of individual support, such as the long-term unemployed.

The on-line system has made it possible for the PES in Sweden to dramatically increase the transparen-

cy on the labour market. It has also enabled PES to supply information and placement service to groups of jobseekers and employers that in the past have not used public employment services very frequently.

The on-line system today makes it possible to retrieve information on vacancies, jobseekers, temporary replacement workers, painters and their works, artists, descriptions on occupations, training opportunities, job searching, recruitment and so on.

The users themselves put much of this information into the on-line system, for example employers can register information on vacancies, jobseekers can register information about themselves, and artists register their programs.

Even though a majority of Swedish households have access to the Internet in their homes there are still a vast number of people who do not. In order to increase the availability of the Internet services there are around 3,000 PCs available for jobseekers at Jobcentres in Sweden. In co-operation with other public agencies terminals are also made available outside job-centres, at Citizen Offices, libraries etc.

In the near future registered jobseekers will have the opportunity to make electronic visits to their Employment Office, where they can register, have interviews, make an activity plan in conjunction with a placement officer, and communicate about other matters with the Employment Office.

The Vacancy Bank

The Vacancy Bank is Sweden's biggest and most-used Internet job vacancy service. At the end of 2001 it had more than 2.5 million visits per month.

Amenities for employers

- **Advertising**

It is possible for employers to register

and manage their vacancies themselves.

- **Applications formula**

The Vacancy Bank provides a ready-made system to handle electronic applications

- **Electronic interviews**

As an option, the employer may add an electronic interview, formulating their own questions to job applicants. Through this feature, they can easily add criteria to the applications that make it possible to sort large numbers of applications automatically.

- **Company presentation**

Employers may also create their own presentation with corporate information with their logotype, text, pictures, and video and add it to their advertisements.

- **Statistics**

An employer can find out how many people have read his advertisement, simply by clicking the heading "Inspect adverts" and entering his corporate registration number.

Amenities for jobseekers

- Job-search by occupation and region
- Individual search-profile
- Application
- Links to international job banks

The Jobseeker Bank

The Jobseeker Bank is an on-line service for employers wishing to recruit new employees. Candidates can present themselves in the Jobseeker Bank. A sophisticated search system helps the employer to create detailed search profiles based on occupation, education, skill, language skills etc, which enable employers to find the right people without difficulty.

The search tool in the Jobseeker Bank is based on AMS Job Profile Matching System (roughly 1000 job profiles, with 7,000 unique search words). This system is used both by

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the job-seeker when the individual skills are registered and by the employer when searching for manpower.

At the end of 2001, more than 35,000 Swedish companies were registered as users of the Job Seeker Bank, and it contains some 80,000 CVs.

The Temporary Replacement Worker Bank

Through the Temporary Replacement Worker Bank, jobseekers prepared to enter a job at very short notice can register themselves. The registration is done in basically the same way as in the Jobseeker Bank. A typical situation could be where a teacher in the morning reports that he is ill and won't be able to come to work. The employer then uses the TRWB in order to find someone with reasonable skills that temporarily could replace the teacher.

An employment officer makes an assessment of the applicant's qualifications. Jobseekers have to show documents confirming the skills to which they refer when registering with the TRWB. References are also obtained, so that the skills and suitability of applicants can be assessed more reliably.

The Image and Artists Bank

The Image and Artists Bank is one of the world's largest Internet galleries. This service enables artists to present their skills on-line in the form of reference pictures and qualifications. This bank is intended to be both an efficient working tool for placement officers in the artistic sector and a meeting point for artists and clients. It currently holds presentations of about 1,500 Swedish artists and photographers.

Culture and the Entertainment Bank

The Employment Service's Culture and Entertainment Bank is a placement service and presentation system for professionally active persons offering cultural and entertainment programmes in music, drama, dance etc.

Artists and entertainers enter their own programme offerings in the Culture and Entertainment Bank, and it is up to them to decide whether the offering is to be displayed openly on the Internet or only to the Employment Service. Newly registered programmes will have to undergo a quality audit before qualifying for search and placement.

Occupations A to Z

Descriptions of 500 occupations, showing duties, training alternatives, employment prospects and salaries. A list of closely related occupations is also included.

Education in Sweden

"Education in Sweden" contains updated information on more than 3 500 education programmes and training courses all over Sweden, as well as information on different ways of financing studies.

Interest Test

By answering questions about activities or about duties in various occupations, the user obtains an interest profile, which also includes hints on occupations worth considering.

Skills Test

Skill test is an application enabling visitors to test their own skills. Users are able to test their own levels of achievement in mathematics, Swedish and English.

Future Developments

"My page"

Future developments will include the

possibility of creating a personal www.ams.se.

On "My Page" customers will have a personal archive, to facilitate the (optional) saving of such things as a personal CV, job advertisements, indications of interest, interesting applicants and applications etc.

"My Page" will also include e-visits. This way the job-seeker can keep in touch with the employment office and his or her counsellor over the web. Different functions will be available. It will, for instance, be possible to register at the Employment Office via the web - this is only possible at this time through the customer workstations at employment offices.

"My page" for PES' staff

The staff at PES will have access to a personalised start page giving easy access to all the Internet services, to the office's own home page and to each officer's personal communication with jobseekers and employers.

Labour market information

This service will contain information on the labour market such the kind of manpower most in demand nationally and regionally. This application will have three main parts: Top 30, Forecasts and Jobs this week.

Interactive jobseeker program and counselling site

The On-line Jobseeker program and the counselling site will be further developed. Web-based job clubs will be launched and successively built up during 2002 - 2003.

Sweden

ONLINE CLUB FOR JOB-SEEKERS

The Swedish National Labour

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Market Board runs a project for jobseekers who prefer to learn how to find a job by using the Internet. The project "Online Club for Jobseekers" started last summer (2001) and will continue until December 2002.

The applicants join a group of 20 jobseekers and each group is supported by three coaches from different employment offices. All communication is done via the Internet. Each participant is assigned a password to be able to join the online jobseeker club. Jobseekers may join a course regardless of place and time and each

group may contain applicants from all over Sweden.

In the Online Club for Jobseekers you can join courses where you learn how to write a CV and how to look for a job efficiently. It is even possible to send the exercises to the coaches in order to get them corrected. Since the jobseekers club is internet-based, participants can choose to show their work to other participants and chat with them if desired. Applicants also have the option of presenting themselves on a special page with their picture.

Additionally there is a forum for discussions and a forum known as "Meeting-place". In this forum jobseekers who are interested in a specific subject can chat. The forum is run by a specialist. Furthermore, the Meeting-place is a cross-club activity, so applicants from different Online Clubs for Jobseekers can join it. The chosen subject at the Meeting-place could be, for example, unemployment insurance, labour market situation for cultural/intellectual workers etc.

Training

Belgium

FLEMISH TRAINING VOUCHERS

On 14 December 2001, the Flemish government approved the decree relating to the granting of training vouchers. This measure aims to encourage companies, particularly SMEs, to invest in the training of their staff.

From 1 February 2002, all Flemish companies will be able to lodge requests for training vouchers with the Flemish authorities through a purpose-built website. These vouchers will enable companies to have their staff trained by training organisations, which must be approved by the Flemish minister responsible in order to guarantee the quality of training provided.

Each voucher will have a value of 30 euros, and 50% of this will be met by the Flemish government. The company uses training vouchers to pay the invoice for the services pro-

vided. In order to allow the largest possible number of companies to benefit from the scheme, each one will be able to claim a maximum of 200 vouchers a year.

Portugal

VOCATIONAL TRAINING

The programme 'Estágios Profissionais' (professional traineeships), set up under the Decree number 268/97 of the 18th of April 1997 aimed to promote the professional integration of young people, the adaptability of training programmes to available posts of employment, and the recognition and the development of young persons' qualifications in agreement with the labour market needs. Additionally it aimed to enable the development of innovative professional activities that could correspond to sectors with potential for job creation and the expansion of employment.

After four years, the experiences in implementing the Decree were drawn to the attention of the public. Based on the conclusions reached by the evaluation study for this instrument as well as the consolidation of the European Employment Strategy, a draft law on this programme was published in November 2001, for public discussion.

This currently provides for a diploma/certificate of ability, aiming to simplify the procedures of this most efficient instrument. It also aims for a better adaptation to the orientations of the National Action Plan and sets out the role of the non profit entities as employers. Additionally it covers the role of small enterprises, as privileged actors for the creation of employment in a social-local context.

Finally for this programme, disadvantaged persons and the long-term unemployed will take priority as beneficiaries.

Working Time

Germany

MAKING WORKING HOURS MORE FLEXIBLE IN GERMANY: STATUTORY FRAMEWORK CONDITIONS AND IMPLEMENTATION

A central plank of German employment strategy is the policy on working hours. The globalisation of markets and companies, the rapid growth in the mobility of know-how, capital and production, coupled with the changes in society, mean that a high level of flexibility is also required when it comes to working hours.

Statutory framework conditions

German companies are well equipped to accommodate flexible working hours. German legislation has determined the statutory framework conditions to accompany the development of innovative forms of working hours. The fourth Act on the Introduction of the Euro and the Act on Part-time Working and Fixed-Term Contracts clearly improved the statutory framework conditions for flexible working hours in 2001.

Working Hours Act

The legal framework for the Working Hours Act, in place since 1994, provides sufficient scope for flexible work-time models, in particular the option of saving of time credits in working hours "accounts". In order to safeguard workers' health and safety, the law restricts daily working hours to a maximum of 8. This can be extended to 10 hours if eight hours a

day are not exceeded on average. This means that it is possible to work up to 60 hours a week. On average, however, the maximum work time of 48 hours a week, in line with the Act, must be observed.

Fourth Volume of the Social Security Code

In order to promote working-hours accounts models, the fourth volume of the German Social Security Code (SGB IV) contains a ruling which also allows interruptions to professional life (e.g. due to a sabbatical year) without employees having to lose national insurance cover. In addition, the due date for contributions in relation to the pay they have "saved" is deferred to the exemption phase. Furthermore, as part of the agreement on making working hours more flexible, the contracting parties also undertake to carry out precautionary measures to meet the credit value even in the event that the employer becomes insolvent, provided certain conditions are in place.

Within the area of national insurance, the fourth Act on the Introduction of the Euro has meant that, as of 1st January 2001, there are better safeguards governing flexible working-hours regulations in social legislation, when the value of any credits accrued cannot be used to secure exemption from work. The aim is that, in the event of an interruption to work, only those contributions to national insurance need to be paid that would have had to have been paid even if there were no agreement on work flexibility. It is also possible, whenever an agreement is concluded on setting up credits, to stipulate that whenever an employment relationship is ended, that it is possible - under certain conditions - to have credit values transferred to

the occupational pension scheme which is non-contributory.

Act on Part-time Working and Fixed-term Contracts

The Act, which entered into force on 1st January 2001, on part-time working and fixed-term contracts (German Part-time Working and Fixed-term Contracts Act, or TzBfG) implemented Council Directive 97/81/EC of 15th December 1997 on part-time working (part-time working directive) and Council Directive 1999/70/EC of 28th June 1999 on fixed-term work.

The Act gives more flexibility for companies and a greater say for employers about the hours worked. The employment potential behind the extension of part-time work is being utilised better than before. The new regulations on part-time working also promote equal opportunities between men and women, as well as allowing employees to better reconcile professional and family life.

The part-time working regulations of the Act rule out any unjustified discrimination of part-time employees over full-time employees. In order to support part-time working, the Act has created a right to a reduction in working hours. In this connection, the regulations assume that employers and employees will agree on part-time working. If no agreement is reached, the employer may cite operational reasons as an obstacle to the right of the employee to work part-time. The Act provides a framework which the social partners can fill in by means of collectively agreed regulations. The right to part-time work does not apply where employers have fewer than 15 employees.

Working Time

Part-time workers who wish to extend their working hours are always to be given preferential consideration whenever vacant full-time or part-time positions are being filled. Employers must ensure that part-time workers are able to attend training and education measures. In addition, the Act offers more transparency within firms and companies. Where employers publicly announce that a job is vacant, they are in future also encouraged to advertise the positions as part-time vacancies if the position is suitable for this. Employees who wish to change their working hours are to be notified of suitable vacancies, and the works council or staff council is to be notified about part-time work within the firm.

For the first time, the Act on part-time working and fixed-term contracts puts fixed-term contracts on a consolidated legal basis. Fixed-term contracts of employment must always be justified by an objective reason (e.g. stand-in, seasonal work). Fixed-term employment where there is no objective reason (easier) is allowed for up to two years in the case of new appointments. Collective agreements make it possible to depart from the maximum two-year period. For companies, fixed-term contracts are a sensible employment alternative to overtime if future orders look uncertain or if order levels fluctuate. For job seekers, a fixed-term contract is, in many cases, a bridge to a permanent job. In the case of employees aged 58 (used to be 60) and over, fixed-term contracts can be entered into repeatedly without a time limit or an objective reason. By specifically making fixed-term contracts easier in this way, greater opportunities for recruiting older job seekers arise. This is in line with the EU Council Recommendation that Germany continue to break down the obstacles and negative factors standing in the

way of giving older employees gainful employment.

To improve the chances of employees on fixed-term contracts to switch to non-fixed-term employment, employers are to undertake to notify any employees on fixed-term contracts about permanent vacancies, as well as to notify the works and staff councils of the proportion of fixed-term positions within the company. Employers are required to ensure that even employees on fixed-term contracts are able to take part in appropriate (continuous) training initiatives.

Act on Partial Retirement for Older Employers

The Act on Partial Retirement for Older Employees, which entered into force on 1st August 1996, provides a framework which enables older employers aged 55 and over to agree a phased transition from their professional life into retirement. The basis for partial retirement for older employees and support by the Employment Office is a voluntary agreement between employer and employee, by means of which existing working hours are reduced by half, the employee continues to work and still pay national insurance contributions, and the employer makes accumulator contributions towards the partial retirement pay as well as pension insurance contributions for the employee. If a job made available because an older employee has decided to work part-time is taken up by someone who is unemployed or a trainee, the Employment Office will provide support for the partial retirement.

It is possible to halve existing working hours by adopting a range of working-time models. Options include dividing the entire period of partial retirement into blocks of work and exemption, as well as "traditional" half-day employment,

daily, weekly or monthly changes between work and leisure or even the degressive distribution of working hours.

With the statutory changes introduced by the two Acts on the further development of partial retirement for older people, which entered into force in 2000, the appeal of partial retirement to older workers has increased substantially. As a result of the improvements made, part-time employees, too, now have access to the option of partial retirement if they are older. At the same time, the scope of the Act has been extended to 2009, it has been made easier to reoccupy a former position and the maximum duration of financial support has been extended from five to six years.

Use of statutory options

The unions and management have made extensive use of the opportunities to make work more flexible. These days, virtually all collectively agreed regulations on working hours provide for options for flexibility at work. Instead of the once common stipulation of a fixed working week, long-term working-hours stipulations are included in collective agreements. Most settlement periods within which average working hours must be achieved last 12 months. Individual collective pay agreements even provide for longer settlement periods. At company level, in accordance with operational requirements in each case, individual decisions can be made in a flexible manner in respect of specific working-hours stipulations. In Germany today, every third (37%) employee works under the terms of the working-hours accounts model (west: 38%; east: 32%). Flexible work-time arrangements using working-hours accounts can today be found in 55% of large firms with more than 500 employees and in 21% of small companies with

Working Time

fewer than 20 members of staff (ISO: "Arbeitszeit 99").

The improved rulings on partial retirement have persuaded the unions and employers to conclude further collective agreements in this field. By the close of 2001, the number of collective agreements by associations and companies on partial retirement recorded in the register of the Federal Ministry of Employment and Social Order had risen across a whole host of sectors of the German economy to around 690.

Alliance for Employment, Training and Competitiveness

Making working hours more flexible and reducing overtime as well as support for part-time working have time and again been subjects discussed within the Alliance for Employment, Training and Employment which the Federal Government has formed with the unions and employer associations. The Alliance partners have, in sever-

al declarations, spoken of the need for a varied, more flexible working-hours policy and the reduction in overtime in order to boost employment. Hence, collective agreements of "working-hours corridors" (variable scheduled working hours), yearly working hours, the creation of year, long-term and life-long working hours accounts and closer link between work and in-company training lie at the heart of working-hours policy. At their top-level meeting on 4th March 2001, the Alliance partners once more came to an agreement accordingly. They will, in particular, do what they can to reduce the high level of regularly paid overtime in a number of areas in favour of extra jobs. Unions and management are asked to make use of all available instruments. Instruments explicitly mentioned include new recruitment, more flexible working-hours policy, an invest-focused working-hours policy (i.e. saving time credits in a working-hours account which are going to

be used for further training), greater deployment of part-time workers and targeted use of fixed-term employment contracts. The Alliance partners hope to be kept regularly up-to-date of developments and to agree initiatives and measures to help secure these objectives.

On 20th July 2001, The Federal Union of the German Employers' Associations (BDA) and the German Trades Union Congress (DGB) stated jointly that agreements reached by them at the start of the Alliance talks could be specified within the Alliance and implemented by the management and unions. The BDA and the DGB are once more supporting the extension of part-time working, fixed-term contracts, new appointments and flexible working-hours models using long-term and life-long working-hours accounts as well as "working-hours corridors" and yearly working hours.

Special Categories of Workers

Belgium

IMPROVING THE EMPLOYMENT RATE FOR OLDER WORKERS

In a few years from now, the legal retirement age in Belgium will be 65 for both men and women. Today the majority of employees do not wait to reach the end of their sixty-fourth year before taking retirement. Just over a third of the population aged between 50 and 64 years are still in employment. Belgium has in fact the lowest rate of employment of the entire European Union in this age group. Given the need to act on this weakness in the Belgian labour market, the federal government, in close collaboration with the social partners, has developed measures aimed at improving the employment possibilities for older workers who wish to carry on working and for the older unemployed who wish to find employment again. The law of 5 September 2001, which seeks to improve the employment rate, introduces a first series of measures for older workers.

Increased structural reduction of social security contributions

It is the aim of the structural reduction to improve the competitiveness of companies by granting an across-the-board reduction of employers' social security contributions. The amount of this reduction is calculated, among other things, on the basis of the worker's rate of remuneration and the time he or she has been in his/her present occupation.

In order to encourage employers to keep on older workers, from 1 April 2002 it will be possible to

specify by royal decree a higher reduction for workers aged at least 58 years. The amount of this supplementary reduction may vary depending on the age of the worker.

Redeployment

Since 15 September 2001, a right to redeployment has been granted to workers bound by an employment contract who are made redundant at the age of 45 or over. A collective labour agreement made within the National Labour Council will determine the procedure of redeployment. The length of the outplacement procedure, together with the status of the employee during the course of that procedure, are to be established by collective agreement.

The employer who does not respect the obligations and modalities of the redeployment procedure will have to pay a contribution to the Occupational Reclassification Fund. In order to avoid a situation in which the employer prefers to flout this obligation, the amount of the contribution may not be less than the cost of the outplacement procedure the employee has been prevented from taking up, with the addition of an amount to be fixed by royal decree. The Fund's financial resources are allocated to the individual outplacement of workers who have not been able to benefit from a similar procedure, and to the operating expenses of the Fund.

Supervision of new workers by older workers.

Workers aged 50 years and over receiving "interruption allowances" against a reduction of their working hours within the time-credit scheme may, during the non-working half of their week, engage in training, sup-

port or mentoring activities for the benefit of new employees working for their own employer, for another employer in the same sector or in a centre for training in the same sector.

A royal decree will determine the amount the worker can receive for training, support or mentoring activities.

Agency for the improvement of the quality of working conditions

An agency has been created within the Federal Ministry of Employment and Labour for the improvement of the quality of working conditions. It is the role of this agency to provide grants to employers who develop practical schemes regarding the quality of working conditions of workers aged 55 and over. The aim is to better adapt the organisation of work and working time within the company to the workers' personal arrangements. Two types of action may be considered for funding:

a) Actions relating to the adaptation of working conditions or work organisation. These actions may, among other things, relate to a specific adaptation of working hours, the adaptation of the job or of working practices, or, alternatively, to the loss of income resulting from assigning the employee to another role better adapted to his/her capacities.

b) studies carried out at the employer's request prior to the introduction into the company of measures for the adaptation of working conditions or work organisation.

Such studies can only be subsidised if the results they produce are genuinely applied in the company.

The employer can claim a subsidy only where a collective labour agreement on this question has been signed within the company or within

Special Categories of Workers

the sector. The criteria, conditions and modalities of the granting of the subsidy will be determined by royal decree. Within this system, it is the employer himself who initially bears the costs. These are then reimbursed, in part or in full, if the employer meets the specified conditions.

Consideration for Inclusion of Unemployed Persons aged 45 years and over

Where there is a shortage of young people (recorded at sub-regional level), older workers may, in certain conditions, be taken into account where it comes to meeting the obligation to recruit a certain number of young jobseekers on First Job Agreements. The conditions to be met by these workers are as follows:

- they must be at least 45 years old;
- they must have been fully unemployed and receiving benefit for at least a year before their recruitment;
- they must have been recruited, with a written employment contract, on at least a half-time basis;
- they must have been given their employment within a period of three months beginning on the ninth working day after that on which a shortage of young workers was officially recognised.

Finland

REHABILITATIVE WORK EXPERIENCE

The Act on Rehabilitative Work Experience entered into force in Finland at the beginning of September 2001 (186/2001). It obliges the municipalities and employment offices to co-operate in order to

provide a suitable service package for each relevant client.

The Act on Rehabilitative Work Experience is part of a larger whole. The Act together with the Employment Services Act, the Act on Income Support and certain relevant amendments have created an entity by which exclusion caused by long-term unemployment is prevented more effectively than before. Additionally it can improve the long-term unemployed's chances of returning to working life.

Rehabilitative work experience can create a passage to working life, help the recovery of the capability to work or maintain the remaining working ability. Rehabilitative work experience aims to prevent the negative effects long-term unemployment has on the client's working ability.

The municipalities can arrange rehabilitative work experience e.g. at the workshops of young people. The workshops can be attended by persons in different types of supported employment (e.g. in work through employment, or combined, subsidy or in practical training) as well as persons in rehabilitative work experience. The rule is that overlapping financing is not used. Rehabilitative work experience can take place wholly or partly at workshops. Its content should be according to the activation plan made for the person concerned and it must be different from practical training.

The practical implementation of rehabilitative work experience is decided by the municipality. Rehabilitative work experience is intended as a new possibility for long-term unemployed persons whose main livelihood has consisted of labour market support or income support and whose likelihood of employment through the traditional measures available is poor. The Act is applied to clients under 25 years of age after a shorter unemployment

spell than for those aged 25 or more. For those aged 25 or more, participation in rehabilitative work experience is voluntary. Yet, for young people, refusal without an acceptable reason may cause the loss of labour market support for a fixed period, or decreased income support. The use of employment measures is always a priority, and the client is assigned rehabilitative work experience only if it has not been possible to help him by conventional employment measures.

The municipalities may agree on the arrangement of rehabilitative work experience as co-operation between several municipalities or they may make a separate agreement with an association, a foundation, a religious community or a state office on responsibility for the implementation of the activities. The state compensates the municipalities for the costs caused by rehabilitative work experience from the budget of the Ministry of Labour. They receive a performance-based amount of 10 euro a day per person participating in rehabilitative work experience.

A joint steering group consisting of persons from the Ministry of Labour and the Ministry of Social Affairs and Health has been set up for the implementation and monitoring of the Act on Rehabilitative Work Experience. The group also has representatives from the Federation of Municipalities and the Commission for Local Authority Employers.

France

CREATION OF THE "SUPPORT IN EMPLOYMENT SERVICE"

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A new measure for the National Employment Agency to provide “support in employment” for the most disadvantaged.

Within the framework of the programme for combating and preventing poverty and social exclusion, and in order to promote the sustainable return to employment of the most disadvantaged, a new support service has been created.

It is intended primarily for people in receipt of minimum welfare benefits (*Revenu minimum d’insertion* or Special Solidarity Benefit) who are re-entering employment on the basis of a contract of more than six months’ duration.

The measures involved come into effect after the point of recruitment, at a key moment of entry or re-entry into the world of work, when problems of various kinds – social, personal, housing, transport, family or work problems - may arise.

The role of the support worker consists in providing employees with resources to cope with the situations of socio-professional transition they may encounter as new employees.

The support worker helps them to identify, formulate and resolve the difficulties they encounter on restarting work (new pace of life, problems of integration into the workforce etc.). The support worker also helps the employees in their dealings with other bodies or individuals (finding childcare, housing, a mentor etc.).

A budget of some nine million euros has been set aside for this measure in 2002. Around 20,000 job seekers should be able to benefit from it this year.

The advantage of this “support in employment” service also lies in its being based on support practices which already exist within local employment offices. The Employment Office advisers have already identified the needs of certain clients. Indeed local agencies

have created schemes to provide them with assistance, in collaboration with the local actors and service-providers in the employment field (reception and insertion structures for those with insertion difficulties, decentralised state services etc).

The government had drawn on the network of the Employment Service’s correspondents and counsellors (those specialising in the reinsertion of clients in receipt of minimum welfare benefits (*revenu minimum d’insertion*) or the most seriously disadvantaged) to set in place a scheme for observing transitions and feeding back comments, criticisms and suggestions from the workers on the ground.

The aim of this project is, in fact, to build up a service which responds to the needs of the beneficiaries, to accumulate support experience and to develop skills by expanding reflection on the process of the transition to work and the concept of support worker.

The service, which will run at the national level from January 2002 onwards, will be on an experimental basis until June 2002. At the end of that period, work will be undertaken based on the experience gained and the information received, to set the service on a stable footing.

Greece

RULES FOR ENTRY AND RESIDENCE OF FOREIGN NATIONALS IN GREECE

The Greek government, in order to respond to the entry into the country of a great number of immigrants in recent years, adopted during the summer of 2001, a new Law on the “rules for entry and residence of for-

eign nationals in Greece”. This law is the first attempt to create a framework for immigration policy in the country, aiming to regulate and safeguard the human rights of Third Country Nationals, their social integration, as well as maintaining social cohesion in the country. For this reason, the law regulates the circumstances under which foreign nationals can enter and legally reside in Greece, as well as the conditions and procedures to achieve this.

It also sets out the rights and obligations of foreign nationals living and working in the country. The basic rights of foreign nationals are established and their integration in the Greek society is considered. As an example, the law provides for compulsory 9-year schooling for the children of foreign nationals, compulsory participation in social security, and facilitates their access to justice and social protection services. The honour, life, freedom of conscience, and religious freedom of foreign nationals are also protected. On the side of obligations, foreign nationals are required to abide by the constitution and the laws of the country, to have social insurance and to submit a tax declaration for all economic activity they undertake.

Ireland

EMPLOYMENT AND TRAINING OF PEOPLE WITH DISABILITIES

Background

The Irish Government has adopted a policy of mainstreaming services for people with disabilities. The objective of the Government’s approach is to provide services to people with disabilities in an integrated way

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which offers more choice and options than were previously available to them. As part of the mainstreaming process, policy responsibility for the vocational training and employment of people with disabilities transferred from the Department of Health and Children to the Department of Enterprise, Trade and Employment in June 2000. Employment and vocational training policies for people with disabilities are now formulated as part of general labour market policy.

Development of Policy

The Department of Enterprise, Trade and Employment's policies for people with disabilities are being developed through a three dimensional approach:

- Firstly, to *develop the skills* of people with disabilities for employment.
- Secondly, to *stimulate awareness amongst employers* of the contribution which people with disabilities can make to their businesses; and
- Thirdly, to *provide a range of employment supports* for people with disabilities and employers.

Employment and vocational training services for people with disabilities are now administered by FAS, the National Training and Employment Authority, which comes under the remit of the Department of Enterprise, Trade and Employment.

People with disabilities can benefit from the full range of FAS programmes and services available to help people find and prepare for employment. In addition, a number of special programmes are available specifically to people with disabilities.

Key Developments

Since June 2000, a number of key developments have taken place. The

main areas where progress has been made are set out below:

- In July 2000, a new national Supported Employment Programme was launched. This Programme has the potential to place up to 800 people with disabilities in open employment.
- Training allowances for people with disabilities in the FAS system were standardised from July 2001, eliminating anomalies which existed prior to the transfer of services to FAS. All people with disabilities training under FAS' remit now receive a standard FAS Training Allowance.
- An additional Training Bonus of \square 31.75 per week was also introduced from July 2001 for people with disabilities in FAS training.
- Extra funding has been provided for specialist agencies which deliver training to some 2,000 people with disabilities under contract to FAS. Payment arrangements for these agencies were also streamlined.
- FAS has agreed progression targets with the specialist agencies. The target rate for progression to employment is 50% of trainees (compared to an actual out-turn of approximately 33% in recent years). The target for progression to further training, education or Community Employment programmes is 30%. The target for other progression options (e.g. Health Board services and Programmes or voluntary work) is 20%.
- Funding for supports to employers and disabled jobseekers has been strengthened and the schemes are being more widely publicised to increase their take-up.
- A new *Disability Awareness Training Support Scheme* was introduced by FAS at the end of 2001. This scheme is available to employers to help with the inte-

gration of people with disabilities into the workplace.

- A new *Employee Retraining Grant* scheme is being developed by FAS, to allow companies to retrain employees who acquire a disability in the course of their working lives. This scheme will be available from 2002.
- The Department of Enterprise, Trade and Employment has concluded a funding agreement with the Irish Congress of Trade Unions (ICTU) and the Irish Business and Employers Confederation (IBEC) for a project to promote the employment of people with disabilities in the private sector. The initiative will involve establishing a number of regional networks to raise awareness, explore skills availability among people with disabilities, identify local employment opportunities and provide information on supports which are available to people with disabilities and employers to assist integration into the workforce.
- The Department of Enterprise, Trade and Employment commissioned a review of Sheltered Employment in Ireland. The findings of this review will help to inform policy decisions to be taken in 2002 on the potential for sheltered employment as an option for people with disabilities.

Ireland

EMIGRATION AND IMMIGRATION IN IRELAND

Background

Ireland has traditionally been a country of emigration. For most of

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its modern history Ireland has had significant net outward migration inducing a continual decline in population until it reached an all-time low of 2.8m in 1961. The improved economic circumstances of the 1970s brought about a temporary change in that there were significant numbers of Irish who returned from abroad; however, in the early 1980s there was a resumption of large scale outflows, due to very difficult economic circumstances domestically as the government took necessary action to correct serious economic imbalances. The vastly improved economic circumstances of the mid to late 1990s produced a new and unique phenomenon and Ireland has changed over the past ten years from a country of net emigration to a country of destination for incoming immigrants.

Prior to the 1990s such inflows as happened, particularly in the early 1970s, were characterised by the return migration to Ireland of Irish citizens many of whom had been obliged by difficult economic circumstances to emigrate in the first place. An important characteristic of this flow of returning emigrants was that many of them had acquired skills abroad and were able to bring the benefit of those skills and experience to bear on their new economic role in Ireland. While it is true that a large proportion of the returning immigrants were in recent years returning Irish nationals, or EEA nationals, there has been a dramatic increase in non-EEA nationals entering the country, primarily as workers on temporary work permits. The transition from being an emigration country to that of being an immigration country has been very rapid and presents new challenges and new migration management needs.

Migration for employment and Work Permits

The strong performance of the Irish

economy over the past decade has brought about an unprecedented growth in the labour force—an increase in employment of over 450,000 and a reduction in unemployment to just over 4%. This unprecedented employment growth has in turn given rise to significant labour shortages and a rapid increase in foreign workers.

Analysis of the data on the issue and renewal of Work Permits provides a good indication of the trend in the numbers of non-EEA national entering the work force. The numbers of issues and renewals rose between 1989 and 1993 from 2,500 to just over 4,250. It did not vary much from this level until 1998 when the figure rose to almost 5,716 but in the following three years there was a dramatic rise in numbers. In 1999 the number of Work Permits issued increased to 6,215 and in the following year the number almost tripled to 18,000. Last year the number of Work Permits again doubled when 36,400 were issued. Despite a definite easing in the rate of economic growth in the last year, demand for non-EEA personnel remains very buoyant in the early months of 2002.

Sources of Labour

Ireland does not have a formal quota-based migration policy with

country quotas or (with certain exceptions) special category immigration visas. In effect, the admission of immigrants has been largely market-led, as the onus has been firmly placed on employers to show that a particular individual or group of individuals was required and that no EEA persons were available and willing to do the job. In effect, the private sector must identify the prospective employees and assure the State that they have the requisite qualifications. The State then facilitates entry and grants permission to work. Under this system, if economic circumstances should deteriorate, it should be possible to limit the number of new permits being issued in line with changes in the employment situation. To date, policy has been and still is to facilitate renewal applications in respect of overseas personnel already in the country.

While Ireland shares the need for highly skilled workers being experienced elsewhere in the developed world, the rapid growth in the economy has led to a dramatic expansion in the services sector which is labour intensive and requires considerable numbers of relatively low-skilled personnel. In the last couple of years a growing proportion of such workers is being sourced from abroad, especially from non-EEA countries, ranging from the Accession States to coun-

Year	Sector	New Permits	Renewals	Group	Issued	Refused
2001		29594	6485	357	36436	869
	Agric. & Fisheries	4899	815	0	5714	74
	Catering	7827	1301	1	9129	299
	Domestic	443	78	0	521	32
	Education	326	154	0	480	14
	Entertainment	648	20	353	1021	14
	Exchange Agreements	58	3	0	61	0
	Industry	2289	830	0	3119	73
	Medical & Nursing	1766	486	0	2252	17
	Service Industry	11239	2776	3	14018	341
	Sport	99	22	0	121	5

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tries such as Malaysia and the Philippines. The modernisation and expansion of the health services has meant that there has been very significant recruitment of nurses abroad, especially from the Philippines, while the implementation of a major plan to upgrade economic infrastructure has seen the employment of significant construction professionals such as engineers and architects from South Africa.

The agricultural/horticultural sector has developed a major appetite for personnel from central and eastern Europe and the largest single source of such personnel has been Latvia whose nationals accounted for more than 4,000 of the 36,400 non-EEA nationals recruited under the work permit system in

implications in this area as it is likely that a significant proportion of those workers now being recruited on foot of work permits will no longer need such a permit after the accession date. To date there has been a relatively low rate of renewal of work permits with only 18% of permits issued in 2000 being renewed in 2001 and this suggests considerable volatility in stability of employment. While the authorities are carrying out research to get a better picture of what is happening at local and sectoral level, it may well be that a significant proportion of the current high demand for work permits is due to replacement of personnel who have returned to their countries of origin, even if they do envisage a return to work in Ireland in the future. The question also aris-

cy and international experience in this regard will probably also occur in Ireland. This raises questions regarding integration strategies and extends to areas such as housing, social services, education and spatial planning. It also raises questions as to just who needs integration in the sense of formal integration structures and procedures. However, it can be quite difficult to consider these issues in an informed way if the authorities do not know just who is going to be around to be integrated, due to large scale movement into and out of the pool of overseas labour force personnel. Furthermore, it appears that most work permit holders coming to Ireland are not accompanied by family members but travel alone or as part of a group, all of whom are coming to work in Ireland. This type of population i.e. effectively single persons with considerable turnover of individual personnel will obviously present a different challenge than if one were dealing with family units with greater stability within the overseas population. However, even the pattern described may be changing as we are now seeing a greater proportion of renewals in respect of existing employees in the earlier months of 2002 - some 30% of permits issued in 2001 are being renewed, compared with a rate of 18% for renewals in 2001 of permits issued in year 2000.

Change in Procedures

Due to an easing in the still strong rate of growth in the course of 2001 and concerns late in the year about the beginnings of a rise in unemployment it was decided that there should be a greater insistence on the obligation on employers to seek to recruit within the EEA before looking to bring in personnel from outside that area. Accordingly, with effect from 2 January, 2002, the Department of Enterprise, Trade and

2001: Main Countries of Origin of Work Permit Employees

1	Latvia	4365
2	Lithuania	2909
3	Poland	2497
4	Philippines	2472
5	South Africa	2305
6	Romania	1776
7	Czech Republic	1454
8	Russian Federation	1442
9	Ukraine	1334
10	Australia	1098

2001. They have a heavy presence in sectors such as mushroom, strawberries, lettuce etc and also work on many farms.

The rapidly growing tourism/hospitality sector has become a major employer of non-EEA personnel, much of this on a seasonal basis. In 2001, this sector accounted for about 25% of work permits granted.

About 40% of work permit applications granted in 2001 related to recruitment of personnel from the EU Accession Countries. Undoubtedly the likely expansion of the EU by early 2004 will have

es, of course, as to how many of those whose permits are not renewed do not, in fact, leave the country but remain on working in another capacity.

Population Change and Integration

The apparent high turnover in personnel has implications for any consideration of longer term integration issues relating to temporary workers who become long-term residents of Ireland. It is generally acknowledged that some element of what starts as temporary labour migration will develop into permanent residen-

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Employment will not accept applications from employers for work permits unless these are accompanied by a letter from FAS, the state agency responsible for the public employment service and training, to the effect that the employer has made a genuine effort to recruit the requisite skills from within the EEA. The EURES system will be availed of in implementing this approach. The purpose of this is not to close off the work permit option but to ensure that employers do not resort to this facility as a first option, thus by-passing the local or wider EEA labour markets. Much will depend on just how tight is the local labour market and on how effectively the FAS/EURES mechanisms can provide the requisite personnel. A pragmatic approach is intended in operating this new arrangement.

Spain

A NEW GRADUAL, FLEXIBLE RETIREMENT SYSTEM

On 27 December 2001 the Council of Ministers approved Royal Decree-Law 16/2001 establishing a new gradual, flexible retirement system in Spain. The new system took effect on 1 January 2002.

The measures set out in the Royal Decree expand upon the Agreement on Improving and Developing the Social Protection System, signed in April 2001 by the government, Comisiones Obreras (CC.OO, the Spanish trade union confederation) and two employers' organisations, Confederación Española de Organizaciones Empresariales (CEOE) and Confederación Española de la Pequeña y Mediana Empresa (CEPYME). In signing the agree-

ment the government undertook to make the necessary changes to the law to ensure a flexible retirement age. The government aims to ensure that workers continue working and that retirement becomes a gradual and progressive process.

Pension Schemes

The following measures were adopted to ensure a longer working life and a gradual, flexible pension scheme:

- The regulation on partial pensions was reformed, making it possible to collect a social security pension while performing part-time work from the time the pension starts being collected. Under these circumstances, the pension is reduced in a manner that is inversely proportional to the reduction in the working day. In other words, if a worker retires and decides to continue working 75% of a working day, then he will receive 25% of the full pension.
- For workers aged 65 or over who have paid contributions for at least 35 years, the Royal Decree stipulates that both employers and employees are exempt from paying social security contributions for ordinary risks (except temporary incapacity), unemployment, guaranteed wage and vocational training. It is estimated that this measure, which is aimed at self-employed workers and at employees with open-ended contracts, will cost €90.15 million in 2002.
- For workers who opt to extend their working life, the Royal Decree stipulates that the amount of the pension may exceed 100% of the calculation basis, provided that the worker in question has reached his 65th birthday and has paid contributions for at least 35 years. More

specifically, it will be 100% of the calculation basis for the pension, plus an additional 2% for each full year of contributions after the age of 65.

In addition to these measures, other modifications should be introduced to provide for:

- the possibility of workers aged 65 or over being entitled to obtain a permanent incapacity pension when the original cause of incapacity is an accident at work or an occupational illness, even if the conditions for obtaining a retirement pension are met;
- not eliminating the unemployment benefit for persons aged over 52 merely because the beneficiary is approaching the age at which he may be entitled to a contributory retirement pension;
- the establishment of specified limits on growth in the contribution basis as from 65 years of age, and doing so for the purpose of calculating benefit levels.

Early retirement

To encourage employment and discourage early retirement, there will be a 50% discount in employers' social security contributions for ordinary risks (except temporary incapacity) for workers aged 60 or over who have at least five years of service in the company and who are employed under open-ended contracts. This discount will increase by 10 percentage points per annum up to a maximum of 100%. It is estimated that this measure will cost €287.58 million (47,850 million pesetas) in 2002.

However, the right to early retirement (from the age of 60) for workers who have paid social security contributions since before 1 January 1967 shall be extended to include, as from the age of 61, those workers who joined the social secu-

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rity system after 1 January 1967, provided that:

- they have paid contributions for at least 30 full years;
- they stop working for reasons outside their control;
- they have been registered as job-seekers with the employment office for at least six months prior to requesting retirement.

In addition, the pension reduction factor for each year of early retirement, formerly 8% per annum, has now been modified. It now ranges from 6% per annum, if the worker

has paid social security contributions for more than 40 years, to 8% per annum if the worker has paid contributions for 30 years.

The prevention of improper early retirement

When enterprises which are not bankrupt and which have not suspended payments submit schemes for short-time working and layoffs, including in these schemes workers older than 55 who did not begin contributing to the social security sys-

tem prior to 1 January 1967, then they must finance a special agreement with the social security authorities. This special agreement covers social security for older laid-off workers until they reach the age of 65, with the laid-off workers and the enterprise jointly paying contributions to finance this special agreement.

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France

TOUGHER LEGISLATION ON ECONOMIC REDUNDANCY

In France, an important piece of legislation known as the "social modernisation law" (17 January 2002) has just been adopted. It includes an important reform of the rights of workers made redundant on economic grounds.

The reform aims to:

- prevent this type of redundancy;
- enhance the capacities for intervention of the employees' representatives;
- improve arrangements for the redeployment of employees and make companies more socially responsible within the framework of mobilisation of the social partners to promote employment in the labour-market areas affected by industrial reorganisation.

Not all the provisions of the law are equal in their scope. Some make detailed alterations to existing law or endorse – or modify – well-established case law. Others do, however, represent significant innovations. There follows a list of the main changes.

Prevention of Redundancies and Development of the Forward Management of Employment

It is obligatory in France to hold negotiations on vocational training at sub-sector level every five years. The new law supplements the list of themes this negotiation must cover, by adding training actions to adapt employees to the developing nature

of their jobs, skills development and forward management of employment with a view to the foreseeable development of the occupations within the sub-sector.

Again to promote the development of the forward management of employment within companies, the law creates a new scheme which enables the state to take on part of the costs relating to the design and development of such a plan.

Lastly, the law reintroduces the "Michelin amendment" on the reduction of collective working hours, which was in the original law of 19 January 2000, but which the Constitutional Council removed on the grounds that it was imprecise. According to that measure, companies working hours longer than the legal norm of 35 must commence negotiations on the reduction of working hours before drawing up an Employment Protection [formerly "Redundancy"] Plan. In the absence of such negotiations, the Works Council or the Staff Delegates will be able to initiate emergency legal proceedings to suspend the consultations with the Works Council on economic redundancies.

Enhancing the capacities for intervention of the employees' representatives

It was the aim of the legislative to respond to the legitimate feelings which had been aroused among the public by announcements of site closures made without acknowledging employees' rights. To avoid such practices recurring, a new article has been inserted into the Labour Code. This states that where the measures contained in a public announcement may significantly affect the working or employment conditions of

employees, the Works Council, the Group Council and, where applicable, the European Works Council must be informed, in advance, of that announcement. Failure to do so will constitute an offence. For other public announcements, the Works Council will have the right to convene within the forty-eight hours following the announcement. These are effectively additional provisions and changes of detail rather than new rights. Prior consultation of the Works Council on matters relating to the general operation of the company was already obligatory, and this prohibited public announcements being made prior to that consultation where a firm decision on the part of the management was concerned.

French law provides for a double consultation of the Works Council where redundancies are declared on economic grounds. It must first be consulted on the basis of its general prerogatives, which are described in Part III of the Labour Code, and also on the basis of the specific provisions made for cases of redundancies on economic grounds, described in Part IV of the Labour Code. The Appeal Court had accepted that these two consultations could be held concomitantly, even though the one relates to the company's economic plans, the other to the social consequences. The law now requires that the two be held successively. It expressly asserts the Works Council's right to formulate alternative proposals during the first consultation and the employer's obligation to provide a reasoned response to these. The length of procedures is extended as a result - a point which has been criticised by some companies. However, this new measure necessarily enables a full and open debate to take place on the plan itself, so that economic redundancies are

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envisaged only as a last resort.

Where there is a serious divergence of opinion on the company's plan for reorganisation, the Works Council now has a right of veto which temporarily suspends the plan. This right can be exercised only in the case of a plan to halt company activity totally or partially in such a way as to eliminate at least one hundred jobs. It is accompanied by obligatory recourse to a mediator. This latter is appointed by common agreement between the parties or, failing this, by the president of the tribunal de grande instance [equivalent of the County Court]. The mediator is remunerated by the company. He has a month to attempt to achieve a compromise and make recommendations. If these are accepted, they have the status of a formal agreement. Where they are rejected, they must be sent to the management or supervisory body of the company, together with a social and territorial impact study which the managing director of the company must cause to be drawn up. It is the aim of this provision to make company management more aware of the consequences of redundancies and to promote consideration of the views of the representatives of the staff.

Redeployment Measures and the Social Responsibility of the Company

We come now to the most innovative points of the reform. The trend in current legislation is to accentuate the social responsibility of companies. This takes the form of extending the area within which they have responsibility, which is now no longer merely the company itself, but also the employment area, for which the new law lays down the conditions for a mobilisation of the social partners.

Employment Protection Plan

Firstly, whatever the number of

redundancies under consideration, the law stipulates that redundancies on economic grounds may only be made when all efforts to train workers and re-adapt them have been made and the redeployment of workers has been deemed impossible. This obligation applies within the company, or within the group if the company belongs to a group. This principle of an individual right to redeployment ratifies decisions made by the Court of Appeal.

Secondly, the law creates a new instrument, the Employment Protection Plan. Under the old legislation, the employer was required to draw up a redundancy programme (plan social) wherever there were at least 50 employees and at least 10 were to be made redundant on economic grounds. In the new law, this "plan social" is now called a "plan de sauvegarde de l'emploi" (Employment Protection Plan). It is enhanced by new measures, such as, for example, support for the reactivation of the local labour-market area and schemes for the validation of on-the-job experience. In another innovative measure, this Plan must also specify the detailed monitoring arrangements for the effective implementation of the measures contained in the redeployment plan, which includes a regular consultation of the Works Committee. Where the Employment Protection Plan is not adequate, the procedure will be considered null and void, as will the redundancies announced. The law states that the validity of the plan is to be judged in terms of the resources at the company or group's disposal.

In companies or groups of more than 1,000 employees, the employer is required to offer "redeployment leave" to the employees being made redundant. The length of that leave may not exceed nine months. All the actions which employees benefit from in this connection are to be financed by the employer. During this

leave, the employee receives his notice, even if he is not required to put it into effect. For the period extending beyond the period of notice, the employee receives remuneration equal to 65% of his previous salary.

The Involvement of Management Bodies and the Social and Territorial Impact Study

The involvement of the management bodies and the creation of a social and territorial impact study are two important innovations in the new law. Henceforth, any total or partial cessation of activity of an establishment or an autonomous economic entity with at least one hundred employees involved must be preceded by a decision of the management and supervisory bodies taken in strictly defined conditions. This decision is taken between the two consultations of the Works Committee, and on presentation of a social and territorial impact study. Such a study must also be made before any submission to the managerial body of a strategic development plan that is liable to affect working conditions and conditions of employment in a significant way. As with the communication of the mediator's recommendations mentioned above, the impact study aims to draw to the attention of the managerial body of the company the social consequences of their decisions.

Reactivation of the local labour-market area

The new law aims to create between the social partners a co-ordinated dynamic for boosting employment at the local level. When a local employment area is hit by restructuring in a company with between 50 and 100 employees, the representative of the state is responsible for organising a joint mobilisation of the employer, the company's trade union organisations, the representative of the con-

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sular bodies and local elected politicians. Where there is total or partial closure of the site, companies or groups with more than 1,000 employees must commit themselves, within the framework of a convention signed with the representative of the state and negotiated co-operatively with the other economic and social actors, to finance and implement schemes for the reactivation of the local labour-market area, either directly or through the intermediary of reconversion companies acting for them. In the absence of such a convention, the company is required to pay a financial contribution which may not be less than twice the monthly value of the guaranteed minimum wage per job eliminated, this sum being determined as a function of the company's financial capacities and the situation of the local labour-market area.

A number of other provisions complete this extensive range of measures: increased redundancy payments; discouraging recourse to small-scale waves of redundancies with the aim of avoiding the obligation to institute an Employment Protection Plan (there being an increased risk of this in companies where the institutions for staff representation are defective); a duty to inform subcontracting companies; and exemption from certain obligations where the company is put into compulsory administration or is liquidated. The law is to be supplemented by a number of implementing decrees which are currently in preparation.

The definition of redundancy on economic grounds remains unchanged

The social modernisation law was the subject of an appeal to the Constitutional Council brought by a group of parliamentarians. The aim was to have a large number of its provisions declared contrary to the Constitution, particularly the new

definition of "redundancy on economic grounds" it contained. This new definition, added during the parliamentary debate, required this type of redundancy to be justified more fully on serious economic grounds.

The Constitutional Council validated the entire law, except for this new definition, which was deemed contrary to the constitutional principle of freedom to conduct business. The new law therefore makes no change in this area and the old definition continues to be applied.

Spain

THE INTERCONFEDERAL AGREEMENT ON COLLECTIVE BARGAINING 2002

On 20 December 2001 two Spanish trade union confederations, Comisiones Obreras (CC.OO) and Unión General de Trabajadores (UGT), and two employers' organisations, Confederación Española de Organizaciones Empresariales (CEOE) and Confederación Española de la Pequeña y Mediana Empresa (CEPYME), signed the Interconfederal Agreement on Collective Bargaining 2002. In this legally binding agreement, employers and workers agree that wage restraint and maintaining/creating jobs by improving competitiveness are the key objectives that collective bargaining should focus on in 2002. In Spain, collective bargaining involves more than seven million workers and 800,000 businesses.

Taking account of the deteriorating economy as well as global growth and employment forecasts, the signatories are of the opinion that this agreement sends out a signal of con-

fidence that will help extend the economic cycle, thereby creating more and better jobs, and promoting equal opportunities. The criteria, guidelines and recommendations set out in the agreement can be summed up as follows:

- **Wage restraint in order to boost employment**

The agreement suggests a policy of moderate wage growth. In order to consolidate employment, wage negotiations must first take into account the government's forecast rate of inflation for 2002. However, the agreement also provides for the possibility of including a wage review clause in agreements and the possibility of larger increases based on increased productivity. This leaves room for productive investment and improved competitiveness.

- **Encouraging stable employment and the appropriate use of temporary work**

To maintain, increase and promote stable employment, wage restraint must be combined with the appropriate use of temporary work. Collective bargaining should define the correct and appropriate use of the various recruitment schemes in view of businesses' current and forecasted needs.

To this end, and given the need for new forms of employment contract, it is recommended that use be made of initial open-ended contracts, that temporary contracts be converted to open-ended contracts, and that schemes be introduced to prevent unjustifiably stringing together a series of temporary contracts.

- **Preventing redundancies and encouraging continuing training**

To avoid traumatic redundancies when a company is faced with the need to adapt to a rapidly changing environment, the agreement encourages the use of consensual flexibility mechanisms within the company, balancing flexibility with worker securi-

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ty, employment and working conditions.

Collective agreements must move in this direction via agreements on basic issues such as job classification, job mobility, the organisation, duration and redistribution of working time, and continuing training.

Indeed, providing skills and qualifications for human resources via continuing training is a key objective for encouraging personal and professional growth and development, worker employability, and the capability of businesses to adapt to technological, economic and productive change.

- **Encouraging equal opportunities**

One final important matter tackled in the agreement is the encouragement of equal opportunities and the elimination of sex discrimination in employment. While these matters are not generally discussed in collective bargaining, they are nevertheless clearly evident in its practical application.

For this reason, it is felt that in addition to the obligation to pay an equal wage for equal work, collective agreements must promote measures to eliminate sex-based wage discrim-

ination and must include measures to promote the professional diversity of women. Moreover, they must not include measures, stipulations or commitments that could imply discrimination. In this respect the social partners undertake to jointly examine the causes underlying any divergences, highlighting those practices which could be appropriate for encouraging equality and emphasising the role of employers' organisations and trade unions.

Austria

THE INTEGRATION OF GENDER MAINSTREAMING IN THE CONTINUOUS QUALITY MANAGEMENT PROCESS

Starting position:

Gender mainstreaming within AMS Austria

Gender mainstreaming means that equal opportunities can only be achieved if equality issues are considered in all areas and all measures within the framework of an overarching policy. AMS Austria has been working towards the goal of equal opportunities for many years and is committed to applying a gender mainstreaming approach in all its guidelines and planning tools. Its long-term plan, for example, which covers a four-year period and is revised on an annual basis, defines equal opportunity objectives which are implemented in the annual employment programmes at both federal and regional/local level.

However, there has to date been no systematic and comprehensive evaluation of the results of this gender mainstreaming approach. After lengthy discussions at all levels, the management of AMS Austria has decided to integrate the monitoring of the results of this gender mainstreaming approach into the continuous quality management process.

Quality management at AMS Austria

1999 saw the introduction at AMS Austria of a comprehensive and systematic quality management system

based on the model proposed by the European Foundation for Quality Management (EFQM). A vital element of this quality management model lies in the fact that all the relevant players (clients, employees, partners, owners, society) are involved in the political and strategic shaping of the organisation. The most important aspect is the involvement of employees in a manner which enables AMS Austria to improve its results at all levels. During the first two years, all AMS Austria employees were provided with information about the project and prepared for its implementation in their offices. In addition, two assessments were carried out in every office using a comprehensive questionnaire designed to map the current situation and identify potential improvements. These potential improvements were then developed into concrete measures.

In January of this year, the directors of AMS Austria together with its regional managers signed a new project agreement on stabilising quality management within AMS Austria, and it was decided to extend the quality management system across the whole organisation. The agreement details the central tenets, the personnel resources and functions and the organisational structures of the system. It also forms a common platform for continuous organisational development within AMS Austria through process and project management, internal and external benchmarking, continuous improvement procedures and best practice transfer within the organisation.

What are the arguments for using quality management methods to monitor the results of gender mainstreaming?

There are a number of fundamental

similarities between gender mainstreaming and quality management. Both strategies are designed to take into account the different expectations and requirements of clients in the shaping of policy and strategy, and to improve results. Both approaches therefore focus on the structuring of optimised processes and whether there are methods and procedures which can be recommended to the players in other offices as pointers and examples of good practice.

The use of this quality management system to monitor the implementation of gender mainstreaming at AMS Austria therefore offers many advantages. These include:

- The already established quality management system provides a tried and tested systematic tool. Monitoring the results of gender mainstreaming can be integrated into the continuous process of improving the quality of procedures and services.
- The effects of synergy can be utilised: The combining of two overarching tasks results in know-how transfer in both spheres.
- The use of quality management tools allows benchmarking and the exchange of best practice examples both within AMS Austria and with other organisations.

What does AMS Austria hope to achieve by combining these two overarching functions?

- The tried and tested quality management model can be used to monitor the extent to which equal opportunity goals are achieved. The first stage will be an analysis and evaluation of the current situation.

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- Strengths and potential improvements can be systematically identified.
- Once identified, potential improvements can then be implemented systematically.
- The monitoring of gender mainstreaming can be included in the normal operation of the quality management system (continuous evaluation, comparison of procedures, conception and adoption of good practice, improvement of results).
- The hope is to bring about the systematic dissemination and increased acceptance of gender mainstreaming both within AMS Austria and in partner organisations.

What are the next steps?

The preparation and development phase includes the adaptation of the questionnaire currently used for assessments. The questionnaire should be extended to include gender-specific questions in all relevant areas and will form the basis of an analysis of the current situation. Prior to integration in the continuous quality management process in the autumn of 2002, a so-called "pilot assessment" will be carried out to trial the questionnaire and verify that appropriate conditions for monitoring are in place.

The remainder of the timetable is based on the performance of the quality management process and on the implementation of new rounds of assessments.

Belgium

TIME-CREDIT

In conformity with the 2001-2002 National Collective Agreement (see Employment Observatory Review, Spring 2001), the social partners con-

cluded a collective agreement in the National Labour Council establishing a system of time credits, career reduction and reduction of working hours to half-time. This system came into force on 1 January 2002 and it replaces the previous regime of career breaks in the private sector (cf. RIB Belgique B-vii.2).

The system of time credits, career reduction and reduction of working hours to half-time is available as a right to all employees in the private sector. On the basis of a collective agreement at sector or company level, some categories of personnel may, however, be excluded from its field of application. In companies employing a number of workers equal to or less than 10 at 30 June of the preceding year, workers may exercise this right only with the employer's agreement.

Time-credit

Time-credit consists of:

- either the complete suspension of work, whether one is employed on a full-time or part-time basis;
- or a reduction of work to half-time, provided that the worker has been employed for at least $\frac{3}{4}$ time for at least twelve months.

To benefit from these arrangements, the worker must have been employed in the company, on the basis of a contract of employment, for at least twelve out of the preceding fifteen months.

The time-credit amounts to one year over the worker's entire career. Time credits must be taken in periods of a minimum of three months. The maximum length of the time credit may be extended by a collective labour agreement either at sector or company level, though it may not exceed five years.

Right to a one-fifth working time reduction

The one-fifth working time reduction enables full-time workers normally employed on a five-day (or more) basis to reduce their working by one day or two half days per week. For workers normally employed on a five-day or more basis in teams or shifts, a sectoral collective labour agreement will determine the rules for, and details of, the working time reduction by one day per week or the equivalent.

To be entitled to a working hours reduction, the worker must

- have had a contract of employment with the employer for the last five years;
- and have been employed on a full-time basis over the last twelve months.

The maximum period for a one-fifth working time reduction is five years over the worker's entire career. The arrangement can only be implemented in periods of a minimum of six months.

Workers aged 50 and over

Workers aged 50 and over are entitled to:

- a reduction in working hours of one day or two half-days per week, provided the worker has been employed on the basis of a five-day week or longer, full-time or 4/5-time (as part of a working-hours reduction scheme) for the last twelve months;
- a reduction in working hours by half, provided the worker has been employed at least $\frac{3}{4}$ time for the last twelve months.

To be entitled to this measure, employees must fulfil all the following conditions:

- they must have had an employment contract with the company for the last five years;

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- they must have been an employee with the company for at least twenty years.

There is no maximum period specified, and workers are thus entitled to this right until retirement age.

The entitlement may be taken by minimum periods of six months for the 1/5 time reduction and three months for the half-time reduction.

Advising the employer

Employees wishing to benefit from the time-credit, working hours reduction or half-time working schemes must advise their employer by registered letter or by submitting a notice in writing, the copy of which is countersigned by the employer:

- 3 months in advance when the company employs more than 20 workers;
- 6 months in advance when the company employs 20 workers or fewer.

The notice must contain the desired start date, the period over which the entitlement is to be enjoyed, and the detailed arrangements proposed by the worker for implementing the reduction to four-fifths or half-time working.

Provisions for postponement and withdrawal

The employer may postpone the exercise of the time-credit, reduced-working-hours or half-time-working entitlement for overriding external or internal reasons (for example, the organisational needs of the company, continuity and actual possibilities of replacement). The Works Council may specify these reasons for the company.

In case of postponement, the employer advises the employee of this in the month following notification. The entitlement to the exercise

of the time-credit, working-hours reduction or half-time working will take effect at the latest six months from the day when it would normally have taken effect if the postponement had not been made.

The employees exercising their right to a one-fifth reduction of working hours, together with the employees aged 50 and over reducing their hours by one-fifth or to half-time working, may have the exercise of their right withdrawn or modified by the Works Council when a common agreement cannot be reached between the employer and the trade union representatives. Where there is no Works Council or trade union representation, the potentially valid reasons for withdrawal are indicated in the labour regulations.

Protection against redundancy

The employee exercising his right to time-credit, reduced working hours or half-time working cannot be made redundant, except on serious grounds or on grounds entirely unrelated in their nature and origins to the suspension of his/her contract and to reduced working. Protection from redundancy begins on the day of the written notification and ends three months after the end of the time-credit or the period of reduced working hours or of half-time working.

Where the employment contract is broken without serious grounds to do so, or on grounds not unrelated in their nature and origins to the exercise of the right to time-credit, reduced working hours or half-time working, the employer will be required to pay a lump sum indemnity equal to six months' wages.

Replacement of the employee

There is no legal obligation to replace the employee exercising his/her entitlement to time-credit, reduced working hours or half-time working.

Allowances

Time-credit

For a worker employed full-time before the career-break:

- total suspension of work: 379.28 euro per month if the employee has not been with the company for five years, or 505.71 euro per month if the employee has been with the company for that period;
- reduction to half-time working: 189.63 euro per month if the employee has not been with the company for five years, or 252.85 euro per month if the employee has been with the company for that period.

For a worker employed part-time before the career-break, the allowance is calculated pro rata on the basis of the hours previously worked.

Reduction by one-fifth of working hours

The allowance is 75.86 euro per month.

Employees aged 50 and over

For a worker employed full time before the career-break:

- reduction to half-time working: 328.70 euro per month;
- reduction by one-fifth of working hours: 126.43 euro per month.

France

THE PROFESSIONALISATION OF INTERNATIONAL PLACEMENT SERVICES

Partnership between the French National Employment Agency

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(ANPE) and Arbetsförmedlingen of Sweden (AMS)

In the current labour market international mobility is an inescapable long-term reality. Freedom of circulation within the European space is one of the fundamental rights of citizens of the European Union. For this reason, it seems essential to develop and co-ordinate common strategies between European public employment services in order to ensure that this right can be exercised and to prevent certain bottlenecks and saturation points from forming in national labour markets.

The EURES (European Employment Services) network, a shared instrument of the Public Employment Services of the member states, was created by the European Union with precisely this aim of offering employers and prospective employees a range of support services for international recruitment and placement. It includes information and advice services on the labour market of the European Economic Space.

Within the framework of the European Employment Strategy, the European Commission issued a Communication (COM 1998/641) on the modernisation of the public employment services. In that communication several priorities were defined, as part of a concerted programme. These include:

- the access of the public employment services to a high number of job vacancies in the other member states;
- a contribution to the co-ordinated delivery of all public services;
- developing strong partnerships with the other actors in the labour market.

The actions are undertaken by the Public Employment Services and backed by governments, the social partners and the European Union.

It is in this context that ANPE

and AMS have sought to give an international dimension to labour mobility by providing instruments and methods appropriate to its achievement. The aim is genuinely to implement the fundamental principle of the free movement of citizens within an extended geographical framework.

The Organisations Involved in the Project

The ANPE and AMS are joint sponsors of the project and have committed themselves to a strategic and operational plan: the Directorates General of the ANPE (International Placement Mission) and the AMS (International Relations Department) are present at the national and transnational levels; the French Espaces Emploi International (EEI), a new organisation which is a product of the partnership between the ANPE and the Office of International Migration (OMI), and the Swedish dedicated international placement agencies represent the regional and local levels.

Transnational Character of the Action

The partnership is based on certain complementary characteristics of the two PES with regard to international placement.

Structurally, the two countries have relatively similar forms of organisation, each having a national entity (at the centre of the network) and regional offices around it. However, the two countries' needs in terms of international placement are different. As a result, their different approaches have brought added value within a perspective of identifying and exchanging best practice and acquiring the appropriate professional skills.

In France, the aim is to meet the demands of candidates wishing to work or gain new experience abroad;

while there is the same concern in Sweden, the priority is to bring candidates from other countries into certain occupational sectors where the country is experiencing recruitment difficulties.

Objectives

From 1 December 1999 to 31 August 2001, the Franco-Swedish teams worked individually and jointly on elaborating operational methods and tools, such as:

- the creation of a Guide to Good Practice aimed at developing professional skills and procedures on the basis of the professional know-how, techniques and knowledge which international placement consultants ought to have at their disposal;

This guide is intended to serve as a basis for training

- the creation of new ICT materials enabling users of the Web and operatives of the French and Swedish PES to take advantage of the European and international labour markets to improve the efficiency of the public international placement services by offering targeted information on international mobility.
- setting up in-house training courses, devoted specifically to international placement, aimed at all the advisers in the EURES network and at all agents dispensing first-level information and working in an internationally orientated agency.

Progress of the Project

Development of the Professionalisation Guide by the Method of Benchmarking

What is Benchmarking?

This is a procedure which enables exceptional practices, both internal and within other organisations, to be identified and adapted, in order to

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improve the efficiency and quality of the service. It involves comparing practices and procedures in order to bring out those that are most effective.

The benchmarking approach has several advantages: it keeps the focus on the realities of international placement and on known elements, such as good professional practice.

Benchmarking between Sweden and France has enabled us to identify and produce quality standards which reflect and underwrite a service responsive to trends within, and the demands of, international placement, and to compile a reference guide to these.

In order to produce a document responsive to realities in the field which could be used in France and Sweden and also extended to other countries of the European Union, it was essential that it be modular and adaptable, and that it take account of the employment policies of other countries, while defining the key elements of the priority services expected by clients in the field of international mobility.

It also seemed important to make the best use of Franco-Swedish co-operation and of the two approaches these countries have to the management of the needs of clients: France has quite an individualised approach to career advice, while Sweden stresses rather the self-service idea, particularly using the Internet.

The main areas for consideration were analysed and discussed, and the first objectives clearly laid down:

- developing a value-added document which reflects the needs and expectations of our clients;
- developing and optimising the basic skills of those in direct contact with the end-users of our services or activities;
- extending and implementing the principles of “best practice” and

collaboration with our social partners;

- instilling a “can-do” attitude and being proactive in the definition of standards.

The Outcome

The objective of this part of the project was the creation of a reference guide to good practice and of a training plan.

The “Guide to the Professionalisation of International Placement Services” is the product of this work.

Every activity which corresponds to the various quality standards (relating to clients, jobseekers, employers and partners) is described in this guide.

The skills which international placement professionals require to deliver a quality service are described on two levels: “basic skills” and “specific skills”.

The aim of the references is to provide support for advisers in their search for information, both at the national and international level.

The format selected enabled a document to be created which is useful in the in-house training of staff and which renders it easier to integrate the international dimension of work into the PES.

This document is also easy to update since it is available on the Franco-Swedish portal. It is updated by a webmaster.

Co-operation between France and Sweden

During this entire process the members of the work teams have learnt a great deal from each other. The French stress on guidance and advice and the Swedish emphasis on self-service and the Internet have taught the group that there are different possible approaches to the job of international placement adviser.

Discovering and gaining insight into different working conditions, methodologies and national policies

has made it possible to implement a constructive project in international co-operation.

Technical Development (ICT)

It is the intention of the Franco-Swedish portal of the ANPE and the AMS to promote mobility in employment. This portal is a pilot project, the benefits of which will be analysed throughout the launch year of 2002.

As with the creation of the “Guide to Professionalisation”, and in order to keep to the same approach and methodology, the portal was designed and created by mixed working groups.

The work was done entirely through the Internet and using other ICT resources, and this also provided an opportunity to test their effectiveness. It also enabled us to put the accent on the need for a suitable computerised resource which could be shared by operatives in international placement.

The project leaders and their teams of international placement advisers worked over the Internet, using WebFactory, a specialised electronic mail package.

In order to remain true to the project’s objectives, the portal is split into two parts:

- Public Area (www.international-mobility.org):
For the clients of the public employment services (job candidates, employers and partners) who wish to find information on the working environment and working conditions abroad. This area is available in three languages: English, French and Swedish. As the site will probably be translated into other languages, its architecture is designed to cope with multi-lingualism.
- Private Area (www.members.international-mobility.org)

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This area is reserved for international placement advisers, including EURES advisers. The aim in this area is to make for ease of communication, exchange of documents and group work between international placement advisers. This area also puts online, and serves in the updating of, the Guide to Professionalisation. To achieve these objectives, email and document management functions have also been created.

For the moment, the portal does not post job offers or allow Internet users to disseminate their CVs. This type of function is not, however, excluded from future versions.

Moreover, clients interested in this service can be connected via the portal to the various sites which offer these functions. This connection is made easier by the technology used for this Franco-Swedish portal: all the links and sites described are active.

Contents of the Site:

Public Area:

- **FAQs:** the questions and answers relate to general and practical questions on living and working conditions in France and Sweden. They were drafted by EURES advisers and international placement advisers with a comprehensive knowledge of international mobility and their clients' needs.
- **Advisers:** thanks to the maps of France and Sweden posted on the site, users can identify geographically the EURES adviser they are looking for in the region that is of interest to them. Even if they do not know the exact name of the region, they can find it on the map.
- **Information on work and employment:** practical information on occupational mobility,

living conditions, legislation, public structures etc. in Europe. This section also contains links to sites on France and Sweden.

- **Description of the AMS and the ANPE and the services they offer to jobseekers, employers and partners.**
- **An online newsletter available free of charge in a choice of three languages: French, English and Swedish (topics covered include current news on law and regulations relating to international mobility, employment events in France and Sweden, such as "employment fairs" etc., and, lastly, a rubric entitled "Practical cases", which covers the practical treatment of an actual situation).**
- **Contact form:** users of the site can contact the webmasters directly.
- **A number of useful links which cannot be found on other sites (particularly links useful for job seeking and links to administrative sites).**

Private Area

- **General Knowledge:** this database of documents can be shared by all international placement advisers by entering a user name and a password. Advisers can add documents of their own to it once these have been approved by the site administrator.
- **The Professionalisation Guide for international placement teams is available, and will be updated, here.**
- **Messages:** this function enables international placement advisers to receive notification in their mailbox of the arrival of a new message on the portal (WebFactory), with a direct link to the message. They no longer need to check their messages regularly, which clearly represents a saving in time.

Staff Training

One of the project's objectives was the training of international placement staff in France and Sweden using the new tools created for the purpose of assisting in international placement.

The know-how gained by the Benchmarking and Internet teams and the results of their work have thus been passed on to their colleagues in the international placement services of the ANPE and the AMS and to operatives of the PES.

Some 160 operatives of the AMS and ANPE have benefited from this.

Colleagues from other countries (Germany, UK and Denmark) were invited to these training sessions. It has been seen as very important to share the Franco-Swedish experience with them and to promote the tools developed by the project.

Conclusion

The following are now available:

- The "Professionalisation Guide" of the International Placement Services in three languages (English, French and Swedish).
- An Internet resource, on-line and in three languages, part of which is accessible to the public with an interest in international mobility (www.international-mobility.org) and part of which is accessible only to the international placement staff of the partner PESs. (www.members.international-mobility.org).

The European Commission has decided to use these new tools as part of its basic and continuing training of EURES advisers. In this connection, France and Sweden are extending their co-operation in the planning and implementation of continuing training in guidance and advice work.

Germany

THE ALLIANCE FOR EMPLOYMENT, TRAINING AND COMPETITIVENESS: OBJECTIVES, STRUCTURE AND RESULTS

Reducing unemployment is the primary policy objective for the German government. The Alliance for Employment, Training and Competitiveness was brought into being by the German government back in December 1998 in collaboration with representatives from trade associations and the unions. Within the framework of this Alliance, it has been possible to initiate a broad social dialogue, as well as take new paths towards an employment policy based on consensus.

The most important objectives

The most important objectives include:

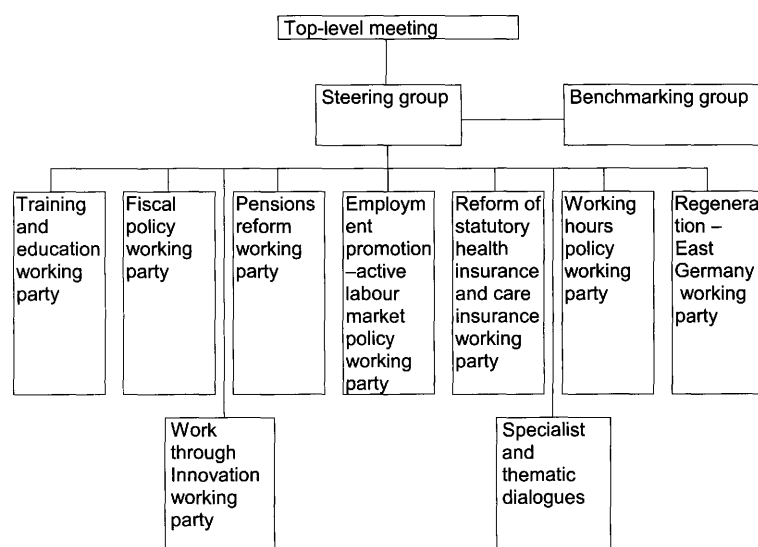
- labour-distribution models that promote employment: making working hours more flexible/reducing overtime
- improvement in the innovative ability and competitiveness of firms
- greater opportunities for early retirement
- wages policy that promotes employment
- permanent reduction in statutory non-wage labour costs and a structural reform of the national insurance system
- intensive measures against long-term and youth unemployment
- tapping new areas of employment and training opportunities for people with few qualifications.

Concessions have been made by all parties to reach the agreed objectives, which are based on the expectation that “mutual give and take” is accepted as the basic principle of the Alliance.

Alliance structure

To begin with, it was envisaged that there would be eight working parties, the “severance pay” group of experts and a series of specialist and thematic dialogues. In December 1999 and in January and March 2001, some adaptations were decided, resulting in the structure illustrated below:

Figure: Current structure of the Alliance



In addition, a Group of experts known as “EU Eastern Expansion” was set up.

The specialist and thematic dialogues were concluded by the end of 2000.

Procedures

Firstly, prospects for reform are discussed within the working parties responsible for the topic in question, under the guidance of the relevant Federal German Minister. The results achieved in this process are passed on to the steering group, where they are discussed, assessed politically and, if

applicable, submitted to the round of top-level talks within the Alliance for a final decision.

The steering group commissions the benchmarking group with the task of examining important topics that have an effect on the labour market from an international perspective. In so doing, the main task is to look for “best solutions” in comparable countries.

Such topics to date include / have included:

- international tax comparisons
- low-wage sector/employment opportunities for those with few

- qualifications
- working hours policy
- theses and appendices to the theses on motivational labour market policy examples of good practice in the area of in-company training in Germany
- economic data for the whole of Germany (“Benchmarking Deutschland”)

Results of the top-level meetings

On 04.03.2001, the seventh top-level meeting was held between the Alliance partners. This produced the following results:

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- The Alliance partners agreed a recruitment offensive. They will do what they can to reduce the high level of regular overtime in a number of areas in favour of extra jobs. To this end, they intend to make use of all available instruments, such as new recruitment, more flexible working-hours policy, greater deployment of part-time workers, an investitive working-hours policy (i.e. saving time credits in a working-hours account which are going to be used for further training), targeted use of fixed-term employment contracts.
 - Since the number of unoccupied vacancies is rising continually, the partners within the Alliance have resolved to embark on a “qualifications” offensive, by means of which the increasing shortfall in manpower is to be countered. As well as continuing the successful training consensus, numerous agreements have been reached in this area to improve vocational training. Employers and unions have undertaken to agree framework conditions for training in the sense of life-long learning and, in connection with the use of long-term “accounts” and other policy measures relating to working hours, endeavour that, when time credits are used for further training, there is also an investment of working hours. The Alliance partners will, once the next rounds of pay talks have been concluded, assess the progress achieved so far.
 - In addition, the Alliance for Employment has introduced a changed paradigm in the issue of employing older workers because, as a result of the demographic trend, the potential number of people in gainful employment will fall in the longer term, whilst the proportion of older people able and willing to work is set to rise. Instead of hiving older people out of work prematurely, they are to be increasingly offered employment. In future, the preventive policy of avoiding unemployment coupled with the reintegration of those who are already unemployed are to become the primary objectives of labour policy. The change in the paradigm has been implemented both as part of the Job-AQTIV Act as well as in individual collective pay agreements.
 - One further important success secured at the most recent top-level meeting has been the agreement that placement efforts should be intensified when it comes to reintegrating unemployed people into the labour market. To achieve this goal, the instruments of labour market policy are to be modernised to boost the number of people placed in work. This also involves redefining support measures and making them more transparent, in order to enable earlier integration back into the labour market, as well as improve the evaluation of the measures of active labour policy. Within the Alliance, additional instruments have already been agreed for the purposes of reintegrating the unemployed by means of job rotation and by giving older people qualifications. These reforms were realised as part of the Job-AQTIV Act which entered into force on 1st January 2002. Also, at the initiative of the Alliance, 3,000 extra people were taken on temporarily during the current year to boost the number of staff at employment offices to help find people work.
 - The Alliance partners welcome the new opportunities enshrined in law relating to additional provision for retirement. The partners expect employers and unions to submit proposals in plenty of time before the next round of pay talks on the continuation of collectively agreed and in-company opportunities relating to pension provision and wealth formation, taking into account the new form of support. In this area, collective agreements or contracts have already been concluded with some German unions in certain sectors of industry, such as Chemie, Metall, etc.
 - As a new area of discussion, the Alliance partners have reached an understanding that the “work through innovation” topic is to be intensively dealt with in a new working party within the framework of the Alliance. This issue ranges from the employment potentials of the information and communication technologies and corresponding services, through to support for innovation and improvement in the general conditions of the “new economy”. A corresponding final report will be submitted at the start of 2002.
 - The Alliance partners support the eastward expansion of the EU and will accompany this move by taking specific measures. Events will be held to make this more transparent.
- Previous top-level meetings have already led to far-reaching results and are already having a lasting effect:
- The agreement by the Alliance partners relating to the basic aspects of an employment-promoting wages policy ensured during the 2000 round of pay talks that the scope for redistribution of labour, made possible by advances in productivity, can be used in part to enter into agree-

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ments that create employment. In this way, the Alliance has made a quite considerable contribution to the creation of framework conditions within the economy as a whole that favour an economic upturn, not just in Germany, but also in the EU.

- As part of the consensus on training, binding procedures have been agreed in order to achieve the express goal: "Every young person who is willing and able should have training". Consequently, since the autumn of 1999, training conferences have been held within all employment office regions, at which specific measures have been and are being passed, such as on how the local training position can be improved. The activities of the Alliance partners have improved the prospects of young people looking for an apprenticeship. For the first time since 1995, on the key date of 30th September 2000 the number of empty training posts throughout Germany exceeded the number of applicants still looking for a place. This was again the case in 2001. On 30th September 2001, 20,462 applicants without a place were chasing 24,535 vacant training positions. The number of applicants without placements has thus fallen once more compared with last year.
- The direct relief programme introduced by the Federal German government at the beginning of 1999 to reduce youth unemployment is still proving successful. As a result of the direct relief programme to reduce youth unemployment - known in German by the acronym "JUMP" - around 377,000 various young people looking for training positions were offered training and

opportunities to acquire qualifications or a job by the end of November 2001 alone.

- Another major contribution towards reducing youth unemployment has been made by the IT offensive of the Alliance partners. The agreed target level of 40,000 training places in the new IT and media professions was far exceeded back in 2000. The target of 60,000 training places by 2003 was achieved as early as in 2001
- The Alliance for Employment has achieved an understanding about improvements relating to partial retirement for older workers. Corresponding regulations have since been enshrined in law, for example it is now easier to reallocate jobs which become vacant in SMEs of up to 50 staff as a result of older employees taking advantage of part-time working.
- Those involved in the Alliance agreed to make it easier for those with few qualifications and the long-term unemployed to enter into a job. The Federal government has, for this reason, set up the "Saar-Gemeinschaftsinitiative" (Saar community initiative) model project (in the Saarland and in Saxony) and the "Mainz Model" (in Rheinland-Pfalz and Brandenburg) in several areas, where, in particular, special allowances for national insurance contributions are given to employers and employees for the purpose of trying out incentives to create new jobs or for the resumption of gainful employment.
- The benchmarking group, made up of academics working with the Alliance, has provided valuable impetus by virtue of its report on working hours policy and on

"motivational labour market policy" to push forward reforms in this field. In the autumn of 2001, the benchmarking group commissioned a study of selected examples of good practice in the area of in-company training in Germany.

- Employers and unions have agreed to further reform the area collective pay agreement, designed to support the necessary variations from one industry to the next. In order to boost regulation of area collective pay agreements that are relevant to companies and to implementation in practice, selection and amendment options, collectively agreed "working-hours corridors" (variable scheduled working hours) and opening clauses are to be extended. This is an area where the Alliance for Employment has shown the right way ahead, with the result that legal changes in this area are not necessary.
- The Alliance at Federal (national) level also has a lasting influence at State (Länder) level, where it fulfils an "initiative" function. In numerous Federal States, however, independent alliances have sprung up. The implementation of the training consensus and the direct relief programme of the Federal government to reduce youth unemployment, coupled with the agreed guidelines and activities - agreed within the Alliance and involving the Federal States - to modernise vocational training and education reveal the organisational, guiding function the Alliance at national level has for the Länder.

This assessment clarifies the important contribution made by the Alliance for Employment, Training and Competitiveness towards the promotion of growth and employment in Germany.

SHORT TERM EMPLOYMENT TRENDS IN THE EUROPEAN UNION: AN OVERVIEW

Introduction

This spring issue of the EEO Review reflects on the impact of the changed economic parameters over the year 2001 on the employment performance of the European Union. The contributions by the SYSDM network of labour market experts assess the overall employment impact of the global economic slowdown and the events of September 11 at Member State level. They highlight the sectors and groups in the labour market groups most affected by these trends and events and seek to provide an initial assessment of the response of national labour market policies to these challenges. Continuing this theme, many of the contributions from the MISEP network of correspondents from the respective national ministries responsible for labour market policy highlight national policy responses to the changed labour market parameters. These contributions were prepared between December and March 2002 and therefore largely reflect labour market data up to the third month of 2001. This article seeks to provide an overview of these contributions and draws on the Autumn update of the Employment in Europe Report published by the European Commission in January 2002.

The changing economic situation

It is clear that the employment outlook in Europe has changed over the last year as a result of the worldwide economic slowdown resulting from

the 1999/ 2000 oil price shock and the burst of the dot.com bubble. Uncertainties related to future global economic development were exacerbated by a severe loss of consumer and producer confidence following the terrorist attacks of September 11 in the US. At the time of the events in America, several sectors of the European economy, in particular telecommunications, banking and insurance, tourism and transport, were already facing ongoing restructuring to adjust to the changing demands of a globalised and more integrated world economy. At the same time, employment growth in some of the driving sectors of the economy, in particular in the high technology ICT sectors, was already decelerating. As a result of these developments, all international organisations and national economic research institutes have revised their forecasts of GDP and employment growth significantly downwards. In its Autumn forecasts, the Commission foresees a Euro area GDP growth of 1.6% and 1.3% for 2001 and 2002, respectively, with a pick-up of economic activity in the second half of 2002.

Recent Employment Trends in the European Union

Overall trends

The most dramatic signal of worsening employment performance comes from figures for redundancies notified or announced by employers. By November 2001, notified or announced job cuts by major companies affecting European workers already amounted to almost half a million – more than half of which were announced in telecommunications, aviation,

tourism and financial intermediation. These announcements peaked in October 2001 when more than 100,000 job cuts were announced. This is one of the reasons why the increases in job losses became significantly attributed to events of September 11 by the media. However, as highlighted above, in many sectors – namely those continuing restructuring in 2001 – the recent declines in sales and producer confidence have only accelerated staff reductions that had been planned some time before. These job cuts are accompanied by reductions in the number of vacancies, or even by recruitment freezes, as well as by increases in short-time working allowances such as “Kurzarbeit” in Germany or “Cassa Integrazione e Guadagni” in Italy.

The overall picture shows that employment growth, like real GDP growth, is slowing across Europe (see Table 1). Eurostat data show some deceleration in year-to-year employment growth since the second quarter of 2001. Employment growth at 1.8% in the first quarter of 2001 was still above the 1.6% recorded in the first quarter a year earlier. However, year-to-year employment growth rates at EU-level declined for the first time during the second quarter of 2001, from 1.9% in the second quarter of 2000 to 1.4% in the second quarter of 2001. Estimates of EU-level employment growth in the third quarter 2001 quoted in the Autumn update of the Employment in Europe Report indicate continued employment growth at a rate slightly above 1%. Recent forecasts generally agree that EU-level employment growth will come to a halt in 2002 and start increasing again in late 2002 or early 2003.

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Differences between Member States

Irrespective of the differences in employment performance between Member States, the recent positive trend of increasing rates of employment growth had been reversed in most of them before the second quarter 2001 and the events of September 11th. Indeed, the upward trend in higher year-on-year employment growth rates was arrested as early as 1998/99 in Greece, the Netherlands, Finland and Ireland. In 2000, there were signs of reduced job creation also in Austria, Germany, Denmark and the UK. Employment growth started to decelerate in Spain, France and Sweden in early 2001. By the first quarter of 2001, year-on-year employment growth in some Member States (Denmark, Germany, Ireland, Netherlands, and Austria) was already below 2000 rates, with a particularly strong contraction in employment in the construction sector in Germany. In the second quarter of the year, the speed of job creation in the EU slowed further, with lower employment growth rates than a year before in Belgium, Spain, Finland, Sweden and the UK. This was mainly the result of both a further reduction in employment in the construction sector and a deceleration of employment growth in the service sector. During the second quarter of 2001, only in France, Italy and Portugal was employment still growing faster than one year before. Preliminary results for the third quar-

ter of 2001 for some Member States confirm that there has been a further slowdown in employment creation.

Differences between the employment performance of men and women

These decreases in employment growth rates are observed for both men and women. Growth rates for female employment decreased from 2.5% in the second and third quarters of 2000 to 1.8% in the second and 1.6% in the third quarter of 2001. Male employment growth rates fell to 1.0% in the third quarter of 2001, down from 1.6% in the fourth quarter 2000. Female employment (1.6% in the second and 1.8% in the third quarter 2001) continued to grow faster than male employment (1.0% and 1.2%, respectively) in all Member States except Belgium, the Netherlands, Germany and Denmark, although at a lower rate than one year before (2.5%). While stagnant in Germany, female employment actually decreased in the first half of 2001 in Denmark. In France, employment growth continued to be similar for men and women. Only in Italy, Austria, Finland and the UK did the female employment growth rate in the second quarter 2001 exceed 2000 growth rates. The deceleration in employment creation for women was also reflected in lower job creation in the service sector (1.9% in the second and 1.8% in the third quarter 2001, down from 2.7% a year earlier). For men, employment growth in the third

quarter 2001 had fallen to 1.0%, from 1.4% in 2000. While it was still higher than in 2000 in Spain, Italy, France, the Netherlands and Portugal, male employment stagnated in Germany and decreased in Austria and Sweden.

The impact on temporary contracts

The recent decline in year-on-year employment growth rates has been particularly marked for temporary contracts. This decline was noticeable from 1998, but was especially sharp in the first half of 2001 when it fell by almost 3 percentage points to 0.4% in the second quarter 2001. It then slightly recovered to 0.8% in the third quarter, down from 2.9% a year before. Over the last two quarters, employment growth for permanent contracts exceeded that for temporary contracts for the first time in 5 years.

Trends in unemployment

Paralleling positive employment performance until the year 2000, unemployment decreased all over Europe during the second half of the 1990s, in particular from 1997. Female, youth and long-term unemployment have also declined significantly. Europe's unemployment patterns were different to those of the US, where unemployment rates started to increase during the second half of 2000, and in Japan, where unemployment rates have been steadily increasing throughout the second half of the 1990s. European Union unemployment rates have – thus far – been less adversely affected by the recent economic slowdown than those of the United States and Japan. In October 2001, youth, long-term and overall unemployment rates at the EU-level and in most Member States were lower than in the previous few years. After significant reductions in the unemployment rate to levels below 8% in 2000, the EU unemployment rate stood at 7.7% in October 2001.

Table 1: Economic and employment performance in the EU 1999–2001

	2001	2000	1999
GDP growth	1.7	3.3	2.6
Employment growth	1.1	1.7	1.6
Activity rate	69.4	69.0	68.7
Employment rate	64.0	63.3	62.3
Unemployment rate	7.7	8.2	9.1

Source: Commission Services, quoted in *Autumn update of Employment in Europe report 2001*

Trends

In the US and Japan, third quarter 2001 unemployment rates had exceeded 5%. These levels have been unknown for more than 4 years in the US, and represent a first-time high in Japan. Since October 2000, unemployment rates have increased by 1.4 percentage points in the US and by 0.5 percentage points in Japan. In these two countries in particular, youth unemployment rates have shown strong recent increases. However, levels of unemployment remain significantly higher in the EU than in the US and Japan, in particular for the young. Despite the fact that EU unemployment rates are still lower than a year before, the positive trend in EU-level unemployment came to a halt in early 2001, and the decrease in the unemployment rate has decelerated since mid 2001. This applies to overall unemployment rates as well as to female and youth unemployment rates. Recent unemployment trends vary significantly across Member States. Monthly unemployment data show an increase in unemployment rates in most Member States, including Austria, Germany, France, the UK, Ireland, Sweden, Portugal, Belgium and Luxembourg. In other Member States, including the Netherlands and Finland, the unemployment rate has stabilised.

Since the early months of 2001, EU unemployment rates have stagnated for both men and women across all age groups. Unemployment rates in the EU are steady at 6.7% for men, at 8.9% for women, and at 15.3% for young people. There are some indications that male unemployment will be affected more strongly than female unemployment by the recent slowdown. Indeed, the sectors dominated by male employment are affected more strongly by the current deceleration in employment growth than those dominated by female employment. Female unemployment rates continued to decrease, falling by half

a percentage point between October 2000 and October 2001.

There is, moreover, a stronger effect on youth employment – with youth unemployment rates increasing faster than overall unemployment rates in the US and Japan – and a faster deceleration in employment creation for young than for prime-aged people in Europe. In the US and Japan, youth unemployment rates increased by 2.4 and 0.8 percentage points respectively, between October 2000 and October 2001. Rising youth unemployment might well reflect a tendency of many firms to respond to economic slowdown by reducing recruitment in preference to introducing redundancies. In particular the share of “first-time job seekers” among the young unemployed seems to be considerably higher in the third quarter 2001 than one year before. Youth unemployment rose over the course of 2001 in Sweden, Austria, Portugal, Belgium, Germany, Ireland, the UK and France. In these Member States, except for the UK, youth unemployment rates in October 2001 were higher than one year before.

According to recent estimates, the EU-level long-term unemployment rate continued to decline until the third quarter 2001 to around 3%, down from 4% in early 2000. This leaves more than a third of the European unemployed in long-term unemployment.

Sectoral variations in employment performance

For the purposes of their contributions to the EEO review, the SYSDM experts were asked to reflect specifically on the impact of the economic slowdown and the terrorist attacks in America on certain sectors of the economy (aviation, tourism, financial services and ICT). Their reports reveal that in many cases these sectors were particularly affected. However, the slowdown in

employment growth applies to all sectors, and in many cases has been particularly severe in sectors not widely perceived in the media as being among those to suffer most from recent developments (such as construction for example).

European-wide data show that although growth rates clearly remain strongest in the service sector, they have been decelerating slowly from 2.7% in the second and third quarter of 2000 to below 2% in the second (1.9%) and third (1.8%) quarter of 2001. The trend change in employment performance in the manufacturing sector, combined with the ongoing decline in employment growth in the construction sector since early 2001, caused employment creation in industry to come to a halt in the second quarter of 2001, and to recede slightly in the third quarter of 2001.

Within the service sector, deceleration of employment growth has been strongest in “transport and communication” where growth rates dropped by 1.5 percentage points to 2.4% in the second quarter and by 2 percentage points to 1.6% in the third quarter. Falls of employment growth rates by more than a percentage point have also occurred in “financial intermediation” and in “wholesale and retail trade, hotels and restaurants”. While employment growth has been decelerating in these sectors since the second half of 2000, the acceleration of employment growth in the other service sectors, including “health and social services” and “public administration”, was subject to a trend change only in the second quarter 2001.

The following briefly summarises the experiences of the sectors outlined above:

Aviation industry

European airline companies faced significant declines in bookings and passenger numbers following the

Trends

September 11 attacks, ranging from -7% for Air France and -10% for Lufthansa to -20% or more for Alitalia, British Airways and Sabena. Companies responded with reductions in fleet capacity, cutbacks in investment, partial increases in flight rates and reductions in staff costs. In some cases, companies were conceded temporary state aids, and national governments gave guarantees of continued insurance coverage once private insurance companies had stepped back from the existing contracts. Total notified or announced redundancies by the EU airline companies amount to more than 30,000, with reductions in the labour force affecting more than one quarter of employees in some companies, and a majority in the case of Sabena which terminated its economic activity in November 2001. This surge in layoffs follows a period in which employment in air transport in the EU increased steadily by around one third over the last decade to almost 420,000 in 2000.

Employment related responses to the stark decline in sales differ across companies. Some have announced reductions in staff and recruitment freezes. The first to go were those on fixed-term contracts, some of them even part of the better paid flying personnel. Other companies such as Lufthansa are negotiating with worker representatives to implement revised working time arrangements in combination with pay cuts, a deferral of pay increases and the abolition of extra payments such as Christmas bonuses. In cases such as Austrian Airlines, employers offer training and outplacement support. In the case of Sabena, more than 7,500 of the almost 13,000 employees were laid off. Around 1,700 of these were re-hired by the Sabena daughter DAT that took over the flight operations. A social guidance plan covering around two thirds of the redundant employees was agreed between the trade

unions and the government. This plan foresees payments to the redundant employees from the Fund for the Closure of Businesses as well as further activation and compensation bonuses.

Tourism

At the time of writing of the contributions to this review, it was largely only estimates which were available in relation to the impact of September 11 on this sector. These indicated a 10% decline in business from customers within Europe and by up to 20% from customers in the US. However, in many cases, those countries relying most on tourism indicate that they expect to make up for much of the shortfall for visitors from the US with increased bookings from their neighbouring European states and domestic tourists.

On the whole, while demand for leisure and business tourism services continues to grow, employment growth in this sector had already begun to decline in 2000 as the industry undergoes major structural and technological changes.

Financial intermediation, in particular banking and insurance

Employment in financial intermediation, including banking and insurance, has been relatively stable at 3.3 million throughout the 1990s, representing slightly more than 2% of total employment in the EU. Employment shares are further relatively similar across Member States, ranging from 1.2% in Sweden to 2.7% in Belgium and Ireland. The only exception to this is Luxembourg where more than 8% of all employed work in financial intermediation. While this sector was clearly affected by the exceptionally high nature of insurance claims following September 11th, restructuring in this sector significantly pre-dates the events in the United States. Thus far the insurance sector has not announced disproportionate numbers

of redundancies, with the exception of in Ireland and Germany. In the latter special actions (such as short time working etc) are planned to reduce the need for redundancies in the sector.

Information and Telecommunications

There were a significant number of high-profile redundancy announcements in the

ICT sector in Western Europe, particularly from hardware manufacturers. Between February and November 2001, almost 150,000 job losses were announced in this sector – more than two thirds of them by telecoms companies. Areas with a high degree of ICT activity, such as Ireland, have been particularly badly hit. These employment losses come after several years of strong job creation. They are partly due to the general economic slowdown: ICT investment by businesses is quite sensitive to the business cycle. They also reflect the fact that the mobile telephony market, the fastest-growing segment of the last ten years, has reached maturity. As the business cycle picks up again, and as the mobile Internet takes over the leading edge market, it is to be expected that the sector will revert to its long-term growth average. Although most of the new jobs will have a different profile from those recently lost, the expected strong demand for ICT skilled workers may well more than compensate for recent employment reductions.

The policy response

The key to dealing with the current situation is to find the right balance between the need for short term adjustments and the long term strategy of increasing human capital potential. This is also one of the key concerns of the European Employment Strategy and related actions aimed at creating “more and better jobs” and

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the achievement of the “full employment” goal of a 70% employment rate to be achieved by 2010 as set out in the Lisbon strategy.

It is therefore crucial to assess how companies and Member States are dealing with the current slowdown in economic performance.

Most national governments have framed their responses within the context of the ongoing reform of labour market policies towards activation measures and support for employability measures within the spirit of the goals of the European Employment Guidelines. Few countries have specifically adapted such policies to deal with the impact of the current slowdown, although in many cases the recent slowdown in employment growth has led to greater recourse to existing measures such as short time working (for example in Germany and Italy).

Some governments have provided targeted financial assistance to the sectors most affected by economic restructuring and the fallout from September 11th. The main beneficiaries of such assistance packages have been the aviation and tourism industries, although the economic stimulation programme adopted by the Austrian government also emphasises initiatives for the ailing construction industry. Specific aid packages are also made available to employees and regions affected by large-scale lay offs effected by one enterprise.

Greece has sought to boost the overall economic performance by introducing new legislation on taxation to boost consumer demand. Another piece of legislation limits overtime working in order to boost job creation.

In France, a new law (in preparation prior to September 11th) requires companies to invest more in preventative action prior to resorting to redundancies and strengthens the role of employee representatives in negotiating adaptation to change.

Companies have responded to the economic challenges in a number of ways, with a number of companies either keen to prevent redundancies or effecting lay-offs through social plans agreed with employee representatives. This is particularly the case in countries where a framework of the conclusion of such negotiated settlements exists. Where redundancies have been considered inevitable, the most common approach has been to effect these by not renewing fixed term contracts, or putting in place recruitment freezes or early retirement packages. The latter is still a widely used strategy, despite efforts by national and European policy makers to reverse the trend towards early retirement.

In some cases, redundancies have been avoided in negotiation between the social partners through agreements on the temporary reduction of working time, the reduction or tem-

porary freeze of bonus payments, wage restraints and negotiated wage freezes.

Less common are active company internal measures involving outplacement, retraining or re-deployment.

It appears prudent to learn from the experiences of different adaptations to change and to identify approaches which have working well in particular company or national contexts. Learning from such experience and the exchange of information in this area is one of the aims of the recently published first stage consultation by the Commission with the social partners on “adapting to change”.

Employment outlook

The Autumn update of the 2001 Employment in Europe Report forecasts an improvement in the employment performance of the Union from 2003 compared to the latter quarters of 2001 and compared to 2002. However, this is likely to remain behind the growth rates experienced in the late 1990s and 2000. The achievement of the target employment rate of 70% by 2010 and in particular the target rate for the employment of older workers of 50% by 2010 is likely to remain a significant challenge for policy makers.



Austria

SHORT-TERM LABOUR MARKET DEVELOPMENTS IN AUSTRIA 2001

Downturn in economic activity since mid 2000

Decline in growth of GDP since mid 2000

Growth in Austrian GDP in real terms reached its high point in the second quarter of the year 2000 since when, viewed on a quarterly basis, it has seen a gradual slowdown. This decline in the growth of Austrian GDP is expected to continue in the first half of 2002.

External and domestic economic factors

The causes of this downturn can be found in Austria's economic interdependence with foreign trading partners and its own domestic economy.

Fall in exports of manufactured goods

In terms of external economic factors, the manufacturing sector in particular has had to deal with considerable setbacks in its export markets. The price commanded by manufactured goods internationally, combined with a drop in orders, has significantly slowed the creation of added value in this sector. By contrast, the signs coming from the tourism industry are more positive, despite the events of September 11th.

Tightened public spending

Development of the domestic economy has been characterised predominantly by tight control of public spending.

Increased tax burdens

On the "income" side, the tax burden on both private households and businesses rose sharply during 2001, with the tax load ratio increasing from 43.9% (2000) to 45.5% (2001). Revenue from corporation tax (on company profits) alone was 117% higher in the last quarter of 2001 than in the same period the previous year.

Slowdown in building investment

The "expenditure" side, in contrast, has seen a slowdown in public sector spending on capital projects and a fall in public sector employment levels.

Businesses and private households spending more cautiously

These developments and measures (underlined by the events of 11th September) have caused businesses and private individuals alike to adopt more cautious spending habits, particularly in certain sectors.

Varied rates of response in the labour market

Falls in employment since December 2001

Following the high point of economic activity in the year 2000, it took several quarters before the

first signs of a slowdown were seen in the labour market. Standard employment continued to grow until the fourth quarter of 2001, with December 2001 showing the first absolute drop in employment.

Sector-specific development

This overall trend in employment resulted from the overlapping of employment trends in a number of different sectors:

Construction

In the construction industry employment levels were significantly lower month on month in 2001 than they had been in 2000, reflecting a reduction in public investment.

Public administration

The tight control of public spending also manifested itself in public administration, where employment levels were clearly below those of the previous year.

Transport and communications

The equally sharp drop in employment levels in the transport and communications sector was also evident from the start of the year, following workforce cuts made in the course of post office and telephone privatisation.

Manufacturing

The first drop in employment figures in the manufacturing sector was not registered until September 2001, but then the monthly rate of job-losses increased five-fold within one quarter.

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Downturn in growth reflected even in expanding sectors

Alongside the reduction in employment levels outlined above, expanding sectors also experienced a slowdown in growth. At the start of 2001, for example, the “economic services” sector was still seeing increased monthly recruitment figures of over 20,000 in comparison to the previous year. By the end of the year, however, this rate of increase had fallen by approximately two thirds.

Job losses at company level

October 2001: Early warning system reports over 225,700 job losses

Businesses planning to make staff cuts have to report them to the Austrian Labour Market Service within the framework of the “early warning system”. These early warnings reached a high point in October 2001 when 448 businesses reported a total of 25,752 intended redundancies.

Over 3,400 jobs at risk in the manufacturing sector

In the manufacturing sector alone 74 businesses gave a precautionary warning of some 3,419 jobs potentially at risk in their plants.

VOEST-Alpine-Anlagenbau

One example of such job losses came in the warning issued by VOEST-Alpine-Anlagenbau of some 350 redundancies at their Linz plant, following a collapse in the market for large-scale projects.

Frequentis

A producer of equipment for air navigation systems, “Frequentis” announced a planned reduction of 20% of its workforce following the crisis in the airline sector.

Unitech

Following a drop in orders from its

principal client, Ericsson, Unitech announced that it would be laying off almost a quarter of its workforce with the loss of some 310 jobs.

Part of this sudden trimming of workforces by Austrian companies came as a result of restructuring within their international parent companies:

Elektra Bregenz

Elektra Bregenz, a subsidiary of Moulinex Brandt, announced a total of 231 redundancies following the compulsory winding up of its parent company.

Phillips

Phillips Austria cut 1,200 jobs previously filled predominantly by personnel leasing.

Alcatel

Alcatel Austria cut its workforce at one plant by 15%.

Semperit

Semperit planned to shed almost all its jobs in the tyre production sector on instructions from its German parent company, Continental.

Unemployment caused by job losses

Growing unemployment

Until December 2001, staff cuts in the construction industry and in the public, transport and manufacturing sectors continued to be offset by new jobs in other areas. However, this was not sufficient to halt a rapid increase in unemployment during 2001.

January 2001: Employment growth outweighs increases in labour supply

As late as January 2001 unemployment figures continued to fall, dropping by some 21,000 in comparison with the previous year. The growth in employment (+26,523)

was easily able to absorb the increase in those seeking work (+5,625).

December 2001: Employment levels fall as labour supply increases

In December 2001 the ratio between employment growth and labour supply had completely reversed, with the number of those in work falling by 667 (as against the previous year) while those seeking work grew by 50,022.

Fewer men but more women in employment

This strong labour supply position was the result of a gender-specific structural change in the labour market. While the number of men in employment fell over 2001 as a whole, employment levels among women showed a clear increase. In December 2001 the ratio was men down 14,155 and women up 13,488.

This trend encouraged more women to enter the labour market (despite the economic downturn), while men tended to join the ranks of the unemployed after losing their jobs.

Overall growth in unemployment figures of nearly 50,900 in December 2001

By December 2001 unemployment amongst men was already one third (34.3%) higher than in the previous year, while the increase amongst women was only 8.2%. In total, December 2001 saw a growth in unemployment of 50,869.

Public and company-specific measures designed to counter adverse developments in the labour market

Tight budgetary controls maintained despite worsening employment figures

Despite rapidly worsening employ-

ment figures, the national government failed to implement any initiatives designed to offset the problems, even on a partial or temporary basis. The implementation of extraordinarily tight budget controls (higher taxes/lower spending) continued. At regional level, the bringing forward of certain planned infrastructure measures (particularly in the building sector) was considered.

Funding for active measures below EU average

In the most favourable cases, the Austrian Labour Market Service has been able to stabilise its funding for active labour market measures. However, at 0.49% of GDP they represent only half the EU average (0.99% of GDP).

An aggressive approach despite budget restrictions

Despite these financial constraints, the Austrian Labour Market Service is seeking actively to counter this growing problem. This includes the concentration of the Labour Market Service's resources on its core activities which, rather than being simply reactive, combine short-term relief with medium-term structural changes.

Setting up of "employment foundations"

One example of this strategy is the setting up of "employment foundations" jointly organised and financed by central and local government, employers and employees. The purpose of these foundations is to use redundancy as a springboard for the long-term acquisition of qualifications. They will operate at both company-specific and cross-sector levels. In the short term, the foundations will protect redundant workers from unemployment, while in the long term they will provide qualifications which will be in short supply

Figure 1: Unemployment as a result of increasing labour supply at a time of falling employment levels Standard employment, unemployment and labour supply, change 2000/2001

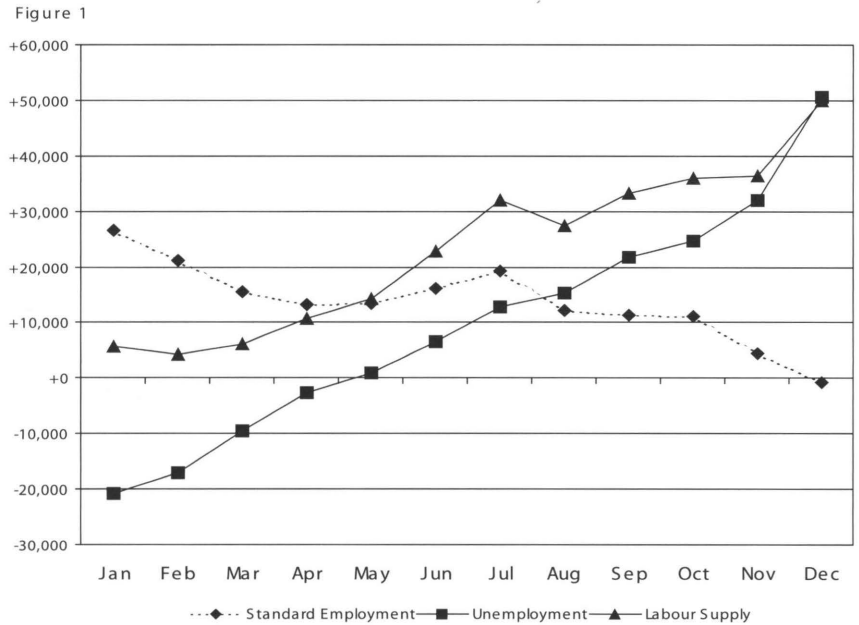
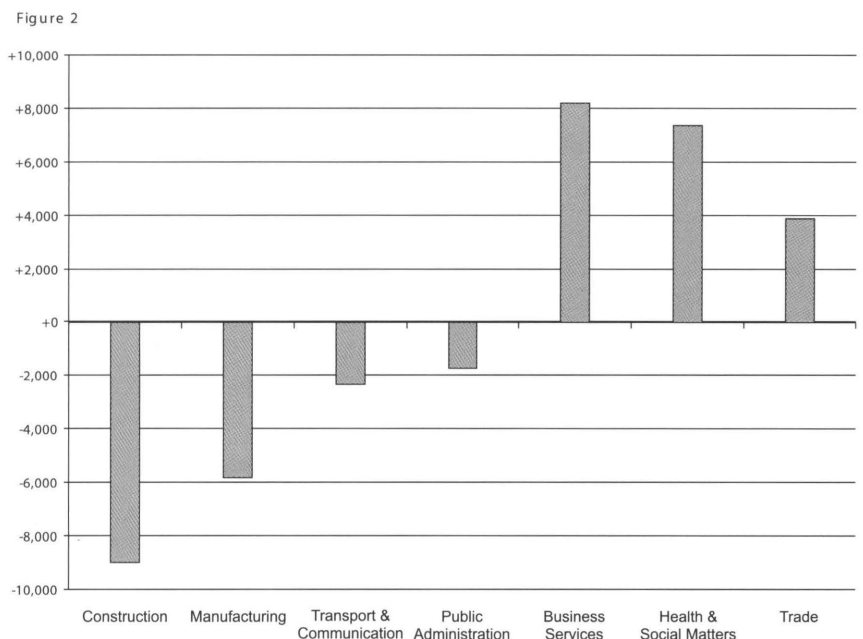


Figure 2: Sectors with marked employment changes. Employment figures for December 2001 compared with December 2000



in the next economic upturn. In periods of rising unemployment the foundations also address the problem of “qualification bottlenecks” where personnel policy is concerned. One of these foundations, offering at least 2000 places, is planned for the construction industry.

Targeted working time management

Employer involvement in these funds represents one of the “pro-active” social plan variants which employers are legally obliged to draw up in the event of large-scale redundancies. Another such “pro-active” variant is the attempt to avoid the need for far-reaching redundancies through the targeted management of working hours. This was a proposal put forward by the Works Council of Austrian Airlines in an attempt to reduce significantly the total of 850 redundancies announced by management. The Works Council took as its model the measures taken during the 1993 crisis when the company was able to reduce its wage bill by 500 person-years without having to make a single redundancy. This proved to be a positive employment policy in the second half of the 1990s. The management balloted flying and ground staff on separate packages of measures, the aim of these packages being to

reduce the wage bill by 930 person-years which would otherwise have to be achieved by 250 redundancies.

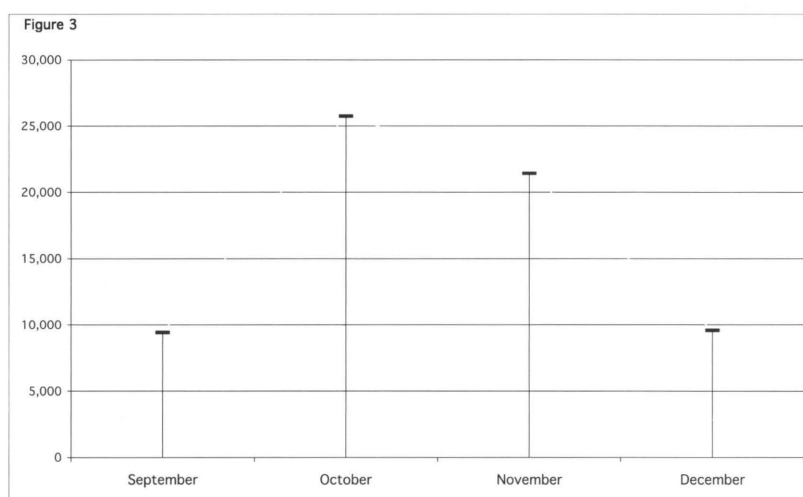
Increased commitment to apprenticeships

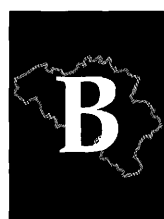
Longer-term employment policy considerations also form the basis for initiatives to increase commitment to the training of apprentices in the retail sector. For example,

the “Hofer” supermarket chain (an Aldi group subsidiary) has announced a move away from its current “no training” policy with the forthcoming creation of 100 apprenticeships.

*Mag. Petra Gregoritsch
Prof. Michael Wagner-Pinter*

Figure 3: Number of redundancies "announced" by businesses ("early warning system") September to December 2001





Belgium

THE IMPACT OF THE TERRORIST ATTACKS OF 11 SEPTEMBER ON THE BELGIAN LABOUR MARKET

Introduction

It is a well-known fact that the world economy, including the Belgian economy, had already gone into recession before 11 September. The terrorist attacks were expected to have either an intensifying effect on the recession, or at least a delaying effect on the expected recovery during the first half of 2002. This means that (second-order) changes in trends

need to be analysed rather than the trends themselves. Also time lags of up to six months between trends in production and employment need to be taken into account, which means that the strongest effects of the attacks are still to come. We therefore have to rely, wherever possible, on revised economic forecasts when trying to assess their overall impact.

Section 1. Economic background

1.1 Initial position: weakening of economic growth in the second quarter of 2001, stagnation in the third quarter.

The weakening of economic growth that affected Belgium during mid-

2000 continued throughout the second quarter of 2001 and, for the first time in two and a half years, led to a slackening of economic activity compared with the previous quarter (see table 1). After seasonal adjustment and correction for calendar effects, the quarter-to-quarter movement of the gross domestic product (GDP) in terms of volume in the second quarter of 2001 showed a decrease of 0.5%, as against a 0.2% increase during the first quarter. Economic activity stabilised during the third quarter. The consequence is that economic growth is down compared with the corresponding quarter of the previous year, reaching only 0.7%, as against 1.4% during the second quarter.

Table 1: Quarterly aggregate trends: percentage rate of change relative to the corresponding period of the previous year (gross data against 1995 prices)

	1999		2000				2001		
	III	IV	I	II	III	IV	I	II	III
1. Added value									
Industry	2.8	5.0	6.2	3.1	1.1	2.4	2.3	-0.1	-0.6
Building & Construction	4.1	11.3	13.0	9.4	9.0	5.9	1.8	1.1	-2.1
Services	2.7	4.2	4.6	3.9	3.4	3.4	2.4	2.7	1.5
2. Expenditure									
Private Consumer Expenditure	2.7	3.0	4.7	4.7	3.0	2.9	2.1	1.7	1.3
Income in fixed assets (gross)	4.0	-0.7	4.1	1.5	0.7	3.9	1.3	-0.7	-0.4
Enterprises	5.2	-1.2	5.9	1.6	0.3	5.1	1.9	-0.6	0.1
Housing	-3.6	-3.9	-1.7	0.2	2.5	3.4	2.8	2.6	3.1
Government	18.7	14.1	8.8	3.8	-0.8	-5.2	-7.1	-10.0	-13.3
Export of goods & services	6.5	8.6	14.9	9.5	6.7	8.0	4.5	0.5	-3.4
Import of goods & services	3.2	7.7	14.2	9.1	8.7	7.2	3.0	0.8	-5.2
Net export of goods & services (1)	2.5	1.0	1.1	0.8	-1.0	0.9	1.4	-0.1	1.2
3. Gross domestic product									
GDP (quarter to quarter change*)	1.6	1.8	0.2	1.0	0.8	0.9	0.2	-0.5	0.0

*: (Data after seasonal adjustment and correction for calendar effects)

Source: INR/Institute for National Accounts

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In short, the second quarter of 2001 was already showing some gloomy results, both in international trade and general economic activity. The figures for the third quarter (July to September) show a stabilisation, although international trade is still declining. Since the figures for the fourth quarter are not yet available, it is not possible to make a real estimate of the effects of 11 September. In terms of employment the full force of the aftermath of 11 September is not expected to be felt until the spring of 2002.

1.2 The shock of 11 September

1.2.1 The economic barometer

The general synthetic gross indicator of the National Bank of Belgium (the most sensitive to exogenous shocks) has fallen considerably in September (see table 2). Because of the marked economic downturn in the processing industry and in commerce, the indicator reached its lowest value since December 1995. In the building and construction industry recession was rather more contained. After a sharp improvement in October and near-stabilisation in November, the general synthetic gross indicator rose again in December. This improvement is due to a positive development in commerce and processing industry.

The downward trend in synthetic smoothed indicators, which show the fundamental movements in the economy by eliminating the extreme points, is continuing. Figures for business services are not included in the general synthetic curve but the synthetic gross indicator has risen for the second successive month. The smoothed indicator is nevertheless still pointing downwards.

1.2.2 Investment expectations

According to the provisional results from the investment survey in November 2001, which was carried out by the National Bank of Belgium in the processing industry (this excludes construction companies and businesses in the "electricity, gas and water" sector), investments in durable fixed assets were expected to increase by 0.1% in 2001. In the survey in May 2001 businesses still saw their investments growing by 7.5%; overall the - provisional - forecasts for the current year therefore come out lower than those in the spring. They also show a slight fall in relation to the increase in investment of 2.8% seen in 2000. The downward revision of the figures for 2001 has taken place in virtually all major business sectors. It is particularly pronounced in the textiles sector, the non-ferrous metals, in iron and steel

companies and in the metal processing industry with the exception of automotive assembly. Investments in the chemical sector, on the other hand, are increasing significantly, as was already clear from the last spring survey.

According to the forecasts in the autumn survey, investments in the processing industry should rise by only 2.2% in 2002. This result indicates that in November 2001 companies were still extremely cautious about their projects for the coming year.

1.2.3. Consumer confidence

The indicator for consumer confidence, which had fallen to a low point during the fourth quarter of 2001, improved significantly for the second successive month in January 2002. The general indicator is now back at the level seen in August 2001. Households are, as in December, mainly more optimistic about general economic expectations. In comparison with August 2001 only the development of unemployment is estimated to be less favourable.

1.3 Review of the economic budget for 2002

Every year, the Institute for National Accounts (INR) compiles the economic budget that serves as a basis

'Table 2: Trend in economic indicators in 2001'

	General synthetic smoothed indicator (1)				General synthetic gross indicator (2)				
	05/01	06/01	07/01	08/01	08/01	09/01	10/01	11/01	12/01
Processing industry	-14.3	-15.0	-15.8	-16.4	-15.4	-21.1	-17.0	-19.0	-16.9
Building and construction	+1.2	+0.7	-0.7	-2.1	-4.1	-5.3	-4.3	-3.7	-4.4
Commerce	-1.4	-3.3	-5.3	-6.8	-4.8	-9.7	-13.8	-8.3	-2.3
Total for the three sectors	-10.4	-10.9	-11.7	-12.6	-12.1	-17.0	-14.6	-15.1	-12.8
Business-to-business services *	11.8	9.9	6.7	2.9	2.9	-3.7	-6.0	-5.8	-2.7

(1) Seasonally adjusted and smoothed series

(2) Seasonally adjusted series

* : business-to-business services are not included in the total

Source: National Bank of Belgium (NBB)

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for drawing up the federal revenue and expenditure budget. This economic budget (drafted in July 2001) was updated in October 2001 because of the deterioration of the economic climate.

A comparison of the original (July 2001) and revised key figures (October 2001) for the Belgian economy allows an assessment to be made of the effects of the economic slowdown in recent as well as in the coming months. The revised figures estimate that GDP, in real terms, will increase by not more than 1.1% in 2001, with a predicted 1.3% for 2002. When the economic budget was being drafted in July 2001, economic growth of 2.4% was forecast for 2001, with a predicted 2.8% for 2002. The corrected annual average growth rates assumes slightly negative growth figures (quarter-to-quarter) during the second half of 2001 while, as a result of the upturn in export, positive and steadily rising quarterly growth rates are again expected to be recorded during 2002.

On the whole, domestic demand is expected to increase by only 1.1% in 2001 and 2002, while the average increase over the past five years has been 2.5%. Exports stand to suffer greatly under slower world demand in 2001, and are consequently likely to grow by no more than 0.8%. In 2002 exports are forecast to increase more rapidly and to reach an average annual growth of 2.8%. However, weak domestic demand looks set to make a positive contribution - through net exports - to economic growth in 2002 (0.3%) after a zero contribution this year. In combination with a terms of trade increase of 0.4%, the balance of the current account will probably reach 4.7% of GDP in 2002, its highest level since 1997.

The review of the economic budget has not yet taken into account Sabena's bankruptcy. Projections by INR indicate that the growth percent-

age of the economy for 2001 is likely to be reduced by a further 0.2%.

1.4 Slower employment growth, increased unemployment in 2002

There is always a lag between changes in economic activity and employment. Measured against the year-on-year quarterly growth of GDP, economic growth began to slow down from around mid-2000, but the effects on employment did not begin to appear until the second quarter of 2001. The effects of delaying economic growth were explored via the revised INR economic budget. Comparison of the original July figures and revised October figures allows an assessment to be made of the effects on the labour market during the past months.

From the figures the first conclusion is that the total domestic employment in 2001 (annual average) is not seriously affected and is still likely to increase by 40,000 (or 1%) as originally anticipated. In annual averages, the consequences in 2001 remain limited to a slowing down of the decrease in unemployment figures. Because of the increase of the working population, this will not yet find expression in the unemployment rate in 2001. The average decrease in unemployment on an annual basis of 7,800 estimated in July will now probably be only half that figure. It should be noted that unemployment 'in the strict sense' still fell by 33,000 in 2000.

In 2002, the upturn in job creation is likely to occur relatively late, after the economic recovery. Job creation (annual average) is expected to total only 13,000 (the estimate was still 45,000 in July). In July 2001, based on a (then estimated) recovery of economic growth, a reduction in unemployment of 22,300 was still being predicted for 2002. It is now estimated that unemployment will increase by approximately 12,700 - which suggests a loss of 35,000 jobs

(by the end of 2002) mainly as a consequence of the 11 September crisis.

Given these circumstances, the employment rate (the working population as a percentage of the population of working age) is likely to fall slightly in 2002 and reach 59.4% compared with 59.5% in 2001.

1.5 Detailed analysis: Flanders first and worst affected

1.5.1 Trend in unemployment figures, August-October 2001

There are large regional differences in the Belgian labour market. In the Flemish and the Brussels Capital Region the total number of non-working job seekers continues to decrease compared with the corresponding month in 2000 up to and including the month of August. In Wallonia this decrease follows through into September and October. Compared with December 2000, the number of non-working job seekers in December 2001 has risen by 12.5% in the Flemish region and 9.9% in the Brussels Capital region.

1.5.2 Trend in vacancies in the regional public employment services

A further indicator for the slackening of economic activity is reflected in the trend in notified and open vacancies. It should, however, be noted that these figures relate only to vacancies advertised in the regional job centres. Secondly, care must be taken when interpreting these data, since 1 vacancy may contain several job offers. Here again there are large regional variations. The Flemish Region for instance accounts for slightly less than three quarters of the total number of notified vacancies, its share of the number of open vacancies being slightly more than 75%.

Figures from the Federal Employment Agency show that the number of notified vacancies decreased, particularly in September

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(compared with the same month in 2000). This decrease was most pronounced in the Brussels Capital Region (-37%) and the Flemish Region (-15%). The number of open vacancies at the end of the month had likewise fallen sharply, especially in Flanders (-20%) and Brussels (-12%). During the months that followed, the number of unfilled vacancies fell further. The number of vacancies received in December in the Flemish Region stabilised at a level comparable with last year, while in the Walloon and Brussels Capital Region the development is still worrying.

1.5.3 Fall in activity in the temporary employment sector

The economically sensitive temporary employment sector is taken as a final indicator of economic activity. According to the temporary employment federation, Upedi, the second quarter of 2001 was characterised by a marked reduction in activity in the temporary employment sector. After an increase in activity during the third quarter, the figures for November and December again show a downward trend on an annual basis.

1.6. Bankruptcies, creation of enterprises and collective lay-offs

1.6.1 Bankruptcies

There is no obvious causal link between the sudden increase in the number of bankruptcies in September and the terrorist attacks: it is apparently (partially) due to seasonal fluctuation, one that also took place in 2000. The cumulative figures for January to December do, however, show a 3.7% increase between 2000 and 2001; moreover, the increase can be attributed in full to the months September-December 2001. In total there have been more than 25,000 job

losses in 2001. Looked at by sector, the increase in the number of bankruptcies is in the building and construction sector (+6%), the transport sector (+22%) and in business-to-business services (+25%).

The weakening of economic growth is also reflected in the decreasing number of new business start-ups.

1.6.2 Collective redundancies

Another indicator used is the number of announced job losses by collective redundancies. In the Flemish Region, 8,447 jobs were lost in 2001. This is an increase of 140% compared to 2000. The months October to December account for more than half of the total number of announced job losses (51%). In the Brussels Capital Region the increase in announced job losses is even bigger (+220%). However, in contrast to the situation in the Flemish Region, this rise cannot be attributed to the last months of 2001. Unfortunately, no figures were available for the Walloon Region.

Section 2. Sectoral Impact

2.1 Aviation

It is rare for a sector to take such a heavy blow as the one suffered by the aviation sector in 2001. The collapse of Citybird and Sabena did follow the attacks, but were partly the result of the structural sickness of the European aviation sector, which is struggling with excess capacity. The cost of flying is so high that falling passenger numbers immediately force airlines into loss-making territory. In fact 2001 was already a terrible year for the sector before 11 September. Passenger numbers were falling due to the slowdown in economic growth, losses were accumulating, there were large numbers of

strikes, alliance partners were spectacularly disloyal and mergers failed.

The airports were also affected by the fall in the numbers of passengers and flights. The events of 11 September had a significant impact on passenger numbers worldwide, mainly on transatlantic traffic.

During the first week of this year the passenger numbers were 15% lower than they were during the same period in 2001¹. The number of business travellers gradually recovered. Transfer traffic stands or falls with the success of one or more companies operating from Brussels as their home base. The success of DAT, Virgin-Express and other projects currently on the table will be decisive in determining the figures for 2002.

In 2001 the regional airport in Gosselies did undergo explosive development. The number of passengers rose by almost 200%. This increase can be attributed entirely to Ryanair.

In 2001 there were other airlines - apart from Sabena (see case study) - which also went under. In February Brussels International Airlines (BIA) was declared bankrupt and 80 employees lost their jobs.

After 11 September events moved rapidly. On 4 October 2001 Citybird was declared bankrupt. When Sabena terminated the leases on two long-distance aircraft, an application was made for a judicial agreement. The restructuring plan, in which Citybird's largest customer, tour operator Thomas Cook, had an important part to play, was not, however, accepted by its largest creditor, Boeing.

On 25 September Thomas Cook was forced by the courts to deliver on its promise to take over Citybird; on

¹ Due to the bankruptcies of CityBird and Sabena, Brussels saw even sharper falls in November and December than most other European airports. The fall (in comparison with 2000) was also seen in August (-2.76%), September (-17.87%) and October (-27.68%).

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3 October a daily fine was also imposed if Thomas Cook did not keep its promise. Thomas Cook appealed and on 4 October the court simply declared Citybird bankrupt: more than 600 employees lost their jobs.

The successors

The bankruptcies were followed by a series of new but fragmented investments. On 12 December came the news that Thomas Cook wanted to start up a new airline entitled 'Thomas Cook Airlines Belgium' by spring 2002. The investment amounts to 3 million euro, there will be jobs for 200 people, 5 Airbuses.

Then there is the flamboyant founder of VLM and Antwerp businessman Freddy Van Gaever, who wants to offer flights to the United States from Brussels from March 2002, using two Airbus aircraft. The plans for VG Airlines have been in the pipeline for a long time, but they were brought forward by the bankruptcy of Sabena.

Following the bankruptcy of their former employer a group of former pilots have announced that they want to start up their own co-operative structure. Under the name of BEAP (Belgian Employees Aviation Promotion) the feasibility of this project is currently being investigated.

It remains an open question whether these fragmented initiatives will be good for the sector. Of course it will give rise to greater competition, which is favourable in principle. Aviation, however, is an activity with significant economies of scale: this implies that the new start-ups will be

setting out with a cost handicap.

2.2 The tourism sector

2.2.1 Impact on Belgian nationals

A survey that was carried out immediately after the terrorist attacks (from 6 to 12 October)² showed that the greater feeling of insecurity felt since the attacks has had an impact on tourism. The survey also revealed that business travel was affected more seriously than holiday travel. Since the attacks the choice of holiday destinations has also changed with Belgians now choosing more stable destinations in the Western Mediterranean. The survey revealed that interest in cruises has fallen significantly and that short-distance travel will not really feel the effects of the attacks.

The figures for tour operators for the summer of 2001 and the expectations for the winter of 2001-2002 showed that soon after the attacks, bookings for the rest of the summer season and above all for the winter season fell sharply. The decline became more pronounced when military action in Afghanistan began. Since December bookings have picked up once again. The fall in the number of bookings depends on the means of transport and the destination. Flight holidays have suffered most from the attacks (a fall of 26%). Tour operators have observed, however, that customers respond positively to special offers. The fear of flying therefore seems to reduce as the price falls³.

Tour operators are generally less pessimistic. The fear of flying is ebbing away, the war in Afghanistan

is coming to an end and people are also becoming accustomed to the situation to some extent. Holidays have become an absolute necessity for Belgians. Nevertheless, the relatively small falls in turnover on an annual basis are having an important effect due to small profit margins.

2.2.2. Impact on Belgium as a holiday destination

There are still no precise figures about the impact of the attacks of 11 September on Belgium as a tourist destination. However, the research department of the OBT⁴ has observed that the effects differ from one market to another. Particularly in *Brussels* there has been a major decline in American tourism. Hotel chains aimed specifically at the American market (e.g. the Hilton) are therefore suffering, while hotels aiming at Japanese tourism have experienced almost no difficulty at all. Fed. Ho.re.ca.⁵ speaks of a general fall in hotel occupancy rates in Brussels of 20%. In the first instance conferences and meetings were cancelled. Subsequently a decline was also seen in the number of private travellers.

Compared to Brussels, *Wallonia and Flanders* have not been so hard hit. For Wallonia this is because tourists are mostly Belgian or from neighbouring countries. In fact tourism has benefited from people's fear of travelling long distances. The same trend is expected with coastal tourism in Flanders. Fed. Ho.re.ca. Vlaanderen has also pointed out that foreign tourists visiting Flanders are particularly interested in visiting cities. These city trips are usually planned long in advance and to date cancellations have been limited.

² A telephone survey among 1000 Belgian adults during the period 6-12 October 2001, carried out by Westtoer (an independent provincial government corporation for tourism and leisure in West Flanders).

³ Results from ABTO (Association of Belgian Tour Operators)

⁴ Office Belge de Tourisme Wallonie-Bruxelles

⁵ A federation that defends the interests of the hotel, restaurant and café sector.

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2.2.3 Impact on the labour market in the sector

The attacks of 11 September and their impact on the tourism sector have been recognised by the National Labour Facilities Department (RVA) as a situation of *force majeure*. This has made it possible for companies in the sector to apply for temporary unemployment during a period of adaptation up to and including December. Throughout the country a number of different companies have made use of this opportunity. Each claimant has had to prove the extent to which the attacks have had an impact on its activities.

2.3 Financial services

2.3.1 Insurance companies

The attacks of 11 September are the greatest financial disaster to affect the global insurance sector in its history so far. The direct consequences for the profitability of the Belgian insurance sector is not, however, considered to be very high, since this sector has no direct interests in the US. It does, however, have indirect interests through partners (e.g. AXA). The impact is limited, since the strength of the insurance sector is largely based on reinsurance. What is more, insurers have reserves, which they have built up over the years to meet claims.

According to Prof. Gollier, there is a risk that the indirect consequences will be more severe. The insurance market was already vulnerable before 11 September due to the gradual fall in the capital gains made on investments, while the level of overheads remained the same. The events of 11 September struck a blow to the financial markets that was translated into a sharp reduction in the financial revenues of the insurance sector. That decline means that insurers will have to look even more closely at their overheads and the burden of claims. Consequently the

limits of insurability are now being discussed by the sector. The attacks have also given rise to a whole series of cancellations of insurance policies against special risks. Hence there is a risk of a shortage of capacity in the insurance market for these special risks, which means that premiums will increase.

2.3.2 Banking

The banks have clearly been affected by the poor performance of the Belgian funds market in 2001. Their income from management of investment funds fell by □100 million during the first nine months of 2001. The severe stock market reaction after the terrorist attacks was a further blow for them. Loans to the aviation sector and the tourism sector suddenly came to be seen as highly risky after 11 September.

When asked whether the terrorist attacks had had an explicit effect on employment in the Belgian banking sector, the banks stated that they had not. Changes have been made in the way work is organised at various banks, but this is due more to the prevailing wave of mergers.

2.4 Postal services and telecommunications

The past year has been a very difficult one for employees in the telecom sector. This seems, however, to result from the general decline in the economy rather than the terrorist attacks. According to the companies involved, these attacks have had little or no impact on jobs.

As regards postal services, the anthrax crisis had an effect on De Post for a very short period. At first, there were a few work stoppages, but these remained very limited. In the long term it has turned out that the attacks are not having any impact on speed or on the number of items of mail processed.

To sum up, the Belgian aviation sector (together with its suppliers)

has been hit badly by the terrorist attacks, although it was struggling with structural and cyclical problems before 11th September. The tourism industry suffered to a lesser extent – and seems to be recovering rather quickly, while financial services and telecommunications saw no impact on employment. Of course, one should not forget all indirect job losses due to the further slowing down of the overall economy.

Section 3. Responses by government and companies

3.1 Companies

In addition to redundancies there have been substantial wage decreases imposed in the airline industry, while temporary unemployment, early retirement and flexible working time arrangements have been reported in several sectors to safeguard employment.

It is worth mentioning that Belgian unemployment insurance offers very flexible regulations concerning 'temporary (or even part-time) unemployment', which allows enterprises to reduce their labour costs to respond to exceptional shocks in demand and production, like the events of September 11, and such measures have helped prevent more massive lay-offs.

3.2 Government policy

The government was forced to revise its budget policy to reflect the more gloomy economic forecasts. Its policy for reducing labour costs by lowering of social security contributions in autumn 2001 had to be postponed in order to stick to the Stability Pact - paradoxically, as the outcome may have been pro-cyclical. However, in January 2002, the government decided to go ahead with the policy. In order to avoid offsetting wage claims, a reinforcement of the 'wage norm' (a legal ceiling on negotiated wage increases) is now antici-

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ated. Other measures are aimed at encouraging labour supply as well as demand. More flexible wage and working time arrangements will be proposed to social partners. One interesting proposal in this package is the use of economic slumps for the more active training of workers.

Section 4. Case study: Sabena

On 7 November 2001 Sabena Ltd was declared bankrupt. The company had been in difficulty for several years and was struggling before 11 September. As a result 7,587 employees, out of a total of 13,000, lost their jobs. The remainder of employees kept their jobs with some of Sabena's subsidiaries, such as Delta Air Transport (DAT), which operates short-haul flights. Charter company Sobelair and Sabena Technics are not covered by Sabena Ltd. Still, this is without a doubt the biggest bankruptcy in Belgian history.

Sabena subsidiary DAT, which had 900 employees at the time of the bankruptcy, has had to fill the gap that Sabena has left. DAT restarted its flights on 10 November with the bridging loan of 125 million euro from the Belgian government. DAT has reached an agreement with its creditor Sabena Interservices Center which has paved the way for the investment group SN Air Holding to inject approximately 200 million euro into the company.

Currently, 1,500 people are still working for Sabena (under trusteeship). At present, 120 former Sabéniens were recruited by DAT. Employees who transferred to DAT have had to take big drops in salaries (about 40%). Currently it is unlikely that DAT will recruit more people, as there are merger talks with Virgin Express.

The maintenance company Sabena Technics, which was not involved in the bankruptcy, has begun the process of cutting its workforce by 30%. These job losses will be a combination of early retirement, unpaid leave, outplacement, termination of temporary contracts and "a certain number of redundancies". Another subsidiary, Atraxis Belgium Ltd, which provided the IT, has announced 100 redundancies.

Response from the government

The federal government has worked out a social plan, the first part of which consists of a collective agreement valid until 31.12.2002, which makes early retirement possible from the age of 50. In addition to the payments being made by the Company Closure Fund⁶, compensation and re-employment bonuses are being provided for employees who have not yet found work by 15 December 2001. This is an indicative plan based on the redundancy of 5,100 full-time employees and it will cost approximately 390 million euro.

Through the ir employment mediation services (VDAB, Forem and BGDA), the regions have set up employment units to co-ordinate all re-employment initiatives. Guidance will be provided over a period of two years to all employees who lose their jobs as a result of Sabena's bankruptcy: this includes employees from suppliers. In the case of Sabena the total number of indirect jobs in 1998⁷ was estimated to be some 25,000 (which is the same as the number of direct jobs).

A co-ordination unit was also set up to help Sabena's suppliers. This involves almost 2,000 companies, which have, of course, suffered to varying degrees. Of these companies,

59% are Flemish, 33% are in Brussels and 8% are Walloon companies.

Delays in making social security payments were also granted to Sabena's suppliers but with conditions attached.

Section 5. Conclusion

The impact of the terrorist attacks must be set against the background of a global economic decline. This recession has intensified: various indicators suggest a negative shock September to October 2001 (business cycle barometer, bankruptcies, collective redundancies, new businesses, and unemployment trends). The causal link with the terrorist attacks is admittedly difficult to assess in quantitative terms.

On the other hand, the most recent figures (December 2001) show that the business cycle and consumer confidence barometers are back on their pre-September level, which seems to point to a (partial) recovery.

The aftermath of the crisis will probably be felt until halfway through 2002, among other things through the recent bankruptcy of the national airline Sabena, but also in the weakening down of the investment climate. Again we must guard against blaming all of these effects to 11 September. Yet, the revised economic outlook for 2002, produced one month after the attacks, predicts an (extra) loss of 35,000 jobs by the end of 2002.

On a sectoral level, aviation has undoubtedly suffered most in terms of employment, with forward and backward linkages to many other industries; the tourism sector appears to be optimistic as regards perspectives for recovery, and indeed reports some positive substitution effects in

⁶ Fonds voor Sluiting van Ondernemingen

⁷ Both downstream (distribution centres, hotels, tourism etc) and upstream (supplier) connections.

domestic tourism. Financial services and telecommunications have felt repercussions of the attacks, but not in terms of employment.

It looks as if Flanders (traditionally the strongest region) is this time set to be the worst affected.

Steven Groenez and Ides Nicaise with help from Ellen Schryvers, Ilse Rubbrecht and Vicky Heylen.

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Denmark

THEMATIC REPORT ON SHORT TERM LABOUR MARKET TRENDS AND THE IMPACT OF THE EVENTS OF SEPTEMBER 2001

1. Economic background

Danish labour market performance has been very positive since the middle of the 1990s. However, even before the events in the US on September 11, some pessimism had begun to appear. In their May 2001 report, the independent Chairmen of the Economic Council painted a picture of the Danish economy where there would be a slow down in growth, compared with the period 1994-2000. The main factors behind this were:

- Lower growth in domestic demand, which had been a driving force behind the expansion up to 2000.

- A slowdown in exports due to lower growth among Denmark's trade partners.

The result would be an expected growth rate in 2001 of 1.3% increasing to 1.7% in the following year.

In their most recent November 2001 report, the Economic Council have lowered their growth rate forecasts for 2001 to 1%, while growth in 2002 is expected to be 1.2%. This further reduction in forecast growth rates compared with May 2001 gives an indication of the estimated added effects of the impact of September 11 on the Danish economy, though other factors may of course also have influenced the more pessimistic tendency in the Economic Council's November 2001 forecasts.

As a result, the Economic Council expects registered unemployment to increase from 145,000 persons (or 5.1% of the workforce) in 2001 to 164,000 persons in 2002. For 2003 the expectation is a fall in

unemployment to 159,000 persons.

Looking at the actual growth rates for GDP, a clear downward shift is also visible. Figure 1 depicts the development in quarterly GDP at constant prices (seasonally adjusted) from the 1st quarter of 1990 to the 3rd quarter of 2001. The recent tendency towards a dampening of growth rates compared to rapid expansion since the mid-1990s is evident. This shift in the growth pattern was, however, already visible during 2000. The latest quarterly figures show a slight increase in GDP, compared with the negative tendency in the first quarter of 2001, thus indicating a levelling out of growth rather than a dramatic shift in the business cycle.

The most recent information about manufacturing productivity indicates a 1% fall in September to November 2001 compared with the previous three months. The volume of orders fell by 4% (Nyt fra Danmarks Statistik no. 12, 2002).

Summing up, the extraordinary changes on the international economic scene, which have taken place since September 11, hit the Danish economy at a time, when slower economic growth was already expected.

1.1 Employment

One of the features of the upswing since 1995 has been a remarkable long-term increase in both private and public employment of about 9%. There have, however, been previous examples of interruptions in employment growth, for instance in the 2nd and 4th quarter of 1999.

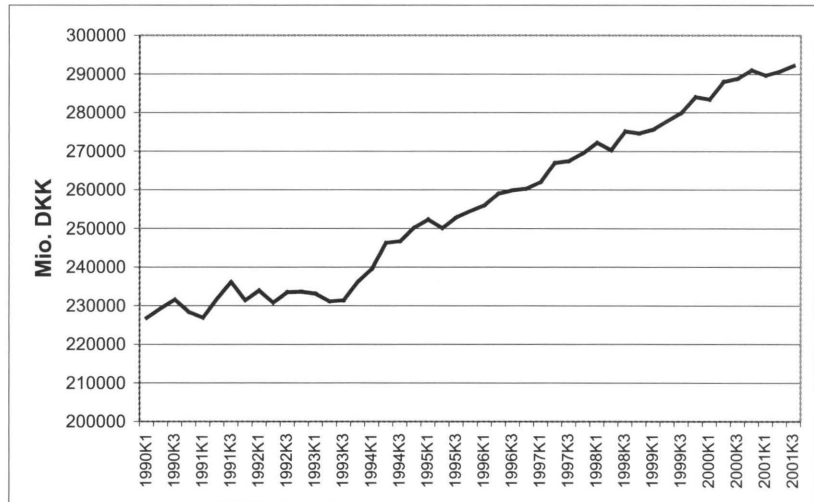
The first two quarters of 2001 were characterised by a rather rapid increase in total employment of about 1.1% compared with the last quarter of 2000. However, the most recent employment data, based on the administrative registers of a universal pension scheme covering all wage earners, reports another example of a reduction in employment by 8,900 persons (or 0.4%) from the 2nd to the 3rd quarter of 2001 (full-time persons seasonally adjusted). This reduction is the combined outcome of a large reduction in private employment of 13,300 persons and a minor increase in public employment by 3,900 persons (Nyt fra Danmarks Statistik no. 490, 2001).

The biggest reduction, from the 2nd to 3rd quarters of 2001, is in manufacturing industry (7,700 persons) and the biggest increase is the number of persons employed by the municipalities (3,400 persons).

1.2 Unemployment

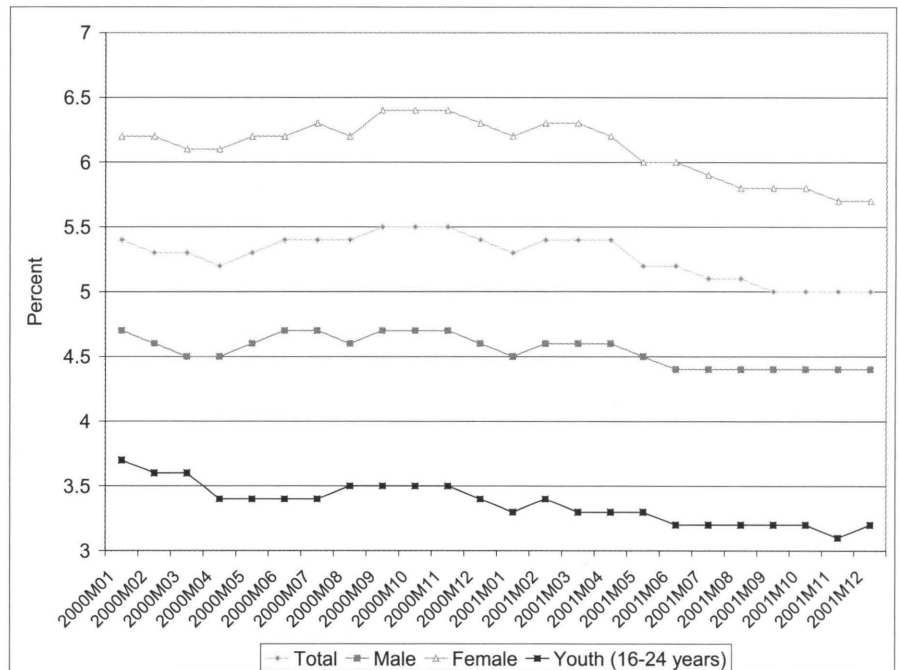
Information on unemployment is also available for the full year 2001. The main impression from this data is that the change in employment noted above is not yet reflected in the statistics for registered unemployment. Figure 2 shows monthly data on seasonally adjusted unemployment rates for a number of sub-categories of the unemployed.

Figure 1: GDP: GDP, quarterly, constant prices, seasonally adjusted, mio. DKK.



Source: Databanks of Statistics Denmark.

Figure 2: Unemployment rates for different groups of unemployed, seasonally adjusted, January 2000 to December 2001.



Source: Databanks of Statistics Denmark

Trends

Figure 2 shows that unemployment rates have been slowly falling over the last year, however, this trend has tended to level out in recent months.

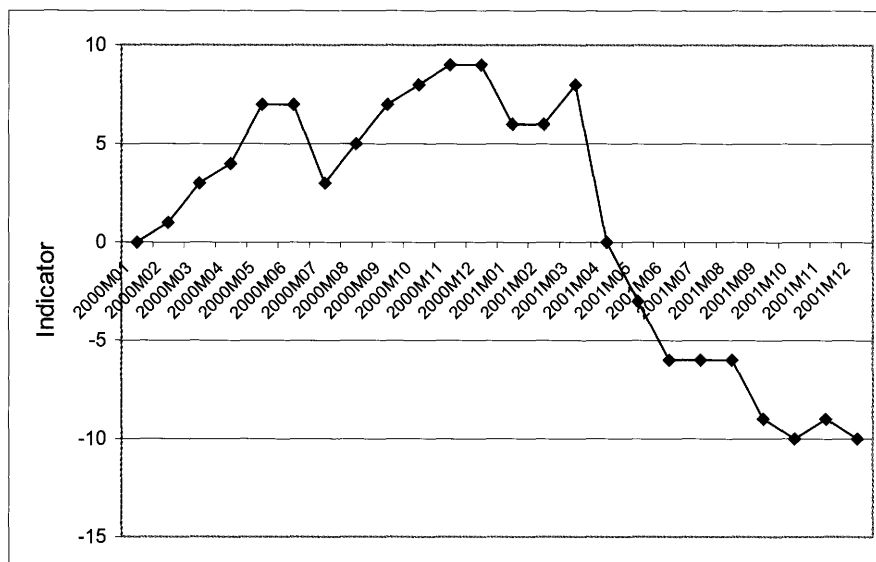
Available evidence on long-term unemployment shows basically the same picture. The number of long-term unemployed (defined as persons being unemployed for more than 80% of the last 4 quarters) has been almost constant during the last two years and actually fell from 37,600 to 36,200 persons from the 2nd to the 3rd quarter of 2001.

One could suspect that the stability of the number of registered unemployed could be caused by a rising number of participants in different labour market schemes and therefore not being counted in the unemployment statistics. However, this does not seem to be the case. In November 2001 the total number of registered unemployed was 126,700 persons compared with 138,400 persons in November 2000. The number of insured unemployed in active measures rose from 47,300 to 51,000 persons from November 2001 to November 2002. However, during the same period the number of persons on leave fell from 23,100 to 19,800 persons, while the number of persons taking early retirement for labour market reasons was almost stable. Thus the net impact of labour market programmes on gross unemployment was almost nil during 2001.

1.3 Expected development in employment

The most recent labour market statistics cover only a few months after the events of September 11. To get an impression of the expected consequences of this event - and of the general slowdown in the economy, which is now foreseen by most economists - one therefore has to turn to confidence indicators based on surveys among firms and other leading

Figure 3: Composite indicator of expectations for the coming 3 months. January 2000 to December 2001. Manufacturing industry.



Source: Databanks of Statistics Denmark.

indicators of the business cycle.

This section looks at the available evidence from a number of both official and unofficial sources.

1.3.1 Confidence indicators

Every month, Statistic Denmark publishes a confidence indicator based on a survey among firms in manufacturing industry. The survey covers the expected development for a number of variables and a composite indicator of overall expectations for the coming 3 months. The development in the composite indicator is shown in figure 3.

The confidence indicator for manufacturing industry clearly shows the shift in the business cycle from early 2001. This has already been discussed above. However, there is also a significant added effect of the events on September 11, which makes the indicator drop from a level of around -5 to a level of -10.

From the survey an indicator for the expected change in employment over the coming quarter is also published. This indicator shows a steady rise in the share of firms expecting reductions in employment and the negative trend in the share of firms expecting increasing employment. For the 4th quarter of 2001 there is a tendency for the gap between the two groups to increase significantly compared with previous quarters, probably as an effect of the events on September 11.

Similar confidence indicators are published monthly for the building and construction sector. The data shows rather large fluctuations, but again a tendency for expectations to become more pessimistic since the spring of 2001.

Finally in this survey of indicators, published by Statistics Denmark, are confidence indicators for the service sector. The composite indicator is only available from April

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2000 and onwards. Again one observes a negative downward trend in business expectations during 2001 evident from the data and then a very sharp drop in the indicator since October 2001, indicating the first effects of the events on September 11. Similarly, the share of firms with negative expectations for employment increases gradually during 2000, remains at a level around 10-15% during the first 3 quarters of 2001 and then jumps to above 25% in October 2001, again a clear indication of the effects of September 11. The opposite pattern is seen for the share of firms with positive expectations. The share fluctuates around 20% during the first quarters of 2001 and then drops from 24% in September 2001 to 13% in October 2001.

1.3.2 Forecasts by the regional labour market councils

The 14 regional labour market councils release a quarterly evaluation of labour market trends for each region. The latest issue was published in December 2001 and thus includes the first estimates of the effects of the events on September 11. Despite this background, the expectations concerning future employment are remarkably positive, especially in the long term. In the short run, a negative change in employment is expected for a number of sectors, including transportation. In the longer term, negative trends are only predicted for agriculture, public administration, the textile industry, financial services and building and construction. Apart from the latter, these changes mainly reflect well-established structural changes.

Total unemployment is expected by the regional councils to rise slightly from 133,900 in the 4th quarter of 2001 to 136,500 in the 3rd quarter of 2002. Compared with the 3rd quarter of 2001, where total unemployment was 139,100 persons, this would

imply fairly stable overall unemployment.

1.3.3 Other "business barometers"

A number of enterprises and institutions publish various forecast and surveys of business expectations.

One recent example was published by the economic journal *Børsens Nyhedsmagasin* on November 19, 2001. The survey is based on interviews with about 250 managers in firms with more than 50 employees. The results are not encouraging for employment. Of the managers, 80% expect unemployment to rise over the coming 6 months. 29% are pessimistic, or very pessimistic, about the future development in their sector, a rise from 14% in April of 2001. With respect to employment, 40% expect employment to fall over the coming 6 months and 8% expect employment reductions in their company of more than 10%.

Similar trends are reported in another survey among more than 300 managers conducted by the consultancy and publishing company *Mandag Morgen* in a survey in October 2001. Four out of ten managers intend to dismiss employees as a result of the negative economic trends - or they have already done so. One out of four of the planned reductions in staff will be mass dismissals involving about 10 % of employees.

Other predictions are of a similarly gloomy nature, e.g. the economists of the largest Danish bank, *Danske Bank*, in statements on November 8, predicted that in the next 6 months they expected a reduction in employment in manufacturing industry of 10,000 employees.

However, not all the news is gloomy. On December 21, a survey conducted by the consultancy company *COWI* for the National Labour Market Authority was published.

This survey was conducted in November and December 2001 among 1,200 private firms. The firms, on the whole, expected stable employment in the following three months and one out of three companies expected to increase employment during the coming year. The largest expansion is expected within the IT-sector.

Thus the overall impression is therefore somewhat mixed. The general notion is however, that while there may be some disagreement over the size and speed of the shift in future employment, there is no doubt that the events of September 11 have had a significant negative influence on an economy, which was already slowing down. On the other hand, the Danish economy shows several positive signs including low rates of inflation and a surplus on the external balance. There is therefore a big gap between current concerns over stagnating medium term employment trends and a severe economic crisis.

2. Sectoral impact

As already mentioned in section 1.2, the general trend in Danish employment has been positive over the last 5-6 years. Although expectations were beginning to change during the first quarters of 2000, the general tone was still positive, especially due to slowly falling levels of unemployment.

In public debates there was, of course, an awareness of the international structural crisis that had hit especially the IT sector. The relative positive situation for the Danish economy was attributed to the fact that the share of large producers of IT technology related products is rather low in Denmark. However, a number of reports of staff reductions in the IT sector did appear during 2001.

The increasing number of IT firms in trouble was also evident in statistics from the Wage Earners

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Guarantee Fund, which pays out wages, during the period of notice to former employees of firms going bankrupt. During the first 3 quarters of 2001, about 1,400 bankruptcies were registered by the Fund, which was an increase of 26% over the same period in 2000. About 11,600 wage earners received compensation from the Fund - an increase of 20% over last year. However, the total amounts paid to wage-earners increased by 37%, which was seen as an indicator of the crisis in the IT sector, where wages are significantly above average.

Also, there are media reports about staff reductions in other sectors (transport, newspapers, clothing, etc.), but mainly as indicators of either ongoing structural changes in the economy including the well-established trend towards reallocation of part of the production to low-cost countries for instance in Eastern Europe. Finally, employment changes could of course be firm specific caused by mergers, etc.

Among the more prominent announcements for staff redundancies or similar arrangements in individual firms in recent months are the following:

- On November 5 Grundfos announced staff reductions, which with 4,800 employees in Denmark and 11,000 employees worldwide is one of the larger Danish manufacturing companies (production of pumps). Planned staff reductions in Denmark were 275 persons.
- On November 9 LM Glasfiber (which produces wings for windmills and has 2,000 employees in Denmark) announced that 1,700 employees would be involved in work-sharing involving reduced working time combined with further vocational training during the coming months. This is made possible through agreements with the trade unions that allow

employees working fewer hours and receiving educational support equal to unemployment benefits for a maximum of 13 weeks.

- One of the most recent manifestations of the effects on the Danish business climate of the global economic changes was an announcement on November 22 by the large AP Moeller Group (Maersk), which has about 60,000 employees in firms fully owned by the company. The company's main activities include shipping, shipbuilding, air-transportation and the oil industry. The company has declared a total halt on hiring and wage increases for all employees with reference to the weak international economic situation.

The three cases demonstrate the different reactions of firms. As discussed in more detail below, these responses involve not only staff reductions, but also work-sharing, bans on hiring new staff and wage freezes.

3. A case: The airline industry

Like in other countries, an immediate effect of the events on September 11 has been a sharp decline in activities related to air-transportation.

Already on September 27, the large air-carrier Scandinavian Airlines System (SAS) announced staff reductions of 1,100 persons. On November 6, it was announced that reductions would have to be increased by 2,500 persons to 3,600 persons out of a total staff of approx. 28,000. Also, the management has announced increased efforts to create more flexible working arrangements. In late December 2001 reports were made that negotiations had resulted in an agreement between the unions and SAS, which would almost remove the risk of dismissals. In return, the unions had accepted a number of demands from the management of SAS, including voluntary leave schemes, more flexible work-

ing hours and the cancellation of planned wage increases for 2002. The total reductions in wages and working hours were estimated at 6%. In a separate agreement from early January 2002, SAS pilots accepted a 5% pay cut to save the jobs of 160 younger pilots, who would then be able to keep their jobs, though working only half time until demand for pilots returns to normal.

On October 5 another Danish air-carrier, Premiair, announced staff redundancies of 120 persons out of a staff of 1,400 persons.

Also, as mentioned above, the air-transport activities of the AP Moeller Group in its air-carrier Maersk Air are included in the ban on hiring and wage increases of the Group as a whole. Unconfirmed media reports are out that the company plans to reduce its staff of about 2,400 by 75.

The reduced activities of air-carriers are also reflected in staff reductions at major Danish airports. On September 28 it was announced that staff at Copenhagen Airport would be reduced during the coming months, but no exact figures were given. Reductions of 4-5% (or 60-70 persons) have been mentioned in the media.

In Jutland, Billund Airport's plans to reduce its staff of 700 by 60 were cancelled, when employees accepted a postponement for one year of a planned wage increases of 2.25%. Also a reduction in staff number through voluntary redundancies is expected.

4. Policy responses

4.1 By firms

As shown by the examples above, individual companies have reacted to the fall in the demand for the products and services in several ways. In a number of cases specific numbers have been mentioned for staff reduc-

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tions, although it is not always clear to what degree the reduction will involve individual dismissals or just a ban on hiring combined by voluntary redundancies.

Also statistical evidence concerning job flows in the Danish labour market shows two characteristic features (Bingley et al, 1999):

- Staff turnover is high, measured as a share of total employment it is 30% per annum. In other words every year almost one out of three Danish employees has a new employer.
- Over the business cycle, in terms of staff turnover, there are more employees being hired than dismissed. This clearly indicates that firms adapt their workforce to changes in demand mainly by changing the number of persons recruited to the firm and to a lesser degree by changing their behaviour with respect to dismissals.

Therefore information about redundancies in individual firms will only show a part of the total picture concerning ongoing employment changes.

As shown by the above examples, apart from redundancies or bans on recruitment, firms are also introducing bans on wage increases. In some cases a negotiated wage freeze can be the outcome of an agreement between a firm and its employees in order to avoid staff reductions.

A final strategy exemplified by Danish firms is the negotiated temporary reduction in working hours, combined with payment of unemployment benefits in proportion to the reduction in working hours, and training of staff for a limited period of time. This strategy requires the consent of the trade unions and is made attractive by the relatively high level of unemployment benefits with a high net compensation rate for the lower incomes. It is also supported

by the existence of a flexible system for labour market training structured in modules that can be adapted for shorter training courses.

4.2 By national policy makers

As already shown by the last example of strategies adapted by individual firms, there are some facilities created by the Danish system of labour market policy, which facilitates flexible working time arrangements on a temporary basis.

To this one may add that in general, the liberal Danish employment protection regime found in legislation and collective agreements makes it relatively easy for firms to adapt the size of their workforce to changes in demand in a non-dramatic fashion. Sometimes, this combination of liberal employment protection and rather generous and flexible income support and training systems are given the credit for the relative success of the Danish employment system in recent years. With flexicurity as the key word to characterise the combination of flexibility of the employment relation between employer and employee and the individual economic security for the wage-earner supplied by the unemployment benefit system and active labour market policies (Madsen, 1999, 2002). From a structural point of view, the Danish employment system therefore seems well adapted to react to a general reduction in the demand for labour.

One should note, however, that if the economic downturn becomes more severe and of a longer duration than expected at present, there will be substantial problems in keeping the high profile of active labour market policy, which has been introduced in Denmark since the middle of the 1990s. During this period, the duration of passive benefits has been reduced from 4 to 1 year for unemployed persons older than 25 years and ½ a year for younger unemployed. Therefore, a severe economic

downturn followed by rapidly rising unemployment will within a relatively short time-span put a large pressure - both administratively and economic - on the current profile of active labour market policy.

Finally, during the election campaign, prior to the Danish parliamentary election on November 20, the worsening economic situation played a minor role, maybe due to the fact that it had not yet become manifest in the unemployment statistics.

5. Conclusions

While the most recent figures for unemployment show no negative developments, independent economic observers are presenting forecasts implying a clear downturn of the Danish business cycle. This started to happen before September 11. However, as a reaction to the changing international economic climate, the forecasts have since become somewhat more pessimistic.

A clear deterioration is observable when looking at various statistics on business expectations since the spring of 2001. There is a significant added negative shift in expectations in the latest available data from October 2001.

Furthermore, since September 11, a number of individual firms have announced plans to reduce their staff due to falling international demand for their products and services. As in other countries, the airline industry has been hit especially hard.

One should emphasise, however, that the evidence is somewhat mixed in the sense that one can also find examples of studies pointing to a surprisingly robust employment situation, in spite of the more depressed international economic situation. Furthermore, none of the evidence points to a serious reduction in employment or a strong rise in unemployment in the coming years. The dominant scenario is one of slower

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growth in GDP and employment, compared to previous years, and a minor rise in the number of unemployed. In the most recent months there has also been a tendency for forecasts to return to a more optimistic tone, in contrast to the very dark economic assessments that dominated the media immediately after the events of September 11.

Firms follow a number of strategies in adapting their employment level to the new conditions, including redundancies, bans on hiring or wage increases and negotiated solutions involving wage moderation or reduced working hours. Danish labour market policy is supportive to a number of these strategies through the liberal employment protection regime and active labour market policies including flexible training opportunities and negotiated solutions with the trade unions.

Per Madsen

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France

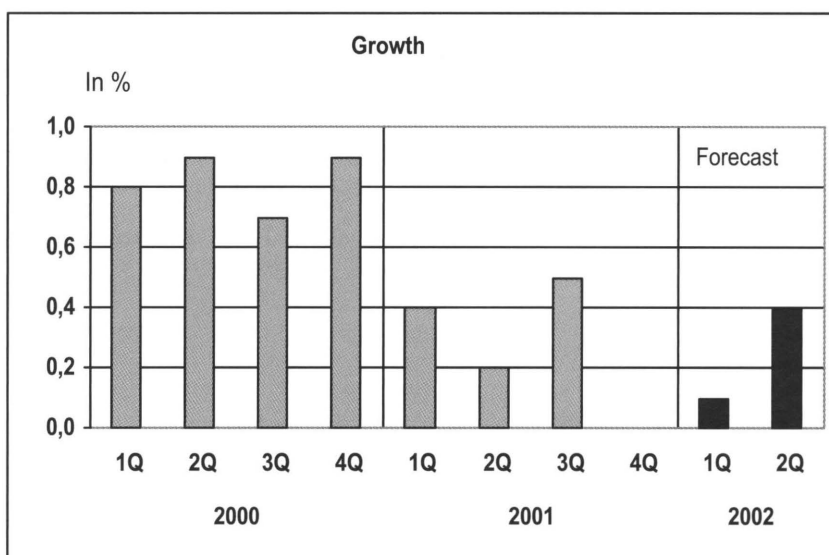
SHORT-TERM LABOUR MARKET TRENDS AND THE IMPACTS OF THE EVENTS OF 11 SEPTEMBER 2001

1. Main indicators

Near-zero growth since October 2001: “The year 2001 can be seen to have marked a downturn in the phase of expansion of the French economy which began 5 years ago.” This is how INSEE, the French national statistical institute, introduced its review of the economic situation for December 2001. It went on to note that: “GNP growth, standing at 2.1% in 2001, is more than a point down on that of previous years.” As a result of the strong growth of incomes, which rose markedly during the second half of 2001 – a fact explained largely by measures to reduce direct taxation and the introduction of the employment premium – it proved possible to limit the effects of the global slowdown. As a result of the rise in the purchasing power of households,

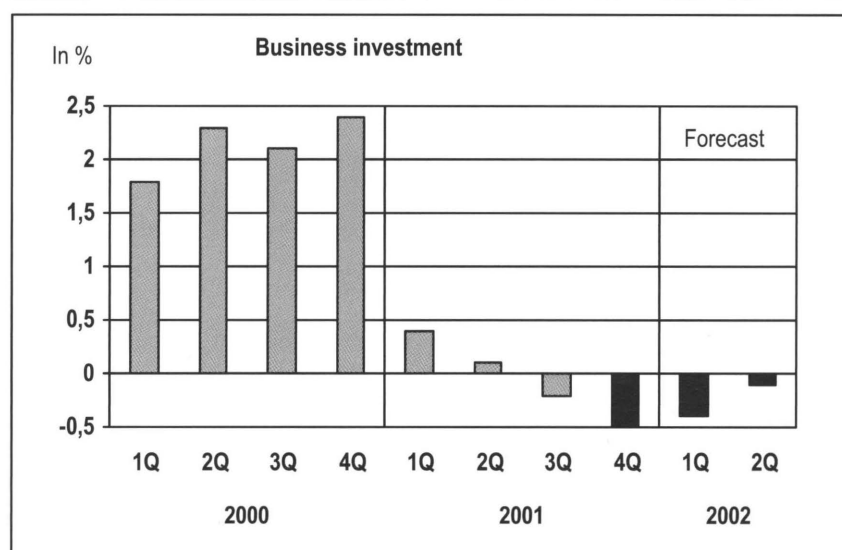
which some commentators describe as “historically high” (3.7% over the year 2001), household consumption managed to remain at its previous level, particularly during the first and third quarters of 2001. This factor would seem in 2001 to be reaching an annual rate of growth of the order of 3%.

Figure 1: Growth



Source : *Premières informations, Premières synthèses* (monthly report published jointly by DARES and ANPE).

Figure 2: Business investment



Source : *Premières informations, Premières synthèses* (monthly report published jointly by DARES and ANPE).

Employment: appreciable improvement, but contrasting trends

In spite of a slower pace when compared with the dynamic progress of 2000, which saw a net creation of 540,000 jobs, the trend remains positive for the first three quarters of 2001. Between September 2000 and September 2001, salaried employment increased by 2.4% or a net figure of 335,000 jobs. Total employment increased by 1.5%.

However, the results sector-by-sector show contrasting trends, particularly for the second and third quarters of 2001 in which industry recorded a fall of 0.1% in salaried employment, representing a loss of 7,000 jobs.

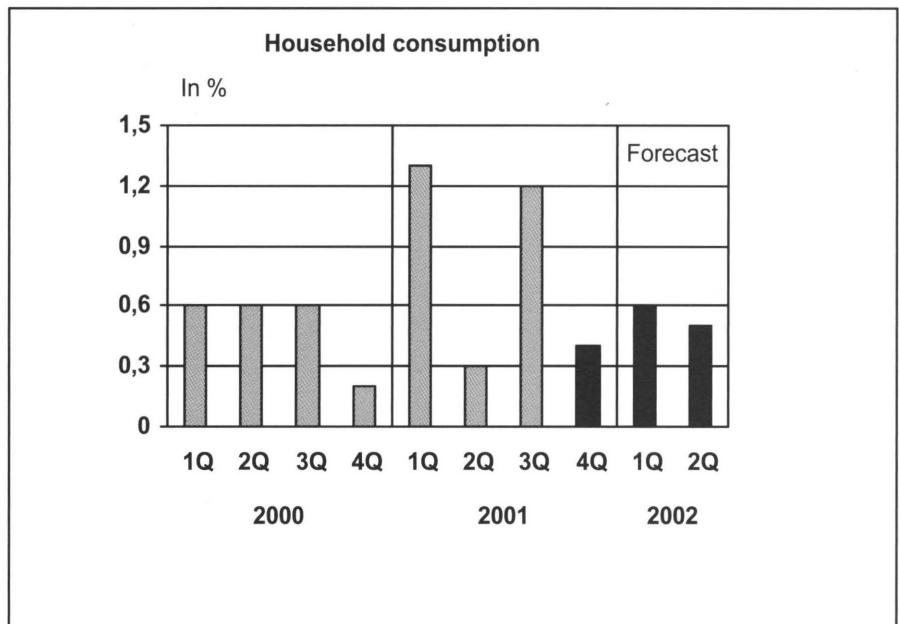
A rise in unemployment, in spite of higher employment figures: The number of jobseekers in France has been increasing again since May 2001. In a year the rise in the number of jobseekers has been 2.2%. After reaching a "plateau" of 8.7% between March and May 2001, the unemployment rate began to rise again. In December 2001, it was back to its January level of 9%.

On the other hand, the number of long-term jobseekers – i.e. those unemployed for at least one year – continued to fall for the first ten months of the year. At the end of the year, it stood at only 29.6% of jobseekers (as opposed to 33% in January 2001). It has thus fallen by 9.1% in a year from December 2000 to December 2001.

Analysis shows the rise in the number of jobseekers to be due essentially to the rise among **the under-25 category**.

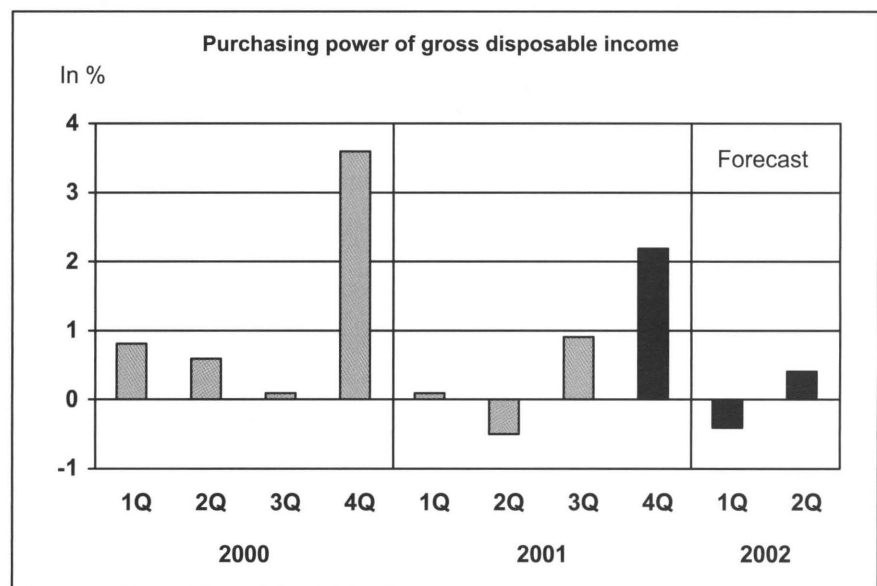
Over a year, from December 2000 to December 2001, **the number of jobseekers aged below 25 has increased by 8.9%**. This increase mainly concerns young men, whose numbers have increased by 18.2% in a year, whereas, in the same period, the number of young women unem-

Figure 3: Household consumption



Source : *Premières informations, Premières synthèses* (monthly report published jointly by DARES and ANPE).

Figure 4: Purchasing power of gross disposable income



Source : *Premières informations, Premières synthèses* (monthly report published jointly by DARES and ANPE).

employed has increased by only 0.8%. This very adverse situation in young male unemployment can be largely explained by the ending of obligatory military service. That decision

brought an appreciably larger number of men aged under 25 on to the labour market than in preceding years.

Table 1: Number of jobseekers (category 1)¹ and rate of unemployment

s.a. data ²	Jan01	Feb01	Mar01	Apr01	May01	Jun01	Jul01	Aug01	Sep01	Oct 01	Nov01	Dec01
Number of (cat 1) ³ jobseekers in thousands	2119.7	2092.5	2079.4	2075.4	2068.6	2077.1	2116.7	2127.8	2140.9	2167.8	2200.8	2212.1
Change		-27200	-13100	-4000	-6800	+8500	+39600	+11100	+13100	+26900	+33000	+11300

Source : *Premières informations, Premières synthèses* (monthly report published jointly by DARES and ANPE).

Table 2: Number of jobseekers (category 1) and rate of unemployment

s.a. data ²	Jan01	Feb01	Mar01	Apr01	May01	Jun01	Jul01	Aug01	Sep01	Oct 01	Nov01	Dec01
Number of (cat 1) ³ jobseekers in thousands	2119.7	2092.5	2079.4	2075.4	2068.6	2077.1	2116.7	2127.8	2140.9	2167.8	2200.8	2212.1
Change		-27200	-13100	-4000	-6800	+8500	+39600	+11100	+13100	+26900	+33000	+11300

Source : *Premières informations, Premières synthèses* (monthly report published jointly by DARES and ANPE).

Table 3: Number of jobseekers (category 1) under 25 years

s.a. data	Jan01	Feb01	Mar01	Apr01	May01	Jun01	Jul01	Aug01	Sep01	Oct01	Nov01	Dec01
Number of jobseekers < 25 (in thousands)	350.2	342.9	341.3	341.6	345	342.2	354.7	352.6	361.7	372.7	378.7	379.9
% Change		-2.1%	-0.5%	+0.1%	+2%	-0.8%	+3.7%	-0.6%	+2.6%	+3%	+1.6%	+0.3%

Source : *Premières informations, Premières synthèses* (monthly report published jointly by DARES and ANPE).

Table 4: Analysis of new registrations with ANPE since January 2001 (category 1)

Seasonally adjusted data	Jan 01	Feb 01	Mar 01	Apr 01	May 01	Jun 01	Jul 01	Aug 01	Sep 01	Oct 01	Nov 01	Dec 01
Total (in thousands)	327.6	336	346.1	332.3	342	328.7	346.7	330.8	336.2	364	376	334.8
Redundancies (economic)	15000	15300	15300	15000	15700	14800	15900	16500	17700	19200	22200	21000
End of fixed-term contracts	98700	98500	98100	93900	97600	92300	99000	94500	96800	102700	103900	90000
End of temporary contracts	29100	30100	32700	33300	34300	32500	38000	32300	35600	40400	39200	32300

Source : *Premières informations, Premières synthèses* – monthly report published jointly by DARES and ANPE.

Increased registrations with ANPE⁴. Over the year, that is to say since December 2000, the number of registrations with ANPE has increased by 2.5%. This rise is main-

ly due to the termination of temporary contracts (+ 18.3%) and to economic redundancies (+ 38.2%). The increase in the number of registrations with ANPE as a result of redun-

dancies has been particularly marked since July.

The sharp increase in registrations due to redundancies and to the termination of temporary contracts

¹ Category 1 jobseekers are those persons registered with the ANPE stating that they are seeking full time employment of indeterminate duration

² Seasonally adjusted data.

³ Category 1 jobseekers are those persons registered with the ANPE stating that they are seeking full time employment of indeterminate duration, having possibly worked in an occasional basis or for a reduced working time of less than 78 hours per month.

⁴ Agence Nationale pour l'Emploi (public employment service)

Table 5: The ten largest company failures in terms of turnover over the first eight months of 2001

Company	Last known turnover (in millions of francs)	Activity
Moulinex	17 056	Household electrical goods
AOM-Air liberté	8 400	Air transport
Transports Grimaud	831	Express freight and parcels
Facilicom international SA	760	Telecommunications
Plein ciel diffusion	719	Wholesale stationery
CS telecom and CS électronix	665	Manufacturer of telephone equipment
Sames France	475	Industrial spray-painting
Mar léon int.service	475	Automotive trade
CFEC	458	Electrical batteries
Qualité SA	448	Wholesalers of electronic equipment

Source : Les Échos, 2 October 2001

attests to the fall-off in economic activity in recent months. The increase in registrations due to workers being laid off for economic reasons relates to the many redundancy programmes which have been announced with some regularity since the early months of 2001. Among the companies where mass lay-offs have received the most media attention are Danone (one of the very largest French agribusiness groups), which announced in May that it was seeking redundancies, Marks & Spencer (the British distribution group), AOM-Air Liberté (air transport), Moulinex (household electrical goods), Alcatel (telecommunications) and, recently, GEM-PLUS. And since the first quarter of 2001, there has been a wave of significant voluntary liquidations: within the 85 largest companies affected, 40,000 jobs are at stake, which amounts to almost 500 employees per company.

2. Sectoral Impacts

The sectoral impacts on employment of the global economic slowdown, amplified by the events of 11 September, can only be assessed qualitatively. Statistical data on employment sector by sector has not

yet been published for the fourth quarter of 2001. Since the available figures only run to the end of September 2001, they cannot show the latest trends and, in particular, they leave out of account the impact on employment of a level of economic growth close to zero.

At the end of September, the quarterly trend (June to September) for salaried employment was distinctly less favourable in industry, with a fall of 0.1% in the figures. Most sectors of industry are affected, but the hardest hit are the clothing and leather sector (-2%) and the textile industry (-1.8%), sectors already made very vulnerable by globalisation. To illustrate this, the BATA company, a large shoe manufacturer with factories throughout the world, ceased activities at its Hellocourt (Vosges) factory in November 2001 after announcing that it was going into voluntary liquidation in June. As a result, 857 jobs are to be lost out of BATA's 2,000 strong workforce in France. **The electrical and electronic component industries shed 0.7% of their workforce in the third quarter of 2001**; among these, the manufacturers of telecommunications equipment announced numerous reorganisations in 2001. This took the form in France of a shedding

of 40% of the workforce of Lucent (representing around 550 jobs), 1,100 jobs being lost at Philips in Le Mans, and at Alcatel 1,800 jobs being cut in France out of 10,000 job-losses across Europe as a whole. **The household equipment industries shed 0.5% of their workforce in the third quarter**, thus confirming the decline observed over a year (-1.5%). The effects of this are visible in the situation of Moulinex (in liquidation and taken over by SEB) and Brandt, in administration since September 2001 and recently acquired by the Israeli ELCO group with a commitment to preserve 78% of its jobs in France.

Alongside the job losses in most industrial sectors, **a few sectors stood out for their creation of employment in the third quarter of 2001**. One such was the automotive sector, where there was a 0.8% increase in employment in the last quarter. This is driven by domestic demand. The French industry is bucking the international trend here: while Fiat, Opel and Ford have announced major restructuring, the Peugeot group, the car manufacturer currently enjoying the highest growth in the world, has announced that it is recruiting 3,000 extra workers in 2002.

Naval, aeronautical and railway construction still shows positive trends, with an employment growth of 0.5% in the last quarter and 3% over the past year. However, the situation is set to deteriorate in the fourth quarter of 2001 and particularly in the first quarter of 2002. This is especially true for the aeronautics industry, following the fall in global air traffic and Air Bus Industrie's declaration in January that it was cutting 6,000 jobs in Europe, many of them in France. The aeronautics industry overall represents 100,000 direct jobs and 200,000 indirect jobs in France. Clearly the job cuts announced by Air Bus will have knock-on effects on

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subcontractors. The French engine builder SNECMA has already announced staff reductions in 2002.

The quarterly rate of job creation in the construction and civil engineering industry has been in constant decline since early 2001. After employment growth of the order of 4% in 2000, annual growth now seems to stand at 2.5%, which corresponds to the creation of a net 30,000 salaried posts.

Though the rate of employment growth was maintained during the third quarter of 2001 in the tertiary sector, **some sectors were already feeling the repercussions of the slowdown in industry, particularly all activities relating to operational services. The activity most badly affected is temporary work**, where employment has been in steep decline for a year, falling by around 12% since November 2000. The intense development that has been seen in that sector in recent years has made it a thoroughly significant "indicator" of French economic activity, particularly among industrial companies, which employ on average 50% of temporary workers. We may recall in this connection that between December 1995 and December 2000, temporary work expanded enormously, with the number of temporary jobs rising by 110%, from 300,000 to more than 750,000.

In spite of everything, growth in the tertiary sector reached 2.8% overall between September 2000 and September 2001.

In the new technology sector, the wave of American company reorganisations throughout 2001 only partially affected France, where the development of this sector is more recent. **The professionals in the IT sector are still speaking of labour shortages**, which have now gone on for several months. Nevertheless the scale of these has diminished distinctly. Last year the experts were

talking of an immediate need for 20,000 to 30,000 IT specialists; the figure would now seem to be more of the order of 6,000 to 7,000. It has been reduced, then, by a factor of three in one year.

The rate of recruitment in the banking and insurance sector should not change greatly in 2002, despite the events of 11 September and those of Toulouse, and their consequences in terms of insurance company losses, because the sector is faced with a negative age pyramid. In this regard, the recruitment difficulties which have affected the insurance sector for several months, particularly in the "clerical/technical" category, seem to have persisted up to the present, which runs counter to the experience of other occupational fields confronted with such tight labour markets in 2001.

The direct consequences of the events of 11 September on the tourism and air transport sectors should be perceptible in the results for the fourth quarter of 2001, since until September these two sectors were recording a steady rise in employment (+ 3.6% in transport; + 4% in hotels and catering). **It is noticeable currently that the attacks have revealed some underlying crises - and have sometimes intensified them:**

- This is the case with AOM-Air Liberté, which has since become "Air Lib". In 2001 the company was in compulsory administration and it was taken over by new backers in October 2001. The group's situation remains very precarious as a result of the repercussions of the events of 11 September on air traffic. Though it seems confident in its immediate future after finding new finance (Crédit Agricole) and state aid, the management nonetheless announced a new company restructuring in January which should see a further 300

jobs go from the staff of 2,500 the Company had managed to retain.

This new plan comes four months after the substantial staff cuts (1,800) which accompanied the takeover of the company. For the future Air Lib is not ruling out conversion to a low-cost operation (along the lines of Easy Jet).

- There is also the case of Club Méditerranée, which has been in difficulty since the spring of 2000, and which decided to cut 250 jobs following the 11 September events and the announcement it was closing some 15 sites worldwide.

More generally, within the tourism sector, certain categories of actors, such as travel agents and top-of-the-range hotels, have been faced since October with sizeable declines in activity, which have translated into liquidity problems, even if, for the moment, few have moved to make workers redundant. Anxieties do, however, persist as no data are yet available for performance in the first quarter of 2001. If the Ile-de-France and the Provence-Alpes-Côte d'Azur regions are affected, on account of the large number of American and Japanese tourists to which they normally play host, there is little effect in other regions, and some, such as mountain resorts or the French West Indies, have in fact benefited from a favourable psychological effect. Moreover, small and middle-range provincial hotels, tourist residences in metropolitan France, *gîtes ruraux* or even restaurants are not really affected: according to the ministry for tourism, "the results for these activities in 2001 could even be very good." Similarly, in the labour market the situation was still tight at 30 September, showing that recruitment difficulties in hotel and catering work still persist.

In conclusion, in spite of the lower levels of performance in employment terms expected in the

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fourth quarter of 2001, the economic players in the tertiary sector remain relatively optimistic if we are to judge by the results of the survey carried out by *Le Monde* in December and January 2002 of 40 human resources managers of large French firms. This confirms that, in spite of the current economic situation, "30 of the 41 companies have announced substantial recruitment plans for 2002, even if they are often on a scale some 15% to 20% below the 2001 figures." **Leading the field in recruitment for 2002 we find large-scale distribution, banking and IT**, which is a sign that the decline in economic activity is not yet being regarded as major, at least in these sectors.

3. The measures taken by the economic actors

Various different measures have been implemented by the companies confronted with sudden downturns in activity or anticipating future downturns. The first of these is obviously the **laying-off of temporary workers and the non-renewal of fixed-term contracts**. The data relating to new ANPE registrations on account of the termination of temporary work contracts make this point with sufficient clarity.

Many companies have also frozen their recruitment plans. For example, Air France announced that it was halting recruitment from October onwards, when the group was to have taken on 3,200 employees in 2001-2 (as against 3,500 in 2000-2001). Only one third of the recruitment envisaged for 2001 in fact took place. It had been planned, among other things, that 600 employees of AOM-Air Liberté would join

the company. Only 200 of these were recruited, having already signed their employment contracts. The others are having to wait for the company to begin recruiting again. This is something the management "regards as probable from November 2002 onwards, but unlikely before that date." We find the same course of action being taken in business services, particularly in consultancy activities: CAP GEMINI has frozen its recruitment in France and has announced more than 5,400 job losses worldwide. It is the same with the Ernst and Young group or with Accenture (formerly Andersen Consulting), which dismissed around a hundred new recruits on their very first day, 1st October 2001⁵.

Other new solutions have emerged for dealing with downturns in activity: apart from temporary lay-offs of staff, recourse to so-called "ARTT days" (aménagement et réduction du temps de travail), which are a product of the transition to the 35-hour week, may in some cases be a short-term answer. For example, Renault, which is currently less well placed than Peugeot, stopped many of its production lines in late October/early November and again in December for a number of enforced ARTT days.

In most cases, compulsory redundancies seem to have been avoided, often under pressure from the workers, backed by public opinion. A clear radicalisation of the labour movement can be seen when restructuring plans are announced: employees no longer hesitate to threaten and carry out militant action (e.g. Bata), with the possibility of bringing the government into the negotiations a few months away from

the presidential elections (Moulinex)... or, alternatively, receiving backing from politicians (90 members of parliament called for Danone to be boycotted when the company announced its redundancy programme)... Given the effects of redundancies on public opinion, the companies attempt to avoid any media coverage. The 6,000 job losses announced by **AIR BUS Industrie** in January were supposed to be achieved without compulsory redundancies. According to the management, the plan breaks down into 1,000 cases of "natural wastage" (retirements and resignations), in which workers will not be replaced, stopping part-time work to a degree equivalent to 1,000 jobs and, lastly, discontinuing use of temporary workers, over-time working and subcontracting, amounting in all to 4,000 more jobs. In the case of **Marks & Spencer**, compulsory redundancies were eventually avoided thanks to all the British firm's shops being taken over by the French Galeries Lafayette group, which amounted to saving 1,500 jobs. In early January 2002, with the workers now mobilised for several months, 85% of them have in the end rejected the Galeries Lafayette offer and have preferred to take the redundancy payments negotiated by the trade unions (1.3 months of wages for each year of service).

For the companies facing the prospect of mass layoffs, **measures are directed initially at encouraging voluntary redundancies, particularly among older workers through early retirement schemes**. Older workers are often the first to be affected by redundancy programmes and there is nothing new in this. In fact, the use of redundancies, volun-

⁵ Under pressure from public opinion, Accenture eventually decided that these young people, who should be progressively reinstated between now and January 2002, can follow a course of training or work in an association for a maximum of 12 months, for a remuneration of 20% of the gross monthly wage promised or, alternatively, delay their employment by six months, for which they would receive a bonus payment of 24,000 francs, or merely opt for a simple compensation payment if they prefer.

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tary or otherwise, among older workers is the procedure most readily accepted in French society, and that includes the workers concerned. Some sociologists term this “the deadwood consensus”. Generally, **in the case of substantial redundancy programmes, a redeployment unit is established, often with the support of the local authorities:** in the case of Bata, that unit was set up for eighteen months and a monitoring commission was established to oversee the implementation of the redundancy programme. The committee consisted of a representative of the public employment service, the receiver, a representative of the ASSEDICs, the trade union organisations and a consultant, and it will meet once a month throughout the period. At Danone, within the framework of a redeployment unit, the management has committed itself to “not one worker being left without a solution” and has pledged to see each of the 800 employees concerned receive at least three offers of a permanent job.

4. The responses of the authorities

Governmental measures in response to the large number of redundancy programmes. Given the large number of redundancy programmes, the French government has had to react. If, in the short term, its response has been to provide individual contributions of financial support, in the long term it has decided to legislate, introducing the social modernisation law, thus confirming, once again, the interventionist role of the French state.

The state intervened directly in the case of AOM-Air Liberté, where it undertook negotiations with Air France to persuade the airline to take on as many of the company’s former staff as it could. Sadly, the attacks of 11 September rendered that operation only partially effective since Air France has since put a stop on all

recruitment. It also intervened at Moulinex. In this case it went further and funded the payment of an additional premium -in addition to the legally stipulated redundancy payments - to some 300 employees, who did not figure in SEB’s takeover plans. Here it substituted itself for the “Association de garantie des salaires” (AGS), which is managed by employers and normally intervenes where companies fail, and which refused to pay the premium in this case (between 30,000 and 80,000 francs).

The events of 11 September 2001 have in no way thrown the social modernisation bill into doubt. There had, indeed, been no question of this, even though the economic situation was already beginning to deteriorate. The draft legislation, prepared in the spring, aimed among other things, to introduce new restrictions into the law on redundancies. There have been protracted discussions on the subject between employers, who mobilised extensively to have it dropped, and the government, as well as discussions within the government. The bill was, of course, prompted by the redundancy programmes announced by Michelin and Danone in early 2001, at a point when both groups were making profits.

If the Council of State found the definition of economic redundancy presented in the bill contrary to the principle of the freedom to conduct business and consequently rejected it, the other articles have nonetheless been retained, putting very firm restrictions on how redundancy schemes are organised and operate. Implementation of a “Social Plan” [redundancy programme], which has now become an “Employment Protection Plan”, is obligatory from the nineteenth redundancy in the calendar year for companies of 50 employees and more; previously, where fewer than 10 employees were

made redundant in a three month period, a formal redundancy programme did not have to be introduced.

The redundancy programme must ensure that proposed internal redeployment of workers is to equivalent positions. Companies with more than a thousand employees will also have to pay workers made redundant until they find another job, for up to a maximum of nine months. Other companies will have to offer their employees the opportunity to move, during their notice period, on to the “Plan of Aid for Return to Employment”, implemented by ANPE and financed by the ASSEDICs. The level of statutory economic redundancy payment has been doubled, rising from one-tenth to one-fifth of the monthly salary per year of service. Lastly, companies with 50 employees or more will have to contribute to the industrial regeneration of the local employment areas affected by their reorganisation. Those with more than a thousand employees will have to pay up to four times the guaranteed minimum wage per job lost. The new procedures also increase the time available for developing redundancy programmes. According to the employers, the time involved could be doubled (from 100 days currently to 200 days under the new law), though the government contests this, speaking of an extension of 21 days.

The government took measures in response to the rise in unemployment this summer. These include:

- the funding of 30,000 additional posts on “employment solidarity” contracts for adult jobseekers in the non-market and public sectors, which would also make it possible to manage the transition to the 35-hour week in the public sector more flexibly from the beginning of 2002,
- a doubling of the number of young people who can access the

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TRACE scheme, a scheme for individualised support for disadvantaged young people,

- an increase in the budgetary package planned within the framework of the “New Services – Youth Employment” scheme by the creation of 10,000 new posts for young people from the 2002 budget (these last two schemes are targeted more specifically at the rise in young male unemployment) and, lastly
- a doubling of the employment premium in 2002 and the payment of a year-end bonus payment for 2001.

Government measures in response to the events of 11 September 2001.

Exceptional support measures for the economy were announced in October, mainly to assist air transport and those in the tourist industry.

- 300 million euros have been earmarked to support air transport, 150 million in state aid and 150 million raised from passengers in the form of increases in airport and civil aviation taxes, all included in ticket prices. Between 15 and 20% of the 300 million euros (i.e. 53 million euros) are aimed at providing direct support to the airlines (90% of it going to Air France) and are, according to the authorities, intended to compensate it for the closure of American air space after the attacks.
- In tourism (travel agents, tour operators and hotels), the authorities set up a monitoring unit immediately after 11 September. This meets once a month with professionals from the tourist industry. As early as October a decision was taken to put back certain fiscal and contributions

deadlines, in order both to safeguard the liquidity of companies and to fund a worldwide campaign for the promotion of France as a holiday destination. More recently, in the wake of a report on the impact of the September 11 attacks, a series of new measures designed to support the French tourist industry was announced by the Secretary of State (Jan. 2002): assistance with cash flow, intervention with the banks on behalf of companies in difficulty; an additional three-month postponement of the due date for the payment of tax and social security contributions. Above and beyond these emergency measures, there has been thinking on how a mutual guarantee fund could be set up to cushion the tourist industry against structural and cyclical risks. Other complementary measures might also be taken, depending on the development of the economic situation.

In conclusion, with the rise in unemployment we may effectively ask ourselves what has been the impact of the two main employment-promotion and anti-unemployment schemes of the Jospin government, namely the “youth unemployment” scheme and the 35-hour week.

If the youth unemployment scheme had an undeniable effect in reducing unemployment in 1999 and 2000, that effect seems gradually to be fading today under the impact, on the one hand, of the arrival on the labour market of generations of young men who no longer have an obligation to perform military service, and, on the other, of the economic slowdown. This has given rise to a freezing of recruitment in the market

sector, particularly where young people with qualifications are concerned. 350,000 young people went through the scheme in 2001. On average, they remain in their jobs for two years and every year 20 to 25% of them leave the scheme, mainly for another job. In response to this a **government plan for the consolidation of youth employment scheme jobs**, announced in June 2001, provides for complementary assistance to employers in exchange for a transformation of the fixed-term “youth employment” contract into a permanent one (granting of fully-employed status within the public services; non-fixed-term contract within associations).

The effect on employment of reduced working hours – that is to say, of the 35-hour week – is certainly the area of greatest controversy. Some economists find that, though France has created 1.5 million commercial jobs since the beginning of 1997, the link with reduced working hours is far from clear⁶. DARES⁷ has shown that employment growth is appreciably stronger in companies which have reduced their working hours than it is in others. More precisely, the working-time-reduction agreements between June 1996 and December 2000 are said to be responsible for 265,000 net extra jobs in the commercial sector. The employment effect is particularly strong in 2000 and around 0.8% points of the approximately 4% fall in the unemployment rate since June 1997 is, in their view, to be explained by reduced working hours. However, these results, positive as they are, were not sufficiently conclusive for the government to proceed to apply the scheme in precisely the same form to companies with fewer than 20 employees when the time came to implement that stage (1 January

⁶ See Michel Godet, “La France recule”, *Le Monde*, 15 January 2002.

⁷ The French employment ministry’s statistical office.

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2002). The government in fact decided in late 2001 to modify the application of the scheme to small businesses, allowing greater flexibility. Lastly, the establishment of the 35-hour week has not necessarily made it possible to preserve jobs in all cases. Indeed if we look at the companies which have announced substantial programmes of redundancies in recent months, several of these had received considerable aid packages to help them make the transition to 35-hour working⁸. We may cite the case of Philips which has just made 1,100 workers redundant at Le Mans and which received 5 million euros as part of a 32-hour agreement or Magneti Marelli, a subsidiary of Fiat, which has received 6 million euros since 1998 by way of reductions of tax and social security contributions linked to thirty-five hour working, against which it made a pledge to maintain employment levels until December 2001 – a commitment from which it seems to have felt it was released on 1 January 2002. The same applies also to Danone or Moulinex. The latter received aid of 50 million euros from 1997 onwards

within the framework of an agreement to reduce working hours against a simple commitment to show moderation in the number of jobs cut. In the end, the takeover of Moulinex by SEB will lead to 3,200 jobs being lost. It is clear that the effects of the law will be widely debated during the presidential campaign and that the question of its funding, which is very expensive, will be back on the agenda.

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⁸ See “Le grand gâchis des aides à l’emploi”, Capital, January 2002.



Germany

SHORT TERM LABOUR MARKET TRENDS AND THE IMPACT OF THE SEPTEMBER 2001

EVENTS IN GERMANY THE TREND WITHIN THE GERMAN ECONOMY AS A WHOLE

Most forecasts of employment trends for 2001 turned out to be too optimistic and had to be repeatedly revised downwards during the course of the year. Gross national product stopped rising in real terms as early as the second quarter of 2001 - i.e. before September 11th. It was possible to forecast the downturn in the economy prior to September 11th by analysing several key economic indicators (changes in exports, falls in investment, etc.), and this was something that had already been predicted (Kieler Kurzberichte 2001). However, September 11th is not without its economic effects. As a result of the events, there was a clear drop in both private and business travel¹. Indirect economic effects were also felt, mainly due to the lack of confidence displayed by consumers and companies. Moreover, crises within companies and industries were often linked to September 11th, even though these crises had occurred entirely independently of the events of that month. These various real and

presumed effects crop up in the latest economic studies.

Consequently, the six major economics institutes do not expect "the economic situation to deteriorate for

a sustained period as a result of this shock, rather that the recovery will be delayed by a few months" (DIW 2001a: 680).

This assessment is backed up by

Table 1: Contributions by expenditure components to the growth of GDP

	Contributions to the change in GDP compared with the previous year in percentage points								
	2000			2001			2002		
	1 st half	2 nd half	Year	1 st half	2 nd half ¹⁾	Year ²⁾	1 st half	2 nd half ¹⁾	Year ²⁾
Private consumption expenditure	1.3	0.4	0.8	0.7	0.9	0.8	0.0	0.8	0.4
Consumption expenditure by the State	0.3	0.1	0.2	0.3	0.2	0.3	0.2	0.3	0.2
Capital investment	1.0	0.1	0.5	-0.7	-1.3	-1.0	-0.9	0.2	-0.4
Equipment, other investment	0.9	0.8	0.8	0.2	-0.6	-0.2	-0.4	0.5	0.1
Construction	0.1	-0.7	-0.3	-0.8	-0.7	-0.8	-0.8	-0.3	-0.4
Change in stock	-0.1	0.8	0.4	-0.1	-1.3	-0.7	-0.2	0.4	0.1
Domestic expenditure	2.6	1.4	2.0	0.2	-1.4	-0.5	-0.9	1.8	0.4
Foreign contribution	1.5	0.7	1.1	0.8	1.6	1.2	0.4	-0.1	0.2
Exports	4.3	3.8	4.0	2.5	0.5	1.6	0.0	1.5	0.8
Imports	-2.8	-3.1	-3.0	-1.8	1.0	-0.3	0.5	-1.8	-0.6
GDP ¹⁾	4.0	2.1	3.0	1.0	0.1	0.9	-0.5	1.6	0.6

1) Estimates by the IFO Institute
2) Change in % over previous year. Growth in GDP in real terms is calculated from the growth contribution of domestic demand and the foreign contribution. Totals may deviate due to rounding.

Source: Federal Statistical Office

Table 2: Company insolvencies in West and East Germany

	West Germany		East Germany	
1991	8 845	-3.2%	392	
1992	9 828	+16.4%	1 092	+178.6%
1993	12 821	+30.5%	2 327	+113.1%
1994	14 913	+16.3%	3 911	+68.1%
1995	16 470	+10.4%	5 874	+50.2%
1996	18 111	+10.0%	7 419	+26.3%
1997	19 348	+6.8%	8 126	+9.5%
1998	19 886	+1.3%	7 942	-2.2%
1999	19 050	-4.2%	7 570	-4.7%
2000	18 120	-4.9%	9 810	+29.6%
2001 (estimate)	22 500	+24.2%	9 900	+0.9%

Source: Verband der Vereine Creditreform e.V. Neuss

¹ See for example: "Viele Reisende bleiben derzeit lieber am Boden" [Many travellers prefer to keep their feet on the ground for now] in: Frankfurter Rundschau dated 22.1.02.

Table 3: The labour market in figures. Annual average (x 1000)

	1998	1999	2000	2001	2002
GERMANY					
Gainfully employed persons, nationals	37549	38015	38636	38670	38685
Employees	33675	34067	34654	34714	34726
Self-employed	3974	3948	3982	3956	3959
Net commuter balance	62	66	70	70	69
Gainfully employed persons in Germany	37611	38081	38706	38740	38764
Registered unemployed	4279	4099	3889	3845	3860
Registered unemployment rate ¹⁾	10.2	9.7	9.1	9.0	9.1
Unemployed ²⁾	3684	3416	3133	3108	3119
Unemployment rate ³⁾	8.9	8.2	7.5	7.4	7.5
<i>Active labour market policy</i>					
Short-time working	115	119	86	110	110
Employment-creation measures	384	430	313	245	265
Full-time vocational training	324	333	324	325	345
WEST GERMANY ⁴⁾					
Gainfully employed persons, nationals ⁵⁾	31316	31723	32434	32570	32605
Registered unemployed	3024	2872	2645	2585	2600
Registered unemployment rate ¹⁾	8.8	8.3	7.5	7.4	7.4
<i>Active labour market policy</i>					
Short-time working	83	93	63	85	85
Employment-creation measures	88	100	83	70	75
Full-time vocational training	191	204	195	195	205
EAST GERMANY					
Gainfully employed persons, nationals ⁵⁾	6233	6292	6202	6100	6080
Registered unemployed	1256	1227	1244	1260	1280
Registered unemployment rate ¹⁾	16.8	16.3	16.7	17.1	17.2
<i>Active labour market policy</i>					
Short-time working	32	26	23	25	25
Employment-creation measures	298	330	230	175	190
Full-time vocational training	133	129	129	130	140

¹⁾ Number of registered unemployed as a % of the resident labour force (gainfully employed plus registered unemployed persons)

²⁾ Definition by the ILO

³⁾ Number of unemployed as a % of the resident labour force (gainfully employed plus unemployed persons)

⁴⁾ Including Berlin

⁵⁾ Estimate by the DIW based on calculation of the number of gainfully employed persons by the Federal Government, the individual Federal States (Länder) and the micro census

Source: DIW 2001a

the fact that the IFO business climate index (1991 = 100) deteriorated dramatically after September 2001, falling from 89.4 % in August to 85% in September. The only time the index experienced a greater fall was during the oil crisis (FAZ 1.11.2001).

The fact that the German economy is geared more than most to international trade has meant a marked lack of confidence. In particular, the worsening economic position in the USA is having a negative effect on Germany. The USA is the largest trading partner of the Federal Republic of Germany outside Europe. In 1999, exports to the USA totalled around € 50 billion; equivalent to a share of 10% of all exports. In addition, around 20% of German direct foreign investment goes to the United States. Macro-economic calculations have shown that a fall in the USA growth rate of 1% in 2001 would reduce growth in Germany in

2001 by 0.1% and in 2002 by 0.4%. Devaluation of the US dollar by 10% would initially reduce growth by 0.2% and by a further 0.3% in the subsequent year (IAB 2001).

Many observers suspect that announcements of impending layoffs were brought forward because it was considerably easier for companies to justify them to the public and the workforce. This is what the chief economist at Hypovereinsbank recently had to say on the matter: "September 11th was like a catalyst. Many measures that had been put on hold by companies for some time are now being implemented" (Süddeutsche Zeitung 23.10.01).

The trend in the economy in 2001 was incorrectly forecast by all economics institutes. The Council of Experts assumed growth of 2.8%, whilst the six major institutes of economic policy assumed growth of 2.7%. Actual growth stood at around

0.6%. The forecasters expected an increase in capital investment. In actual fact, this fell (Die Zeit 27.12.01). The IFO Institute in Munich looked more closely at the growth contributions of expenditure components to reveal that only exports were producing any notable signs of growth, whilst private consumption increased slightly, with the downturn in the economy caused mainly by the collapse in capital investment (table 1). It may be noted that capital investment had already started falling from as early as the first half of 2001. The sharper drop in the second half of the year, although consistent with the general trend, may have been exacerbated by the lack of confidence in the economy. International comparisons also allow us to observe that the German economic climate is particularly affected by international trade, whilst domestic demand, private consumption in particular, grew only slightly in recent years on account of the pay restraint exercised by the German unions. In France, for example, there have been substantially more signs of new economic activity as a result of private consumption (DIW 2001c). The German economy, therefore, has proved to be particularly susceptible to global economic effects.

One clear indicator of whether or not the economy may be cooling off is the number of company insolvencies. Insolvencies mainly affect small and medium-sized companies which, because of their low capital resources, often have to throw in the towel even when there is only a slight tailing-off of the economy. The data from the "Verband der Vereine Creditreform e. V." for 2001 are still based on estimates, but show a clear trend (table 2). In East Germany, where the economic slowdown set in much earlier, insolvencies increased by almost 20% even as early as the year 2000. In West Germany in that same year, the figure continued to

fall, only subsequently to increase sharply. The precarious situation of small and medium-sized companies in East Germany in particular is underlined by the fact that in this region just under one third of all insolvencies affects one fifth of the population. The number of jobs lost due to insolvency in 2001 is put at 330,000 in West Germany (+13% compared with 2000) and 173,000 for East Germany (+9.5% compared with 2000). These estimates, however, do not reflect the full extent of the number of job losses, since employees in the know often leave their company before insolvency proceedings are initiated. In 2001, around 280,000 new jobs (300,000 in the previous year) were created throughout Germany as a result of the founding of new companies, which meant that the net balance between newly founded companies and insolvencies turned out to be negative (a total of - 193,000) (Verband der Vereine Creditreform e.V. 2002).

Between 1998 and 2000, the number of employed persons (employees and self-employed people) rose by 1,087 million. During that same period, the number of people registered as unemployed fell by 39,000 (table 3).

This trend came to a halt in 2001. In relation to the whole of 2001, although the number of people in employment rose by 34 000 and the number of people registered as unemployed fell by a further 44 000, most of the growth in employment occurred in the first quarter of the year. Then, growth was at 0.6%, whilst in the fourth quarter of 2001 a fall of 0.1% was recorded (table 3). The unemployment rate in 2001, according to the definition used by the German government, was 9.1% and, in accordance with the definition used by the ILO, 7.5%. The differences between East and West Germany continue to be striking. Employment in East Germany, as in

Table 4: Employment thresholds¹⁾ according to various gauges

	Numbers of gainfully employed	Volume of work done	Volume of paid work
1 st Q 1980 to 4 th Q1990	1.3	2.5	2.0
1 st Q 1994 to 2 nd Q2001	1.1	2.0	1.9

1) Required annual growth rate in GDP (in %) beyond which employment rises

Source: DIW 2001 / 6

2000, was below that of the previous year. The fall has totalled 122 000 since 1999. The number of people registered as unemployed also increased in 2000. The unemployment rate in East Germany as defined by the German government is, at 17.2%, almost 10 percentage points higher than in West Germany. The fall in the employment figures is partly due to the reductions in job creation measures (ABM). The number of people on such schemes fell from 316,000 in 2000 to 246,000 in 2001, with East Germany bearing most of the brunt. This drop may also largely explain the fall in employment there.

The clear increase in employment between 1998 and 2000 was, despite modest growth, a consequence of the reduction in the "employment threshold" i.e. the level of growth required for employment to increase. The DIW in Berlin has calculated the employment thresholds for three parameters: the number of gainfully employed persons, the volume of work done and the volume of paid work, which rules out unpaid overtime. In the face of the reduction in working hours, particularly as a result of the increase in part-time work, it was to be expected that the employment threshold for the number of gainfully employed people would be below that for the volume of work. Employment thresholds have fallen compared with the 1980s. Gainful employment in Germany now rises once growth hits 1.1%. The volume of paid work hours, however, only rises with a growth rate of 2.0% (table 4). The redistribution of work has, therefore, allowed the employment threshold to fall from 2% to

1.1%, in other words it has almost halved it.

In the German debate, the clearly higher unemployment in East Germany is often attributed to the higher employment rate in East Germany, mainly as a result of the greater inclination among women in East Germany to earn a living (East Germany 76.4%, West Germany 71.9%). The Council of Experts, in its most recent report, explained half the higher unemployment rate in East Germany by attributing it to the higher employment rate of women there. The other half, the report says, is due to structural problems, such as the lack of jobs (Council of Experts 2001: 148). Such a schematic account is dubious, however, since higher levels of gainful employment also generate demand.

Month-on-month employment data show that the German economy clearly tailed off during the year:

The absolute number of unemployed rose between September and December 2001 by 220 000, with the seasonally adjusted figure rising by 78 000. This growth in absolute unemployment occurred almost exclusively at the expense of male employees (+220 000). This is to be explained by the fact that the sectors experiencing high job losses (e.g. building industry) mainly employ men, whilst those enjoying high employment growth (e.g. health and social sectors) mainly employ women. Add to this the fact that in these sectors it is primarily blue-collar workers who have been made redundant, with fewer white-collar workers being dismissed. Among white-collar workers (men and

Trends

women), the number of unemployed remained steady, rising slightly among females (+ 20 000).

The rise in the number of short-time workers from 86 000 in the first quarter of 2001 to 120 000 in the fourth quarter is an indication of the growing idle capacity among many firms. The unemployment figures and rates for young people have not changed appreciably. The most important reason for this may be that, in West Germany, on the one hand the number of places available for vocational trainees has risen whilst, on the other, the number of applicants available has fallen due to demographic factors. Thus, in 2000/1, employment offices reported 509,607 available places for vocational training (+ 12 000 or + 2.3%), whilst the number of candidates who applied fell to 524 708 (- 21 000 or - 3.9%) (Council of Experts 2000: 165). In East Germany, the trend is different. Here,

of applicants to the number of jobs available continued to be substantially higher than in West Germany.

The number of vacancies has fallen. The number of vacancies in December 2001 fell by around 50,000, below the level of December 2000.

The various economics institutes assume that the German economy will recover slightly in 2002. Forecasts predict a rate of growth in GNP of between 0.6 and 1.3%. Above all, low growth in the global economy and the merely moderate growth rates in investment and private consumption will have a depressive effect on the German economy. After so many negative reports, the upturn in the business climate in January 2002 came as a surprise. The IFO business climate index climbed back up to 86.3% in January 2002, a phenomenon which is generally

my grows more confident"] in: Handelsblatt, 29.1.02)

Sectoral trends

Employment trends varied greatly within the various individual sectors in 2001. The service industry recorded an increase in employment of around 200 000, or 0.8%. However, this growth was found only among private services, since employment in the public service sector continued to decline. In the production sector, the number of jobs fell by 142 000, manufacturing more or less being able to retain its employees.

The clearest collapse in employment was observed in the building sector. Employment in this sector fell by around 129 000, equivalent to - 4.7% (Council of Experts 2001). The fall in employment in the building industry had already begun some years earlier (figure 1). The causes are as follows:

- The fall in (mainly) public investment,
- The end of the building boom in East Germany following reunification. As a result, building investment in East Germany in 1996 was still 80% above the level (per capita) in West Germany, whereas in 2000 it was just 22% above it (DIW 2001a),
- The increase in legal and illegal employment by foreign contract workers, which today - depending on the calculations used - accounts for 20 to 30% of the building workforce and which has squeezed out a substantial number of national employees (Bosch/Kalina/Worthmann 2001).

Detailed figures for each sector (from the micro census) are only available until September 2001. For the most part, they reveal specific trends in the services sector.

The employment figures changed between 2000 (year average) and

Figure 1: Unemployed in the building profession and employment in the main construction sector, Germany (total), January 1999 to May/June 2001



Source: Federal Statistical Office; Federal Office for Employment

both the number of available vacancies (- 4.6%) and the number of applicants (- 5%) fell. In East Germany, the surplus in the number

being seen as an early indicator of increased growth in the second half of 2002 ("Deutsche Wirtschaft wird zuversichtlicher" ["German econo-

Table 5: Risk ratios according to the main sectors of the economy in Germany 2001

	Insolvencies per 10000 firms
Manufacturing industry	59
Building trade	274
Commerce	90
Services	91
Total	112
Of which:	
West Germany	95
East Germany	194

Source: *Creditreform-Wirtschaftsdatenbank und Umsatzsteuerstatistik*

September 2001 as follows:

Individual service sectors, such		
Commerce	+ 22 000	(+3.3%)
Hotel and catering . . .	+ 50 000	(+7.0%)
Transport and communications	+ 49 000	(+3.3%)
Financial intermediation	+ 6 000	(+0.6%)
Business activities . . .	+ 266 000	(+9.9%)
Public administration -	35 000	(-2.0%)
Education	+ 16 000	(+1.6%)
Health and social work	+ 30 000	(+1.0%)
Other community and personal services	+ 24 000	(+2.0%)

as business activities or hotel and catering, were still expanding up to September 2001 at a very sharp rate. The weakest growth was recorded by the financial intermediation sector. This sector is on the verge of a major wave of reorganisation, but – unlike in other countries – this is still not reflected in the number of employees at sector level. In the last few months of the year, the number of people employed in the services sector fell somewhat once more. This fall cannot yet be broken down by sector, however.

Because of this specific trend within the service sector, the IFO Institute decided to develop an economic trend check in this sector as a

whole. As its starting point, it adopted the following consideration: “Until not too long ago, it was the general view that the services sector would not be subject to stronger fluctuations and that this sector, therefore, was not particularly relevant to research into or analysis of the economic cycle. This view has since given way to the acknowledgement that the services sector, in particular the business-related field and financial services, does indeed respond to cycles. To a considerable extent, this lies in the fact that in recent years jobs have been farmed out from industrial, construction and commercial firms and given to independent service providers” (Hild et al 2001). The economic trend check for the services sector carried out by the IFO Institute shows that after September 2001 there was a hefty collapse, which is mainly associated with the crisis in the banking and insurance sectors and among business-related services (IT service providers in particular).

Insolvencies according to each sector of the economy are, in turn, an indicator of staff cutbacks. In 2001, the building sector was the sector by far the most prone to insolvencies. Commerce and other service sectors are also more susceptible to insolvencies

than manufacturing (table 5). However, 80% of newly founded companies are also in the services sector, which recorded a higher in- and outflow of mini-companies with low capital resources and a small number of employees.

Whilst the insolvencies of small and medium-sized companies largely go unnoticed, the public perception of corporate crises is focused on large companies with mass redundancies. This is why the current crisis in the building sector has passed by largely without comment, even though most jobs have been lost in this field, whilst the staff cutbacks planned but, for the most part, still to be carried out in 2002, by major companies dominate the headlines. The planned staff cutbacks are concentrated mainly in the areas of banking, insurance, airline companies, the hotel and restaurant trade, trade fair business and information and communication companies. This pattern has something to do with structural problems in this sector which are particularly visible at this time of economic slowdown. Within the information and communications industry, the upturn of recent years has come to a halt and the market is now starting to undergo an adjustment. In the banking sector, German companies have a high employment density compared with other countries, but this is now being reduced through mergers. As a result of these structural changes, staff cutbacks over the next few years of around 100 000 jobs in the financial industry are regarded as unavoidable (Frankfurter Rundschau 9.1.2002). In the tourist trade, many small and medium-sized companies are being taken over by high-turnover travel companies which, in turn, have also merged with the airlines. The major holiday companies are increasingly building their own sales through franchise systems and online shops. The result of this form of competition is that unaffiliated travel agents are

being crowded out. These structural changes have been further intensified by the collapse in travel since September 2001. The tourist industry has reported a drop of 6% among travel agents, just under 22% for air travel and just under 31% for other sales (Arnold-Rothmaier 2001).

Many of these mass redundancies announced by the big firms have been planned for ages and could be foreseen. However, many have been announced publicly in the wake of September 11th since companies saw a greater chance of being able to justify their plans to cut back staff and of being able to push their plans through more easily than would previously have been the case. Individual publications drew up hit lists of planned staff cutbacks. "Wirtschaftswoche" magazine (27.9.01) compiled the following list for Germany (for banks, see section 4):

Deutsche Post	- 14 000
Daimler-Chrysler ..	- 13 000
Siemens	- 10 000
Deutsche Bahn	- 6 000
Infineon	- 5 000
MAN	- 5 000
BAS F	- 4 000
Bayer	- 4 000
Linde	- 2 500
Epcos	- 2 190
Degussa	- 2 000

It is a list that has since been added to. A newspaper survey produced the following:

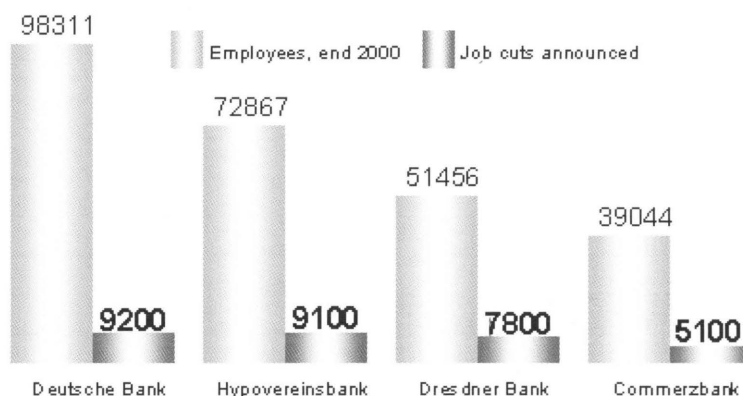
Philips Hamburg (production of semi conductors) puts 1 000 staff on short-time working (Handelsblatt 16.11.01)

Announcement of operational redundancies (Wirtschaftswoche 27.9.01)

Henkel cuts back 3 000 jobs (Süddeutsche Zeitung 19.11.01)

Virtual bankruptcy of Swiss-Air subsidiary LTU (Der Spiegel 45/2001)

Figure 2: Job cuts - Number of employees and job cuts announced by the major banks



Source: Frankfurter Allgemeine, 9, Januar 2002

Loss of 2200 jobs at the largest travel group in Europe, Preussag (FAZ 24.1.02)

Recruitment ban at TUI and 220 trainees not offered positions (Handelsblatt 22.1.02)

Three Cases in point

In many companies, agreements have been reached between works councils and company management in respect of socially acceptable cost-reducing measures. In other companies, most banks and insurance companies for example, negotiations are still under way.

Lufthansa was the first to call a halt to new recruitment; because of the fluctuation in employment, a ban on new recruitment at Lufthansa is equivalent to around 500 people a month. In addition, short-time working for 12,000 employees has been requested in order to prevent the redundancy of 650 employees. The board of Lufthansa has, by turning down a pay increase of 10%, sent a signal that it wishes to pursue a cost-reducing policy (Frankfurter Rundschau 15.11. and 11.11.01). In December 2001, Lufthansa and the unions, Ver.di and Vereinigung Cockpit, agreed a package that will

include cost savings of at least 210 million. Specifically, Ver.di has agreed an extension to existing collective agreements for cabin crew and ground staff until October 2002, thus waiving any increase in standard salaries. In addition, payment of the first half of the annual bonus payment (known as the "13 month" payment), due in May, has been postponed. The increase in basic pay that was supposed to have taken effect from 1st February 2002 has also been put back by seven months for pilots. In addition to this, there are measures already in place such as recruitment bans, a drop in overtime and offers of more part-time work and special unpaid leave. The company is no longer giving employees notice, not even those still undergoing their training. At the same time, the board has decided to buy 15 Super-Airbus A 380s which are still undergoing development. The unions are talking of a "pact of reason" (Frankfurter Rundschau 7.12.2001). The company sees many benefits in foregoing redundancies, and in reducing working hours. During negotiations, the board chairman declared to the press: "We do not want to see any "hire and fire". We want to keep our staff. Because we need not just low costs,

Figure 3: Framework company agreement governing the procedures and instruments for the socially acceptable preparation and implementation of projects to reorganise Dresdner Bank AG

The following HR measures are described in this framework agreement:

Intraline: transfer of other activities in other branches for a limited period.

Internal training: employees affected by the loss of or change to their jobs have a right to necessary training measures. The company will assume the cost of the training which, as a rule, should not last more than 12 months. Longer training arrangements may also be funded for the internal and external labour market. The employment relationship will then be transformed into a trainee relationship. An allowance will be paid in the form of trainee pay, the level of which will depend on length of service with the firm.

Relocation to other activities: relocation to other jobs in a lower pay bracket, and with travel times to work of up to two hours per day, is acceptable.

Downgrading settlements: wage settlements are paid for a maximum of 24 months.

Mobility support in the event of job relocation: allowances for travel expenses paid and removal costs refunded.

Working hours reduction: if working hours are reduced, attractive terms (e.g. 4-day weeks) are offered, with partial compensation for lost income.

Unpaid long-term leave: long-term leave is offered of at least one, to a maximum of two, years.

Lump-sum settlements: lump-sum settlements are paid if employees opt for voluntary redundancy. The minimum settlement is € 5 000 and the maximum € 175 000.

Partial retirement: over 55s are offered partial or early retirement.

Group outplacement: employees who can no longer be employed within the company are to receive professional support for their transfer to another job.

but high flexibility too. If the market offers opportunities for growth, we must be able to respond quickly. Take Swissair and Sabena for example, following these bankruptcies, we were able to expand our offer at once, as well as secure several thousand extra passengers a week for our network " (FAZ 14.11.2001).

Smaller companies, too, affected by the collapse of their business in the wake of September 11th, have concluded comparable agreements. Braunschweig-based piano maker, Schimmel, with 226 employees and a production rate of 3,200 pianos and 830 grand pianos, is the largest piano maker in Europe and exports around half its production to the USA. When demand in the USA fell after September 11th, an "employment protection contract" was negotiated.

The employees are working a four-day week until March 2002, equivalent to 32 hours. Again, the company hopes to be able to hold onto its specialist workforce during times of crisis, pointing out that even after the Gulf War demand rose once more. The employees are among the top earners (on average between 19 and 20 Euros per hour) and can cope with a temporary drop in income.

It is still not clear how the banks will overcome the structural shifts. In public announcements at the end of 2001, the major banks (Commerzbank in particular) no longer rules out redundancies. The unions have declared that they are ready to help bring about the structural changes required within the financial industry. However, they hope to avoid staff cutbacks and major

upheavals in the pay structure. They are therefore refusing to accept the company's demand to forego the 13th month bonus payment and are instead asking for a reduction in the agreed working hours to a 36 hour week. The unions point out that working hours in the banking sector are, at 39 hours a week, way above the level found in other sectors (Foullong 2001).

In the meantime, it has emerged that staff cutbacks among the major banks (figure 2) can largely be tackled without redundancies. However, the unions have so far not yet managed to force through their demand for a reduction in working hours. They have, though, negotiated company agreements on socially acceptable staff cutbacks. At Dresdner Bank, a framework agreement included an array of measures that need to be specified within the individual branches (figure 3). This catalogue of measures still includes an option to make staff redundant through outplacement. This option will surely also be used. At the end of 2001, German company Hypothekbank agreed with the works council to set up a successor company for 152 employees whose jobs are to be lost because of the cessation of private customer business. This successor company is to organise the outplacement process.

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Trends

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Political reactions

Most major staff cutback schemes by companies have yet to be implemented. Under German law, they have to be negotiated with the works councils which can, in accordance with the German Works Council Constitution Act (§§ 111 and 112) negotiate a rec-

onciliation of interests and a social plan. This process of negotiation takes time, thereby allowing the works councils to wield considerable potential power. The works council and the unions strive above all to reduce the scale of staff cutbacks and even to stop them altogether. If staff losses turn out to be unavoidable, their aim is to get them carried out in a socially acceptable manner, or through successor companies, or by arranging early retirement schemes. In recent years, following the pioneering agreement with Volkswagen², collective agreements have been reached in almost all sectors, providing for options for temporary work-time reductions without pay compensation during company crises in order to avoid redundancies. In the metal-working industry, for example, working hours can be reduced from 35 to 30 hours and, in the case of the banking and insurance industry, from 39 to 31 hours. These collective agreements mean that the VW model - the practice of avoiding redundancies by adopting reduced working hours - has become mainstream. However, internal negotiation is required. In addition, a series of collective agreements provide for get-out clauses for companies in crisis. Under certain conditions, they can temporarily reduce wages or even postpone collectively agreed pay increases or special payments in part or in full (e.g. metal-working industry in the East, chemical and textile industry in the West).

The unions and works councils want to exhaust all the options mentioned to avoid redundancies, and recently received backing from politicians such as North Rhine-Westphalia Minister for Employment, Schartau (Handelsblatt 26.11.01). Schartau is seeking a

meeting of the German National Employment Alliance at which partners will discuss operational issues. As well as job-protection measures, he also sees the need to organise the transfer of employees into trades where there is a shortage of manpower. He says that such job-protection measures are needed in particular to prevent future shortages of skilled staff. Schartau claims that the shortage of skilled staff in recent years is partially due to the excessive staff cutbacks in previous years. Such topics were not, however, discussed at the meeting of the National Employment Alliance at the end of January 2002. The meeting ended inconclusively. The employers made their continued involvement dependent on a commitment from the unions that wages would only increase below the rate of growth in productivity. The unions wanted assurances on employment policy measures, such as less overtime, and rejected wage-policy assurances on this level and at this amount.

- At the economic level, the discussion is primarily about the deficit in State spending caused by the downturn in the economy, plus other economic measures. The financial deficit (deficit ratio) in 2001 was 2.5% and thus clearly above the planned level of 1% (DIW 2001a). This rise in the deficit ratio caused by the downturn in the economy is, on the one hand, the result of rising expenditure, above all for unemployment and short-time working; while, on the other hand, tax receipts for 2001 continue to fall by around DEM 12.7 billion behind schedule. Of this, DEM 4.2 billion is due to the Federal Government, 6 billion to the Länder and DEM 2.5 billion to the local authorities

² At Volkswagen, working hours were reduced in 1993 from 35 to 28.8 per week in order to avoid mass redundancies. This working time reduction still applies today. The company now manufactures with working hours below the collectively agreed standard and can extend working hours by up to 20% without having to pay bonuses.

(Frankfurter Rundschau 10.11.2001).

- At the heart of the macro-economic debate lies the question of how to kick-start the stagnant economy once more. There is broad agreement that the increase in the State deficit due to economic downturn is to be absorbed by automatic stabilisers. On the other hand, measures that go beyond this are more controversial. The six economics institutes propose that the planned tax reforms be brought forward by around one year. There is adequate room for this; the deficit ratio for 2002 estimated at around 2.0% would increase by 0.6% and thus be below the target level of 3% (Meister 2001). The unions reject the idea of bringing tax reform forward. They say it will favour higher incomes and would ensure an increased savings ratio. They are aiming for an increase in public investment. The public investment ratio which in Germany is currently 1.8% of GDP needs to be increased, according to the unions, to the average European level of 2.5%. The additional investment should be funded through borrowing, fees and contributions (DBG 2001). The standard interpretation of the Dublin Stability Pact is also increasingly criticised. The stability aims hammered out in Dublin are interpreted without taking into account the business climate. It is certainly conceivable that in times of an economic

downturn the limit of 3% will be overshoot, while it will not be reached when times are good (Horn 2001). Surprisingly this is a view shared by economists and theorists in both major political camps (Horn 2001, Hüfner 2001, Walter 2001).

Prof Dr. Gerhard Bosch

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Greece

SHORT TERM LABOUR MARKET TRENDS AND THE IMPACT OF THE SEPTEMBER 2001 EVENTS: GREECE

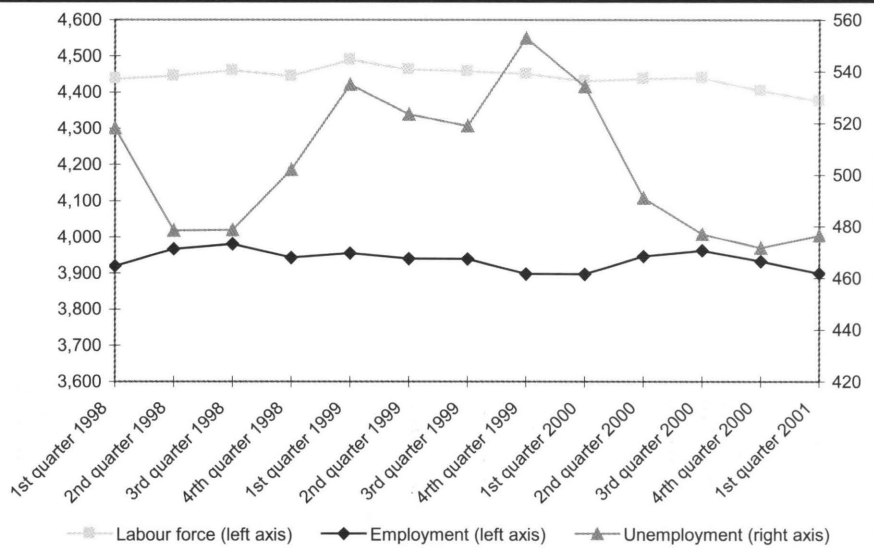
1. Economic background

Employment in Greece is characterised by certain features, some of which can be said to be unique among EU member states. More specifically, employment is characterised by a relatively high percentage of people employed in agriculture, a high percentage of self-employment, a high percentage of concealed employment (informal economy) and a relatively low labour force participation rate of women¹.

The small natural growth of the population, the influx of immigrants, the rapid increase of the labour force and an ageing population, constituted the main demographic developments of the Greek labour market during the larger part of the last decade. With respect to sectoral changes, Greece appears to be following the European pattern, i.e., heavy job losses in agriculture, a moderate decline of industrial employment, and strong employment growth in the services.

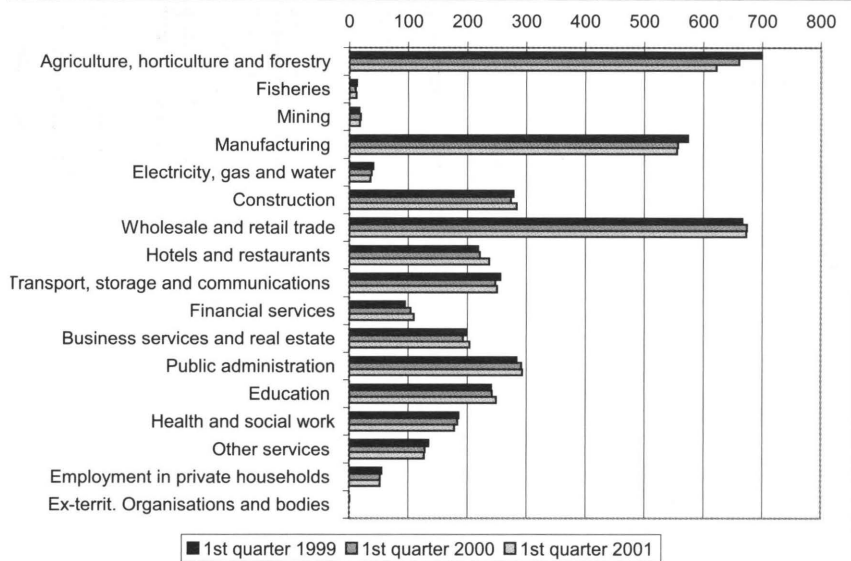
Sluggish employment growth during the 90's, combined with rising female labour force participation rates have resulted in an increase in unemployment. Towards the end of the decade, the unemployment rate had reached the record level of 12,4% of the labour force (1999 q4), exceed-

Figure 1: Labour force, employment and unemployment, 1998q1-2001q1 (000 persons)



Source: NSSG, Labour Force Survey

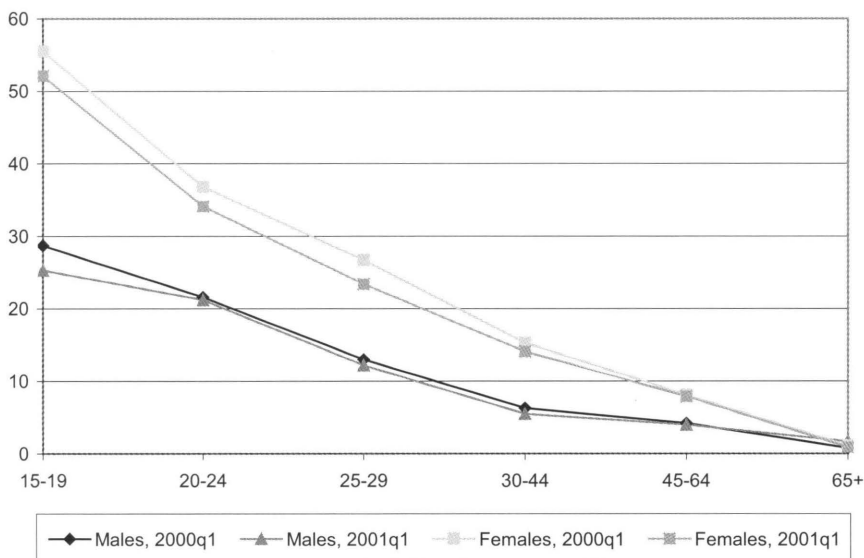
Figure 2: Employment by sector of economic activity, 1999q1, 2000q1, 2001q1 (000 persons)



Source: NSSG, Labour Force Survey

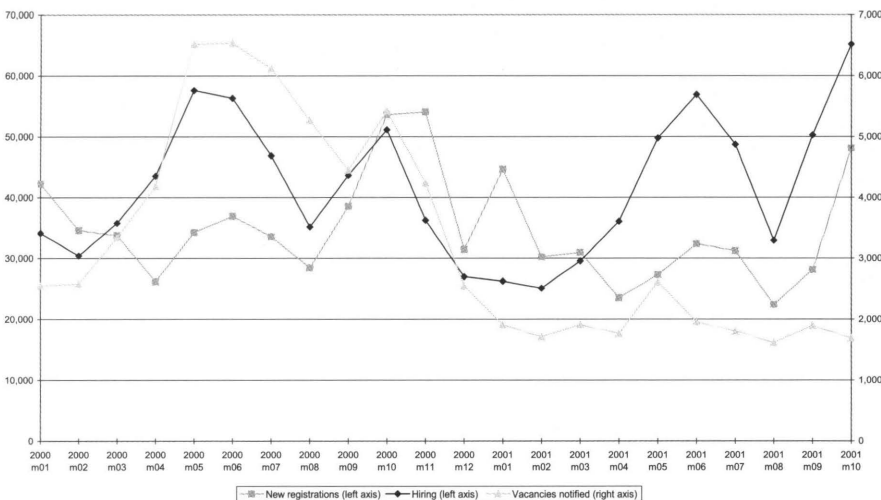
¹ See Commission of European Communities (1996).

Figure 3: Unemployment rate by sex and broad age group, 2000q1 - 2001q1



Source: NSSG, Labour Force Survey

Figure 4: Newly registered unemployed, hirings and notified vacancies 2000m01 - 2001m10



Source: OAED, KPA Management Report

ing by far the European average. Youth unemployment rates and long-term unemployment rates were also higher in Greece than in EU15. The unprecedented increase

in unemployment, forced the government to take steps in order to stimulate the labour supply and to increase incentives to work in the formal economy.

With respect to recent trends in the sectoral distribution of employment, employment in the primary sector appears to continue its downward trend (Figure 2). Agriculture in particular appears to have shed 40 thousand jobs within the last 12 months (2000q1- 2001q1), while this trend can be expected to continue. Furthermore, employment in manufacture continues experiencing a moderate decline, whereas employment in construction has picked up somewhat, probably due to increased activity in public works, connected with the 3rd CSF and the 2004 Olympic games. Clear employment gains are observed for a number of service sectors, notably financial services, business services and real estate, hotels and restaurants, public administration and education. These gains however are very modest and hence can not offset the decline of employment in agriculture.

Unemployment continues to be a pressing problem for the Greek labour market. During the first quarter of 2001, unemployment affected 477 thousand persons, or 10,9% of the labour force. It should be noted however that the rise of unemployment that was evident during the 90's, has come to a halt and that unemployment has started declining (Figure 1). Furthermore, the drop is particularly impressive as it involves 57.600 persons on a year - to - year basis and 76.400 in relation to 1999q4. During the last quarter of 1999, unemployment reached its top level, involving 553 thousand persons or 12,4% of the labour force. As employment practically remained unchanged between the two periods (1999q4 – 2001q1), the current drop in unemployment is attributed to the drop in the size of the labour force. The latter in its turn can be explained by the drop in activity rates.

Unemployment in Greece involves mainly young persons and

Table 1: Economic Climate Indicators

	2001								Mean		
	April	May	June	July	August	September	October	November	1996-2000	1999	2000
EU	102.2	101.5	101.4	101.1	100.3	100.3	99.3	98.8	99.3	101.1	103.8
Euro-zone	102.1	101.6	101.1	100.7	100.1	100.1	99.1	98.6	99.4	101.2	103.8
Greece	102.2	102	102.1	101.9	101.8	101.8	101.6	101.7	100.9	101.9	103.4

Source : IOBE, *Surrey of Economic Conjuncture*

women. Young persons (aged 15-24) in particular, face extreme unemployment risk (29.0%), almost three times higher than average. Women too, exhibit unemployment rates twice the equivalent rate for men (16.3% in relation to 7.2%). Generally, the incidence of unemployment varies monotonically with age, starting at very high levels for young persons (and in particular for young girls) and declining thereafter as persons reach maturity (Figure 4). The recorded drop of unemployment appears to have benefited the younger males as well as the younger and prime-age females.

Another disturbing feature of the current unemployment problem is that the absolute majority of the unemployed (52.35% of the total during 2001q1) are long-term unemployed, while a substantial segment of the unemployed population (46% of the total) comprises of new entrants in the labour market. These two problems are interrelated, at least to some extent. Large numbers of school leavers are unable to locate jobs and hence they drift into long-term unemployment. LTU appears to have declined somewhat (in both absolute and relative terms) during the last year, but the proportion of unemployed new entrants appears to have increased during the same period.

More recent data, based on registered unemployment up to October 2001, reveal no disruption of the general trends described so far (Figure 5). New unemployment registrations during October 2001 at the KPAs (PES), appear to have modestly declined in relation to October 2000 and hirings are clearly on the increase. The recorded drop in the vacancy rate, ought to be treated with caution, as it might be connected with the current reorganisation of the public employment services rather than with real trends. During the first 10 months of 2001, total hirings amounted to 877,926, having increased by 11.3% in relation to the same period of the previous year. During the same time period however, redundancies amounted to 478,927, having also increased by 11.2% in relation to 2000. These findings indicate possibly increased mobility among the employed workers. During October 2001, there were 92,122 redundancies (up by 17.7% in relation to October 2000), and 124,313 hirings (up by 16.5% in relation to previous year), indicating no immediate effect of the September 11 events on the Greek labour market. Finally, voluntary withdrawals appear to have increased significantly during the first ten months of 2001 (up by 15.7%), in relation to 2000, indicating possibly an improvement of

employment prospects.

Finally, with respect to industrial change and processes of restructuring currently under way, information is scant and circumstantial. It is believed that the privatisation of formerly publicly owned organisations (together with liberalisation and outsourcing) has not so far resulted in substantial job losses in the public sector, but has affected negatively new recruiting. On company-level restructuring (mergers, acquisitions, plant closures, relocation of activities, etc), the general feeling is that all forms of restructuring have been intensified during the last few years, as a response to increased competition which dictates the need for increased flexibility (and for lowering production costs). Apart from redundancies, corporate restructuring may have led to increased use of temporary work as well as to various other changes in the workplace². Statistical data to describe the situation are however not available.

Turning to employment outlook and projections it should be noted that existing forecasts on labour market developments are at the highest level of aggregation³. The absence of employment projections based on labour market information and on detailed indicators of sectoral, regional and occupational develop-

² The share of employees working under temporary contracts is estimated at 13.1% of the total for 2000. The incidence of temporary work is higher for females (15.7%). See Eurostat (2001).

³ See EEO (1997).

ments may be attributed to the lack of appropriate labour market monitoring mechanisms and arrangements.

According to the Ministry of National Economy, employment was forecasted to grow in 2001 by 1.2%. Further, unemployment was forecasted to continue its declining trend, from 12.0% in 1999 to 11.3% in 2000 and finally to 10.7% in 2001⁴. This, rather optimistic scenario is in agreement with similar scenarios forecasted by international organisations (OECD and IMF). Furthermore, according to Eurostat, employment is forecasted to grow by 1.1% in 2001 (close to European average) and from there on to 0.6% in 2002, outstripping the European average (0.2%)⁵.

Positive labour market forecasts rely heavily upon the strong output growth rates which are expected to occur in the coming years. In this respect, and although all forecasts for 2001 and 2002 have been adjusted downwards to take account of the economic slowdown introduced by the events of September 11, Greek GDP is forecasted to grow at a rate twice that of the average for the other members of the Euro-zone. According to National authorities (Ministry of National Economy), GDP is expected to grow in 2001 by 4.1 and by a further 3.8% in 2002. The Bank of Greece has also predicted high growth rates (4.0% for 2001 and 3.5% for 2002). These predictions are in agreement with the latest predictions of the European Commission Services (4.1% and 3.5% respectively). Strong GDP growth is largely aided by the implementation of the 3rd Community Support Framework as well as by the simulation of the demand for construction activities as a result of the 2004 Olympic games.

The impression that the impact of economic slowdown will be relatively small in Greece and in any case smaller than in the other EU countries is verified by circumstantial evidence, such as for example the results of the monthly Survey of Economic Conjuncture conducted by the Foundation of Economic and Industrial Research (IOBE). According to the results of the November 2001 survey, the Economic Climate Indicator appears to have increased slightly in relation to October and is now close to its pre-September levels (See Table 1). In contrast, the indicator has continued its downward trend in the remaining EU and Euro-zone countries, but the fall appears to be slowing down. The positive overall change in the value of the indicator for Greece, is due to improved consumer confidence (the relative indicator appears to have fully recovered in November 2001, after a drop in October 2001) and to an improvement of expectations in relation to construction (labour shortages are reported).

To sum-up, despite the favorable macroeconomic environment and strong output growth, unemployment in Greece remains at high levels and employment rates are low especially for women. Unemployment is concentrated among women and young new entrants, a large number of which are long-term unemployed. During 2000 the data recorded a drop in the unemployment rate, but both the LTU rate and the youth unemployment ratio are still significantly higher than the EU averages.

2. Sectoral Impact

All existing evidence points towards the conclusion that the impact of the events of September 11 on the Greek

labour market is likely to be limited and largely confined to two sectors: aviation and tourism. According to the Federation of Greek Industries (SEV), the largest employers association, Greece will be the country least affected by the economic slowdown, because a) the Greek economy exhibits a low degree of dependence from the international economy, b) all basic macroeconomic variables of the Greek economy appear to be moving towards the right direction, and c) because of the 3rd CSF and the 2004 Olympic games, which constitute strong developmental instruments. In the paragraphs to follow, an attempt is made to identify the impact of the September 11 events upon these two sectors. It should be mentioned however that, as the effects of the current crisis are still under way, the evidence collected for the needs of this report, is bound to be provisional, fragmented and anecdotal. In some occasions the current crisis coincided with past negative trends in certain subsectors of the tourist industry, and has thus exemplified and accelerated these trends. In other occasions, the crisis coincided with structural adjustments in process (such as the liberisation of air transport and ground handling services in airports and the forthcoming privatisation of Olympic Airways, the national airline company). Thus it is very difficult to draw a picture of the net effects of the events of September 11.

Tourism is of course of paramount importance for the Greek economy, contributing greatly to the formation of national income and being an employment source for hundreds of thousands of workers. It is difficult to estimate the exact number of those directly or indirectly involved, as tourist activities comprise of a wide spectrum of interrelated products and services (from car

⁴ See Ministry of National Economy (2001).

⁵ See Eurostat (2001).

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rental to construction and from bus driving to selling souvenirs). The total number of those benefiting directly from tourism may be as high as 1 million workers. Naturally therefore there is much concern on the immediate future of tourism, and there are many reports in the media on likely future outcomes.

According to the majority of the press reports, the impact of the current crisis has so far been limited, due to the fact that the great bulk of planned tourist arrivals (up to 90% of the total) had already taken place prior to the events to September 11⁶. Winter tourism is not very well developed in Greece and hence effects until the end of the year are likely to be only minor⁷. Nevertheless, certain types of tourism such as scientific and business (conferences and seminars), as well as certain types of hotels (mostly the more luxurious hotels of Athens and Thessaloniki) can be safely expected to bear some of the cost of the current crisis for the winter months⁸.

Turning to likely future performance (2002), the picture appears to be mixed and uncertain. To start with, American tourists have, in their vast majority, cancelled trips to Greece (as well as other distant destinations). American tourists represent only 9% of incoming tourists (1999), but because of their high economic status they are of obvious importance for the Greek tourist industry. On the negative side, mention should also be made of the cancellation of most cruiser ship packages that has affected the whole of the Eastern Mediterranean region. On the positive side, planned arrivals from the

UK and Germany, are estimated to be higher by 3-4% in relation to the previous year⁹. Tourists from the UK and Germany account for almost 50% (5.8 million) of total tourist arrivals. Also, outgoing tourism is expected to be partly redirected towards local destinations, thus mitigating possible negative effects.

Ranked by order of priority, the following categories of workers appear to be threatened by the current crisis:

- Persons working in the aviation industry. This is perhaps the only sector of economic activity, where effects are expected to be more permanent and where short-term relief will probably be inadequate. The situation in Greece is aggravated by the fact that the current crisis coincided with the operation of the new Athens airport "Eleftherios Venizelos" (in which, duties and other cost elements are said to be considerably higher), and with the liberalisation of services (that has prompted the formation of a number of private airlines). The air transport sector (NACE code 62, employing approximately 9,000 persons in 2000), was already in difficulty prior to the events of September 11. The latter practically magnified these difficulties and brought them to the forefront. Most airline companies have announced dismissals and pay cuts. According to evidence provided by the Federation of Airline Employees, a trade union representing 2,500 workers (of which 1,000 work for foreign airlines), dismissals have affected approxi-

mately 500, mostly seasonal, workers. Dismissals came from, among others, Swissair (30 persons), Sabena (12), Lufthansa (14 persons in Thessaloniki and 4 in Athens), Delta (21 persons), Ethiopian airlines (5) and Virgin (26 persons). Furthermore, most foreign airlines (including KLM, Austrian, Lufthansa, Turkish and Singapore) have announced pay cuts of 15-25%, and the abolition of Christmas and Easter bonuses.

- Greek airlines, on the other hand, report a loss of 100 billion drs (293,470,286 Euro), as a direct consequence of the current crisis¹⁰. Most of the loss has affected Olympic Airways, the national airline. Olympic Airways has been engaged in a privatisation process prior to the events of September 11, the fate of which remains unclear today. It is a possibility that when it occurs, privatisation might entail redundancies. The most disappointing event so far however, has been the termination of activities of AXON airlines, one of the new Greek private airlines. AXON announced termination of activities on the 15th of December 2001 and as a result, 370 workers were made redundant.
- Furthermore, of the two private companies offering ground handling services at the Athens airport, Goldair and Swissport, the former company has already dismissed 220 temporary workers, while Swissport has dismissed 60 workers. Moreover, Swissport has changed the work contracts of 200 employees from full-time

⁶ See Newspaper "Express", Saturday 3 November 2001.

⁷ Tourist arrivals during the winter months (from November to March) constitute just 9% of total arrivals. See Newspaper "Kathimerini", Friday 23 November 2001.

⁸ According to estimates, overnight staying in Athenian hotels during winter 2001-2002 will be lower by as much as 50% in relation to the previous period. See Newspaper "Express", Saturday 3 November 2001.⁹ See Newspaper "Kathimerini", Friday 23 November 2001. In the absence of the events of September 11, the increase is estimated to would have reached 8-10%.

¹⁰ See Newspaper "Kathimerini", Wednesday 21 November 2001.

to part time (i.e., from 8 hours of daily work to 4) and has reduced the volume of work offered by 500 workers by two hours daily until the end of March 2002. To conclude there are signs that the air transport sector in Greece is in a process of “downsizing”, partially at least as a result of the current crisis.

- Persons working in travel agencies. According to information provided by trade unionists there are 5,000 travel agencies operating currently in Greece¹¹. In their vast majority these firms are fairly small, employing on average up to 5 workers, and are often family-owned. Again according to information by trade unionists, 10-20% of the workforce has already lost their jobs, while 50 of these agencies have ceased to operate as a result of the current crisis. Mass dismissals and closures are not recorded as yet, simply because of expectations for a recovery in demand for services. Some of the bigger travel agencies though, have already laid-off personnel and applied wage cuts. Under the lay-off regime, employees cease to work and receive half their nominal wage or salary, for a maximum period of three months. Provided that business picks-up again, they can be called back to work as regular staff. If the current crisis continues, then there is a danger that travel agencies will become seasonal enterprises (offering services during summer, Christmas and Easter seasons) and workers will become “seasonal” workers similar to workers in hotels. The latter typically work from April to October and claim unemployment benefits for the remaining

months of the year.

- Tourist guides, bus drivers, etc. According to information provided by the Association of Tourist Guides, there are approximately 2,500 persons working as guides, of which 1,000 work in the greater Athens area. Typically they work for 150 days per year, and this work volume is considered full-time (they are also insured as full-time workers). Tourist guides have been particularly hit by the cancellation of cruises that has come mostly as a result of a dramatic increase in insurance costs. Certain categories of guides are also bound to be affected more than others. Japanese tourists for example have cancelled their holiday packages to Greece and as a result Japanese-speaking guides are left without work. Members of the tourist guides’ professional association estimate that on average the current crisis will reduce working days by as much as 25-50%. Naturally therefore they are applying pressure to be treated in the same manner as hotel workers and receive extraordinary unemployment benefits for the winter months.
- Persons working in hotels and restaurants. This is the largest sector, employing some 250,000 workers in 2000 (2-digit NACE code 55). Because of the timing of the events of September 11, no large-scale negative effects have been recorded so far. Provided that the current crisis does not lead to a longer-term change in tourist behaviour, then losses will be relatively small, limited in duration (winter 2001/02) and confined to Athens.

To sum-up, thus far effects upon

tourism appear to be limited, and short-term losses will probably result in an increased demand for unemployment benefits. In the air transport sector however, effects appear to be more serious and permanent. Other than providing immediate relief, the retraining of the redundant personnel constitutes an option for the policy makers. It would seem wise to provide redundant workers with longer-term occupational training in skills which are currently in demand (e.g., construction, ICT, etc).

3. Policy responses

In Greece, employees made redundant following plant closures, collective redundancies, etc, are often provided with state training schemes and redeployment opportunities. In a rather typical fashion the Ministry of Labour intervened recently on the occasion of the termination of activities of “Katerina Ltd”, a garment industry in Northern Greece¹². Following corporate restructuring (relocation of activities), the company had to dismiss 450 workers. Soon after, the Ministry of Labour announced an aid package of 2.37 billion drs (6,955,246 Euros), to be guided towards retraining and re-employment of the redundant personnel. The bulk of the resources (affecting 250 workers) is destined for combined training-employment programmes. Under these schemes workers receive training in skills currently in demand and then they are placed in jobs under the wage subsidy programme. The remainder of the redundant personnel (200 workers approximately), are expected to receive self-employment grants (start-up incentives). Generally however, company restructuring and its consequences, only comes to public

¹¹ According to the results of the LFS survey the number of those working in activities supporting or related to transport, including travel agencies is estimated at 57 thousand in 2000 (NACE code 63).

¹² See Newspaper “Kathimerini”. 8 December 2001.

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attention in situations where there are dramatic and harmful effects involved. As it was noted earlier on, statistical data on the various forms of restructuring are not regularly collected in Greece.

Following the events of September 11, some additional measures were taken by the government, which may mitigate consequences from the economic slowdown. More specifically, on the 15th of November 2001, the Minister of National Economy announced a new package of tax and other measures, aimed at strengthening the disposable income of the working population and providing employment incentives. In short the measures include a cut in the tax rate applied to companies provided that the companies will increase employment, higher tax-free limits for both employees and self-employed persons and the abolition of various duties. It is possible that the introduction of these measures has been accelerated because of fears that the economic slowdown will affect the labour market in a negative fashion.

Faced with a possible decline of tourist activity, the Ministry of Development has also established a "Crisis Management Committee" charged with the task of monitoring developments and making proposals for policy measures. The Committee has delivered a final set of proposals for reversing adverse trends in tourism and an announcement of measures is expected by the end of February 2002. As a precautionary measure, the Ministry has already announced increased expenditure on promotion campaigns and other information-related events.

Lastly, with respect to labour

market policy, measures to combat existing labour market rigidities and to raise employment levels are among the main objectives of the Greek government. Following a social dialogue on labour market reform, the Greek government introduced legislation, aiming at stimulating labour supply and increasing incentives to work in the formal economy. Law 2874/2000 (in full force since 1 April 2001), constitutes a new regulatory framework, with various important implications for labour market performance¹³. Measures include, among others, financial incentives for part-time work, limits on overtime hours and increased premiums for overtime, a scheme for working time annualisation, the reduction of the work-week from 40 to 38 hours (voluntary and subject to the agreement of employees), less strict upper monthly limit for dismissals for firms employing between 50 and 199 workers and a reduction of employers' social security contributions for low-wage workers. In addition, the government will pay part of the employee's social security contributions for full-time workers at the minimum wage. As a result of these measures, which complemented previous regulations (Law 2639/1998 and Presidential Decree 160/1999), employment protection is now at somewhat lower levels and a number of obstacles connected with part-time employment are abolished¹⁴.

In a similar spirit, a new law was passed by the Greek parliament in October 2001, providing for the restructuring of the Manpower Employment Organisation (OAED) and other provisions, including the regulation of temporary agency work and the operation of temporary

employment agencies. The restructuring of OAED is meant to address the issue of efficiency in the delivery of employment services and has been necessitated by the EU employment strategy. In short, recent labour market policies and measures, aim at reversing the rise in unemployment and at promoting the competitiveness of the Greek economy. Most of these measures are described in NAP 2001, Greece's fourth successive Plan for Employment. It should be noted however that even today, little is known on the impact of these measures¹⁵.

To sum-up, Greece is engaged in a labour market reform with the aim to promote economic competitiveness and to fight institutional rigidities. With the exception of tourism, the events of the current economic slowdown are not expected to lead to a change in the policies pursued so far. As regards efficiency of labour market interventions, there is obviously ample room for improvements.

4. Case study – Arrangements for working time flexibility

The 2000 law on industrial relations (Law 2874/2000, in effect since April 2001), introduced various provisions, including a limitation of overtime which is at the employer's discretion from 8 to 3 hours per week, an increase in the overtime premium and a voluntary scheme for flexible calculation of the weekly working hours, on an annual basis.

By reducing overtime work and by increasing the overtime premium, the government is hoping for a stimulation of the demand for labour. Because of strong seasonal elements in the production cycle, there is an extensive resort to overtime work by Greek employers and it is thought

¹³ For a description of measures, see Sabethai (2000).

¹⁴ For an assessment of these measures, see OECD (2001).

¹⁵ See Institute of Labour GSEE-ADEDY (2001).

that reductions in overtime work will lead to the creation of new jobs. At the same time however these provisions tend to raise labour costs, and possibly to compensate for this fact, Law 2874 provides that the reduction of overtime work can be accompanied by a flexible calculation of the weekly working hours. For those firms adopting the scheme, workers agree to work 138 hours of overtime per year during the peaks of economic activity (to be offset by shorter hours or longer leave during troughs), in return for a 90-92 hours net reduction in working time over the year (resulting in an average work week of 38 hours). As a result, the annual contractual working time is reduced from 1840 hours to 1750 hours.

Although it is probably too early to estimate the impact of these measures upon employment growth, preliminary reports on arrangements for flexible working time appear to be discouraging. At the time this report was being drafted, only five firms had reached relevant agreements, a fact indicating a luke-warm reception of the new provisions.

The arrangements for flexible working time agreements have been the subject of a special study by the National Labour Institute (EIE)¹⁶. The material presented in the study, consisting of an examination of three of the firms that reached the relevant agreement supplemented by interviews with employers and workers representatives, reveals a mixed picture: While the measure is unlikely to have a strong direct impact on employment, it can, on the other hand, entail a lowering of labour cost thus leading to increased competitiveness. Certain elements were also identified as crucial for success in reaching an agreement on flexible use of working-time. These included

among others, firm size, seasonality of production and good industrial relations. But the single most critical element identified was willingness on the part of the workers to trade-off reduced total (annual) earnings in return for extra free time. Naturally, certain categories of workers, such as for example workers who are better-off in terms of earnings, women with family responsibilities and workers holding second jobs, are more likely to consent to such a trade-off. Finally, with respect to low take-up, lack of information was identified as the main reason for the little use of this measure. On top of this, one might add the traditional inertia characterising employers and employees and the considerable time it takes before an innovative measure becomes adopted. In conclusion, it remains to be seen whether firms, following the new regulations on overtime work, have continued relying on this form of work or have increased employment levels.

5. Conclusion

Despite strong output growth for a number of years, employment rates are low in Greece, reflecting low female participation rates and low incidence of part-time employment. Since early 2000, unemployment has started declining but is still high in relation to the EU average. Unemployment is concentrated among young persons and women, a fact indicating a variety of institutional inefficiencies and structural imbalances. According to all existing evidence, the events of September 11 are unlikely to have a direct strong impact upon employment with the notable exception of aviation and tourism. The effects upon tourism appear to be limited and provided that the current crisis will not lead to a permanent change in tourist behav-

our, they can be expected to end soon. In aviation however, effects are more harmful as the current crisis coincided with structural adjustments in process. Other than providing immediate support, the retraining of the redundant personnel constitutes an option for policy makers. As regards labour market policy, Greece has engaged in labour market reform, with the aim to combat certain labour market rigidities, reverse trends in unemployment and strengthen competitiveness. Efforts however to improve the institutional setting surrounding the labour market and to increase effectiveness of active measures are hindered by the lack of evaluation studies. Finally with respect to corporate restructuring, lack of statistical data continues to be a problem. Although redundant employees are often provided with training and employment opportunities, restructuring and its consequences only comes to public attention in "crisis" situations.

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¹⁶ See, Gavroglou (2001).

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Ireland

IRELAND: A REVIEW OF RECENT LABOUR MARKET TRENDS

General Economic Trends in Ireland in the 1990s

It is helpful to provide some general background by briefly sketching some of the more important details of the performance of the Irish economy during the 1990s. Real GDP growth was moderate during the first half of the decade. Table 1 shows that the annual rate of expansion was 4.7%, which translated into an annual average employment growth of some

26,000 (or just over 2%). Most of this expansion occurred during the last two years of the period in question (i.e., between 1993 and 1995). In fact the early years of the decade were characterised by sluggish economic growth, mainly due to the global recession which prevailed at that time.

The second half of the 1990s has been unprecedented in terms of both output and job growth. Between 1995 and 2000 real GDP increased by almost 10% per year on average, while annual employment growth was over 76,000 (5.3%) - a level of job creation never previously

achieved. In aggregate terms nearly 400,000 net new jobs were created over this five-year period. From the mid 1990s onwards substantial job gains began to emerge across a wide spectrum of economic activities, but especially in building and construction and in services. Employment in the latter sector accelerated to unprecedented levels, the annual increase reaching nearly 50,000 on average over this period. Manufacturing employment also began to increase after a long period of stagnation. Even the longstanding secular decline in agricultural employment slowed noticeably dur-

Table 1: Ireland. Annual Average Output and Employment Growth and Unemployment Rates, 1990- 2000, with Forecasts for 2005.

Period	Real GDP %	Employment Change (000)	Unemployment Rate (end period) %
1990-1995	4.7	26.4	12.2
1995-2000	9.9	76.4	4.3
2000-2005	5.6	36.2	5.8

Sources: (a) CSO National Accounts Publications
(b) Annual series of CSO Labour Force Surveys
(c) ESRI (2001) Medium Term Review, 2001-2007.

Table 2: Seasonally Adjusted Quarterly Real GDP 1997-2001 (at constant 1995 prices)

Period	GDP Euro (millions)	Quarter On Quarter Change %
Q1/99	18246	5.2
Q2/99	18364	0.6
Q3/99	19368	5.5
Q4/99	19814	2.3
Q1/00	20110	1.5
Q2/00	20830	3.6
Q3/00	21327	2.4
Q4/00	22205	4.1
Q1/01	22665	2.1
Q2/01	22748	0.4

Figure 1: Seasonally Adjusted Quarterly Employment (000), 1999-2001

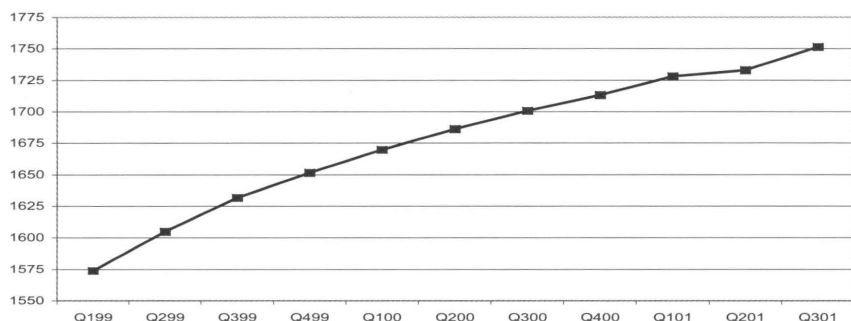
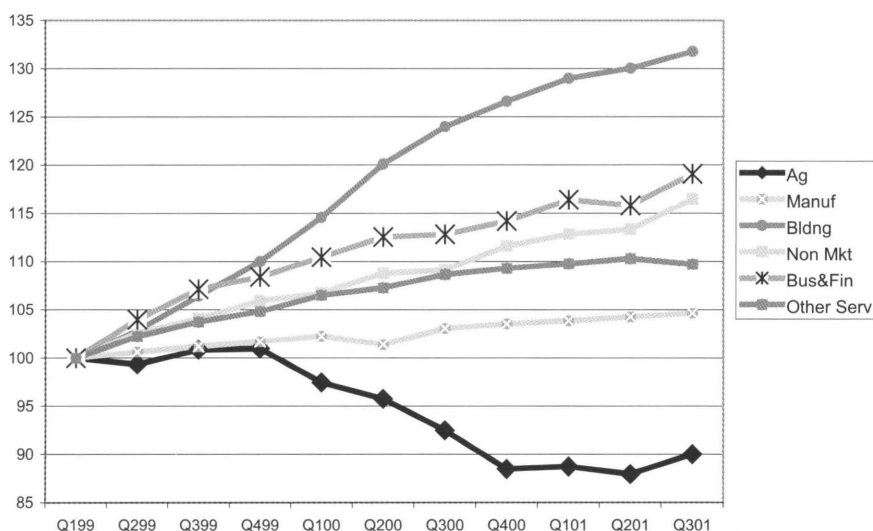


Figure 2: Seasonally Adjusted Indexes of Employment by Sector, 1999-2001. (Q100=100)



ing this period.

By spring 2000 the unemployment rate had fallen to 4.3%, compared with 12.2% in 1995 and 13.2% in 1990. It fell to as low as 3.6% at the beginning of 2001, but it has been increasing in recent months, the most

recent estimate for January 2002 being 4.1%.

Recent Short-Term Trends

The unemployment figures quoted suggest that economic growth

began to decelerate as the year 2001 progressed. It is of interest, therefore, to examine the available short-term statistical indicators in order to obtain a clearer picture of the current and recent changes in the economy. In this regard we look initially at four global indicators – GDP, employment, unemployment and notified redundancies. These indicators are global in the sense that they extend to all sectors of the economy, even though the last mentioned, notified redundancies, may not cover all activities in each sector.

Turning first to the short-term changes in real GDP, Table 2 shows seasonally adjusted “quarter on quarter” percentage changes for the period since the beginning of 1999¹. While there is clearly some volatility in the series, the more recent figures reveal that real GDP growth began to slow noticeably in the first half of 2001. The quarter on quarter growth in the final quarter of 2000 was 4.1%, but this decreased to just over 2% in the first quarter of 2001 and declined further to as little as 0.4% in the second quarter of that year.

As for employment, Figure 1 shows a quarterly seasonally adjusted series for total employment covering the period from the first quarter of 1999 to the third quarter of 2001². This series, which is based on the CSO Quarterly National Household Survey (QNHS), indicates that, when viewed in aggregate terms, jobs growth held up reasonably well over the period covered, apart from a brief span at the beginning of 2001 when employment expansion all but ceased. This trend is not, perhaps,

¹ While these figures are based on official National Accounts data compiled by the Central Statistics Office (CSO), the seasonally adjusted series has been estimated separately. This is contained in a paper published in November 2001 entitled “Watch the Arithmetic at the Cyclical Turn” by Colm McCarthy of Davy Stockbrokers, Dublin. The official quarterly National Accounts series was initiated in 1997, but the CSO does not consider that at this stage the series is of sufficiently long duration to enable stable seasonal factors to be compiled.

² This series, and the sectoral series in Figure 2, are based on the CSO Quarterly National Household Survey (QNHS). It should be noted that, as with the Quarterly National Accounts, the published data from this source (which extend back to the fourth quarter of 1997) are not yet published on a seasonally adjusted basis. In this paper the seasonal adjustment procedures have been carried out on an estimated basis by the author.

surprising as in an economic downturn disadvantageous effects in the labour market generally tend to manifest themselves with a lag relative to output change. Other indicators (see below) suggest that employment growth did begin to weaken in late 2001. There will, therefore, be considerable interest in the results from the forthcoming QNHS series for the final quarter of 2001 and, more particularly for the first quarter of 2002, when one would expect the full impact of recessionary forces to come into play.

Figure 2 contains seasonally adjusted employment series for broad sectors of the economy. In this case the series are expressed in index form (to base first quarter 1999=100) in order to facilitate comparisons between the trends for different sectors. Concentrating on the area outside of agriculture, these indicate continuing employment increases up to the third quarter of 2001 for all sectors except "other services". While the building industry continued to exhibit significant levels of jobs growth, the most rapid increases in the third quarter of 2001 related to business and finance enterprises and to non-market services (i.e. principally the public sector). The employment decline in the "other services" category is, however, of some significance as this is a large sector (involving an employment total of close on 600,000) which covers distribution, hotels and catering and a range of personal services. While the slowdown in the economy generally would have contributed to the employment decline in this sector, it is also likely that the Foot and Mouth crisis that occurred early in 2001 would also have been a factor, as this gave rise to significant restrictions on both internal and external travel.

The monthly movements in the national unemployment rate are given in Figure 3. These provide a more up to date picture than the indi-

Figure 3: Monthly Seasonally Adjusted Unemployment Rates (ILO), 1999-2001

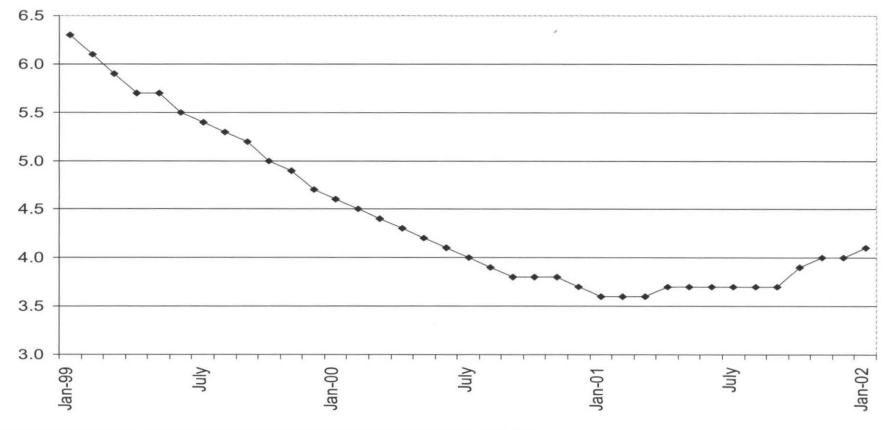


Figure 4: Monthly Notified Redundancies 2000 and 2001

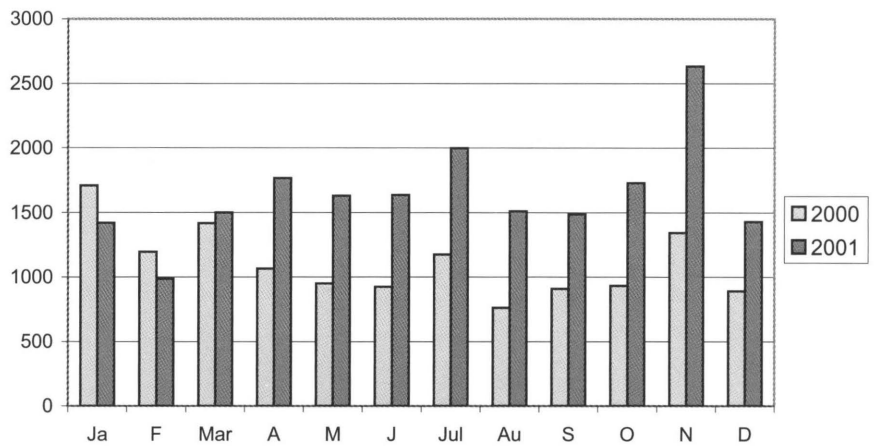
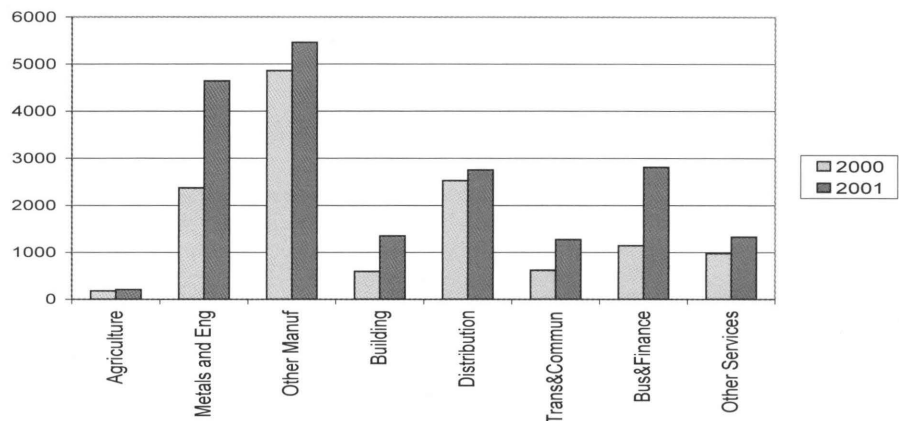


Figure 5: Notified Redundancies by Sector, 2000 and 2001.



cators quoted above as the figures extend to the beginning of 2002³. These data reveal that the decline in Irish unemployment, which had continued for several years, ceased at the beginning of 2001, by which time the rate had fallen to 3.6%. However, it then remained more or less static at this level for a period of about nine months, but began to increase from September 2001 onwards. The most recent estimate is 4.1% for January 2002. This trend is seen to be much more significant when it is viewed in terms of the change in the unemployment register total on which this indicator is partly based (see footnote). This figure shows that the number on the unemployment register rose by 15,000 between September 2001 and January 2002, from 141,000 to just over 156,000.

The final global indicator considered relates to redundancies notified under the Statutory Redundancy Payments Scheme⁴. These data can be of particular relevance in signalling a downturn in economic conditions as the events in question, the redundancy notifications, are likely to occur contemporaneously with (or even before) other more general economic changes. Actual job loss may not take place for a number of weeks (sometimes even months) after notification, so that any corresponding trends in the unemployment data tend to occur with a significant time lag. In this sense, therefore, the redundancy figures provide a useful “early warning” indicator of economic difficulties. It should be noted, however, that while these figures can be taken

Figure 6: Monthly Seasonally Adjusted Index of Employment in Private Sector Construction, 1999-2001 (1995=100)

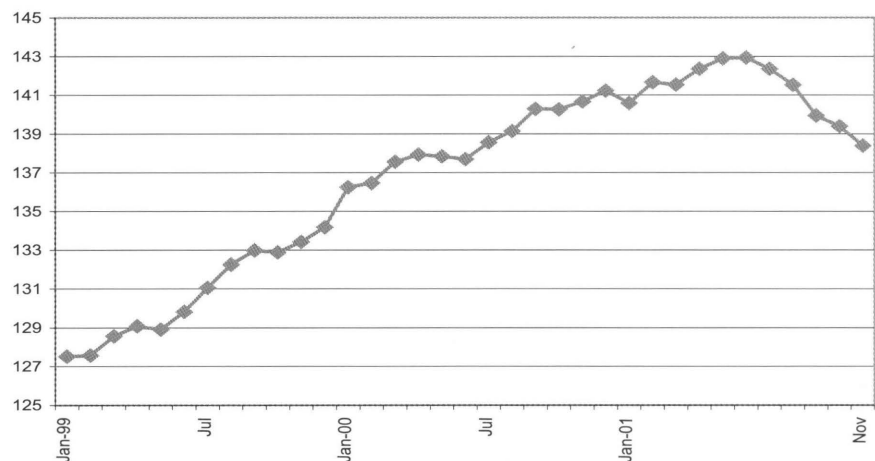


Table 3. Employment in IDA supported Industries, 1992-2001

	1995	1996	1997	1998	1999	2000	2001
Number of Companies	963	1042	1108	1169	1284	1278	1225
New Jobs Filled	11878	13163	14632	16109	17829	23063	13145
Job Losses	5130	6079	5034	7222	9272	8081	17010
Net Employment Change	6748	7084	9598	8887	8557	14982	-3865
Full Time Employment	92029	99113	108711	117598	126155	141137	137272
Temporary Employment	11572	9460	13473	15094	15587	14818	11591
Total Employment	103601	108573	122184	132692	141742	155955	148863

Source. IDA (the Industrial Development Authority). *End of Year Statement, 2001*.

to reasonably reflect job loss trends, the levels understate the absolute numbers of dismissals, as not all workers necessarily qualify for the payments in question (see footnote).

Figure 4 shows the monthly numbers of such redundancies for 2000 and 2001. When viewed on a year to

year basis these figures indicate that the position in the early months of 2001 was in fact “positive” – i.e. the numbers of redundancies notified in January and February were actually less than those in the corresponding months of 2000. However the situation changed dramatically from April

³ These are ILO defined rates, which are actually based on the quarterly QNHS unemployment estimates. The trends in the registered unemployment totals are used

⁴ Under the terms of this scheme employers notify the Department of Enterprise Trade and Employment of impending redundancies (on an individual employee basis). Some of these notifications, on examination by the Department, may be found not to relate to qualified persons, or derive interpolated monthly figures and to extend the series beyond the point given by the most recent QNHS data. e.g. they may refer to employees who have less than two years eligible service with their employer. However, one can reasonably assume that if an employer signals an intention to declare worker redundant, then it is virtually certain that that worker will lose his or her job, irrespective of whether the worker qualifies for inclusion in the scheme. Thus the initial notification figures can be taken as reflecting a valid measure of the trend in job losses.

2001 onwards. Thereafter all of the monthly redundancy totals in 2001 were more than 60% higher than the corresponding figures indicated for 2000, and in some cases (e.g. in August and November) the 2001 totals were almost double those for the same months in the preceding year. Over the full year nearly 20,000 redundancies were notified in 2001, compared with less than 13,500 in 2000, a rise of nearly 50%.

Figure 5 shows annual sectoral totals for notified redundancies in Ireland in 2000 and 2001. The largest increases (in numerical terms) were in metals and engineering manufacturing (nearly 2,300) and in business and finance (almost 1,700). If these two sectors are combined they account for some 60% of the total net rise in notified redundancies over 2000/2001. The former category includes the high-tech computer and electronics sector, for which job losses have tended to attract considerable media attention (see below). It is also likely that there is a high-tech aspect associated with the job losses in business and finance, as this sector would include “dotcom” companies and enterprises specialising in software applications. These businesses encountered severe trading difficulties in 2001, especially during the second half of the year. It is clear from these data, however, that the problem of job loss (even if less severe) extended to many other sectors, such as the more traditional areas of manufacturing, building and construction and transport and communications. For building and construction it should be noted that, while the actual number of redundancies in 2001 was much smaller than in some other sectors of the economy, the relative increase in redundancy notifications, at over 120%, was one

Figure 7: Ireland. Monthly Expectations of Employer's Manufacturing Production, 1999-2001.

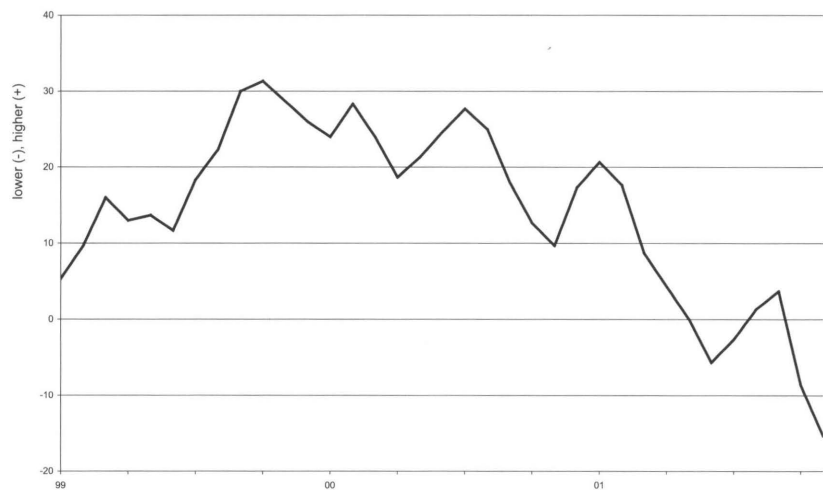
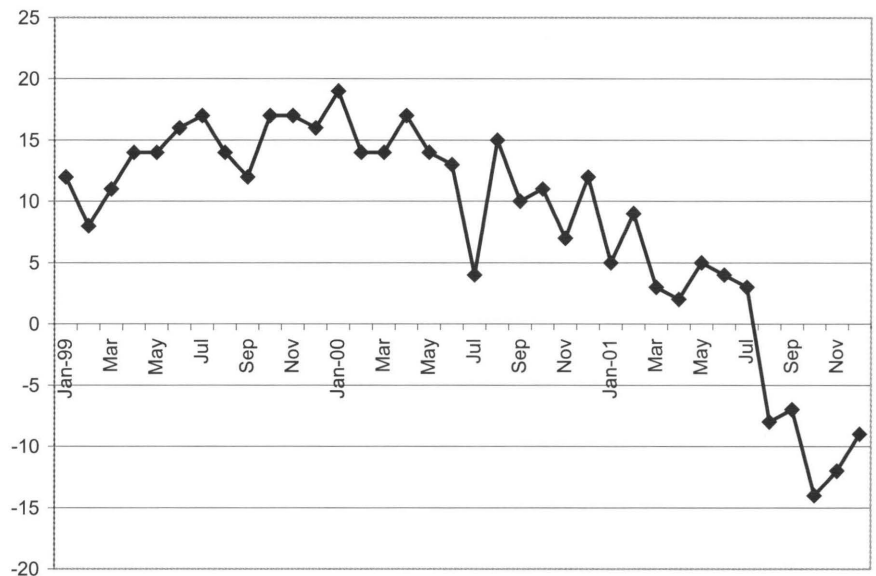


Figure 8: Ireland. Monthly Index of Consumer Confidence, 1999-2001



of the highest recorded.

The economic picture painted by the redundancy figures is much bleaker than that given by other labour market indicators, even though it is similar to that reflected in

the output (GDP) trends. It shows that the current economic downturn started earlier, in spring 2001, and that its impact is more severe (or at least potentially more severe) than indicated by other currently available

⁵ This index covers enterprises with five or more persons engaged.

⁶ Industrial Development Authority (IDA) is the State agency responsible for the promotion of direct foreign investment in the manufacturing and financial services sectors.

employment and unemployment data.

There are some other relevant economic indicators which, even if not as comprehensive in terms of coverage as those discussed above, tend to reaffirm the trends already identified.

Figure 6 shows a monthly index of employment in private sector construction over the period from January 1999 to December 2001⁵. The index shows that, when seasonal factors are taken into account, employment in the sector peaked in May 2001 and declined continuously thereafter. These figures are, therefore, broadly consistent with the trends indicated by the GDP and redundancy data discussed above.

Table 3 shows employment data for foreign owned enterprises supported by the Industrial Development Authority (IDA) for the period from 1995 to 2001⁶. These indicate the total employment in these companies as of end-October 2001 (nearly 149,000) was less than the corresponding total one year earlier by about 7,000, the first such decrease for many years. Of greater significance, however, are the figures on gross job creation and job losses. These data, which are available for full-time jobs only, show that the number of such jobs created in the twelve months to end-October 2001 was 13,100, compared with 23,000 in the corresponding period of 2000. Over the same period the number of job losses more than doubled from 8,100 to just over 17,000 in the year to October 2001, a very large increase when compared with the trends for earlier years. A notable feature of the latter total is that nearly 10,800 of the job losses involved (i.e., almost two thirds) related to the electronics and manufacturing sub-sector. The trends evident from the employment indicators discussed earlier in the paper would suggest that most of these job losses occurred towards the end of the

twelve-month period in question.

Confidence Indicators

It is also of interest in the context of this analysis to consider recent movements in different forms of "confidence" indicators. Figure 7 shows an index of monthly expectations of production by employers in the manufacturing sector. This index is derived from a monthly survey based on a statistically representative sample of manufacturing enterprises, carried out jointly by the Irish Business and Employers' Confederation (IBEC) and the ESRI. The responses by employers to the questions in the survey are given in the form of expressions of "higher", "the same" or "lower" levels of confidence that are subsequently weighted across different industries. A useful device in interpreting the data is to use the balance of positive over negative responses in order to express the "trend for the month" in numerical form. The expectations of future production levels represented in Figure 7 are based on a trend computation involving three-month moving averages.

This graph indicates that business expectations as measured in this way reached a relatively high level towards the end of 1999 but have since exhibited a downward tendency. The decrease in confidence was fairly modest throughout the year 2000, but declined very rapidly throughout 2001, crossing from a "positive" to a "negative" representation about the middle of that year. This survey is also used to produce a similar index of employment expectations in the manufacturing sector, the results of which indicate a trend very similar to that discussed above.

Figure 8 shows a monthly index of a consumer confidence. These data are taken from the Irish component of a wider EU sample household survey carried out simultaneously in all

member States. The trends revealed from this source are very similar to those related to employer's production expectations. Consumer confidence reached a relatively high level at the beginning of the year 2000 but began to decline thereafter, with the decrease accelerating noticeably from mid-2001 onwards.

While these sources reveal broadly similar trends to those exhibited by the output and employment indicators, one noticeable difference is that, rather surprisingly, they appear to indicate a weakening in confidence, or manifestations of general unease, at a much earlier point in time. They suggest that confidence levels began to decline in mid-2000, while the evidence from the output and employment indicators would suggest that the Irish economy was still experiencing a significant expansion at that time.

More about Redundancies and Lay-Offs

The foregoing commentary provides clear evidence that the number of redundancies in the Irish economy rose sharply throughout 2001. In terms of media coverage most attention has centred on the high-tech area of manufacturing (computers and electronic equipment) as individual lay-offs in this sector tend to involve large numbers of workers and sometimes are associated with the total closure of a facility. The most notable event in this regard has been the closure of the European headquarters of the computer multinational Gateway in Dublin, with a loss of 1,200 jobs. General Semiconductors also closed their plant in Cork in July 2001, involving total lay off of 600 workers. Other recent closures announced involved Shinko Microelectronics (340 jobs), AFL (320 jobs) and significant staff reductions in Celestica (450) and Dell (200).

It is important to bear in mind,

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however, that while the redundancy data indicate that high-tech job losses may have accounted over a third of official redundancy notifications in 2001, dismissals were also significant in other areas. When viewed in terms of actual numbers the aggregate losses in the latter sectors were greater, but do not tend to attract as much attention as, at individual enterprise level, they are usually smaller in scale.

Many of the lay-offs that have occurred heretofore can be attributed to the reduction in economic growth which commenced in Spring 2001, which, in turn, has its roots in the global slowdown which has been underway for some time. Few of the negative consequences identified can be directly attributed to the outcomes arising from the events of the 11 September in New York, even though this occurrence must have had an additional impact. As of now, the only major casualty directly associated with this event is the State owned air carrier, Aer Lingus, which suffered a sudden and catastrophic downturn in business due to the reduction in air travel (see case study).

Policy Responses

With regard to policy responses designed to deal with the current difficulties, thus far the main approach has been to rely on existing structures, i.e., counselling, job search assistance and training where appropriate. These services have been augmented significantly in recent years in order to meet various requirements included in the European Employment Strategy. It should be noted that, while allowing for the deterioration in the labour market, the current unemployment rate (4.1%) is still quite low, and is not yet of an order of magnitude to justify the

introduction of special measures on a significant scale. Task forces have been set up in specific locations where large lay-offs have occurred. Typically these have involved FAS (the Employment and Training Authority), development agencies and local interests. Underlying the approach taken is the view that jobs are still available and, therefore, the main assistance given to redundant workers should be to facilitate their return to employment by the means indicated.

Summary Comments

Taking stock and summarising the short-term indicators as presented the message which emerges indicates that growth in the Irish economy began to slow noticeably in the late spring of 2001. This is certainly how one would interpret the trends in GDP, in redundancies and also the confidence indicators (which signalled warnings at a much earlier stage). The trend in seasonally adjusted real GDP suggests that overall growth in the economy had all but stalled by mid-2001. The employment situation, when viewed in overall or aggregate terms, does not appear to have been significantly affected up to the end of the third quarter of the year, but the unemployment rate rose noticeably in the final months of 2001. More ominously however, the number of redundancy notifications, which can be taken as a good "early warning", had been rising sharply since the Spring of 2001, especially in manufacturing and the business and finance areas. Much of the actual employment expansion in the Irish economy in recent years has in fact been driven by booming conditions in areas such as business and financial services and building and construction. If, as the redundancy and other statistics suggest, employ-

ment in these areas falters, it is difficult to see how any significant overall jobs growth can be achieved in 2002. In these circumstances it seems inevitable that impending QNHS employment estimates will signal at least a levelling off in total employment total, if not an actual decline.

It should be borne in mind, however, that in view of the global economic downturn, and the phenomenal growth-rates achieved in the Irish economy in recent years, analysts have been predicting for some time that a deceleration in growth was inevitable. Indeed many have expressed a view that a measured slowdown was necessary in order to adequately deal with growing infrastructural deficiencies. The forecasts associated with the various economic scenarios set out in the recent ESRI *Medium Term Review*⁷ published in September 2001 indicated that 2002 was going to be a difficult year. However these forecasts also predict that recovery should be in train by 2003, by which time employment should be rising again, and unemployment falling. This outcome is, of course crucially dependent on the state of the global economy, particularly on the pace of recovery in the US.

Case Study: Aer Lingus

One of the most dramatic effects of the current downturn relates to the negative impact on the Irish State air carrier, Aer Lingus. Negotiations within the company had been in train for some time aimed at achieving greater efficiencies (including reducing the workforce) with a view to stock market flotation or sale option. However, in addition to the global downturn, the foot and mouth restrictions early in 2001 and the events of 11 September in New York precipitat-

⁷ Duffy D., J. Fitz Gerald, J. Hore, I. Kearney, C. McCoille (2001). *Medium Term Review 2001-2007*. ESRI, September 2001.

ed a crisis of major proportions. The sharp reduction in air travel volumes after 11 September (especially on transatlantic routes, which account for 60% of Aer Lingus profits) gave rise to a catastrophic fall in revenues. By end- September 2001, it was clear that unless drastic action was taken, the company would be insolvent by early 2002. In the absence of remedial action, projected losses for 2002 were 165 million euro, in addition to a 94 million euro loss in 2001.

In response, and under prompting from the Government, the company prepared a comprehensive restructuring plan, designed to guarantee the long-term viability of the airline. Apart from cost reductions that involved a scaling back of operations by 25%, this involved the introduction of a new business model. Aer Lingus would continue to operate into the future as a flexible full-service airline concentrating on core value-added (i.e. business) services, but would also introduce a range of measures to enable it to compete more successfully for economy and leisure passengers.

In specific terms the restructuring plan involves

- Cost reductions of 188 million euro including staff, overhead and direct costs
- A reduction in permanent staff of nearly 2,030 (out of a total workforce of 6,300) across all areas, grades and categories
- The transfer of support services to subsidiary companies, involving 800 staff, post restructuring
- Radical and widespread changes in work practices
- A wage freeze for 2002 and 2003

The company is insistent that the full and urgent implementation of the plan is essential to create the new business model necessary to compete successfully in a fundamentally changed international marketplace. These measures will substantially reduce anticipated losses in 2002 to 27 million euro, and return the airline to profit in 2003.

As a State subvention to Aer Lingus is not allowed under EU law, the Government has been examining

ways to facilitate private investment in the restructured company. Arrangements have also been made to increase the opportunities for employee shareholdings. The Government has also provided a loan guarantee to Aer Lingus to deal with the issues of redundancy payments (which are obviously substantial) and working capital for the airline.

After a period of negotiations, the group of Aer Lingus trade unions (except the pilots association) agreed to the terms of the restructuring plan in early December 2001. More recently, after further discussion, agreement has been reached with the airline pilots.

Jerry Sexton



Italy

THEMATIC REPORT ON THE ITALIAN SHORT TERM LABOUR MAR- KET TRENDS AND THE IMPACT OF THE EVENTS OF SEPTEMBER 2001

1 Economic Background

1.1 Introduction

In Italy there is only quarterly data available from the System of National Accounts and for the main labour market indicators drawn from the Labour Force Sample Survey (LFSS). Most of the relevant information is available up to the third quarter of 2001 including the results of the LFSS undertaken in October. However, the LFSS interviews, from which the labour market indicators for the fourth quarter of the year are drawn, were undertaken in the first week of October. This means that they are not fully informative on the short-term developments taking place in the final part of 2001, and particular caution is required when evaluating the impact on the domestic markets of the international events and cyclical patterns in this period.

1.2 The slowdown in economic activity

The slowdown in the growth of the Italian economy is highlighted in the quarterly GDP figures in Table 1. The rate of GDP growth on a yearly basis for Quarter III 2001 was 1.9%, and the average value for the whole year is about the same figure. The slow-

down is evident when considering that in Quarter III 2000 GDP grew at 2.6% on a yearly basis. The complete standstill of private consumption and of final domestic demand between Quarter II and Quarter III 2001 needs to be highlighted. The fall in exports, equal to -3.6% on a quarterly basis, is indicative of the negative influence of the worsening of the international business climate. Forecasts by national and international agencies predict a cyclical recovery in the second half of the current year, but overall GDP growth is unlikely to show marked improvements over the previous year.

A sectoral breakdown in the analysis reveals that the reduction in levels of activity in recent months is focused on industrial production. Provisional estimates for annual growth rates of Value Added are equal to +1.0% in the industrial and +2.6% in service sectors, and the monthly indicators for industrial production, now available up to November, confirm this declining trend in activity. The indexes calculated on the daily production rate and on a seasonally adjusted basis show that the weakness of industrial production becomes particularly marked in November, when the index fell by -2.6% on a yearly basis. According to provisional estimates in 2001 production increased only by 0.2% with respect to 2000.

Particular difficulties are being faced by the transport equipment sector, where the decline, on a yearly basis in the period January-October,

approached -10%, while still positive trends resulted, over the same period, for other sectors particularly for Textiles and Clothing (+5.8%).

Unofficial estimates by the Research Department of the Confederation of the Industrial Employers (Confindustria), report recovery in December (+ 1.9%) and in January 2002 (+0.4) with respect to the previous month. For the last Quarter of the year, the decline in production was estimated at -1.8% in a year on year comparison. The negative trend (January 2001-January 2002) in daily production was equal to 3.1%. Turnover remained stationary in January: the seasonally adjusted real index fell by 0.3% with respect to December (when the increase was 1.2%). The negative trend in domestic sales was 2.8% and in export sales 5.4%.

Indicators showing the level of outstanding orders for domestic industry registered further declines in October and November, thus producing negative variations, on a yearly basis, for the ninth consecutive month. The only positive indicator is represented by the recovery, from October to November, in the seasonally adjusted index for export orders (+ 2.1%). The cumulated results for January to November remain however in the red, with falls equal to -2.2% for the domestic and -4.3% for foreign demand.

1.3 Employment and unemployment trends

As often happens, employment appears to react with a lag to the

Trends

dynamics of general activity. The overall figures drawn from the results of the Quarterly Survey of the Labour Force, undertaken at the beginning of October 2001, show that total employed workforce was still on the increase, both as an aggregate and across different regions. However, the successive rates of variations in total employment (dependent and independent workers) through the quarters of 2001 clearly reveal the loss of momentum of a favourable phase of the employment cycle, with a constant downsizing in the growth rates estimated on a yearly basis. The indicator of employment was equal to +1.2% for October 2001 over October 2000, which is equivalent to about 250,000 more jobs, whereas in January the increases were equal to, respectively, 3.2 % and 650,000 jobs. The cumulated increments for the year 2001 consequently diminished from the 3.2% calculated at the beginning of the year to the 2.1% at the end (see Table 2).

In terms of gender differentials, in October, male employment remained stationary (+ 0.3%), while female employment was still increasing at 2.5%. Limiting the analysis to dependent employment, the index for females resulted at 109.3 (October 1998 = 100), against the 105.4 for males.

In a country characterised by wide differentials in the patterns of labour market outcomes across the regions, it is important to look at unemployment trends across Italy. While the long-term characteristics of a dualistic labour market cannot change substantially in a short period of time - and activity rates (unemployment) in Southern Italy, in particular for females, still register the lowest (highest) in the EU - the impact of the positive cycle on the unemployment rates cannot be overlooked. For the first time since January 1993, the overall average for the national unemployment rate has fallen below

10%; long-term rates have fallen to marginal values in the North-Central areas, while the situation in the "Mezzogiorno", although still severe, particularly for the youth and women, has also shown the first relative improvement since the recession of the early-mid 1990s.

The fear is now that, together with the general slowdown in economic activity, this positive trend might come to a premature halt. Between July and October, total employment in Southern Italy remained stable at about 6,090,000 units, after having increased from its lower levels of around 5,700,000 in 1995-6.

A breakdown for broad areas of activity indicates, always for the period October 2001/October 2000, an increase of 275,000 jobs in the service sector, while manufacturing industry lost some 90,000 jobs. These signs of a stop, if not of a reversal, in a positive phase of the employment cycle, mainly produced by the critical situation of several industrial sectors, are further confirmed by other sources.

ISTAT monitors monthly variations in employment and hours worked in industrial and service enterprises with more than 500 employees. The latest available data relate to October 2001, when the rate of variation in the employment index, calculated on a yearly basis and with respect to the corresponding month of the previous year, was equal to -4.2% (after correction for laid-off workers on "Cassa integrazione guadagni" [CIG]). The rate of decrease over the whole period January-October, always calculated on a yearly basis, was -2.7%; the sharper drop in most recent data indicate a worsening prospect. Service enterprises increased their staff by 0.2%. For concision, we do not report in details on hours of work, but we underline that the seasonally adjusted index for industry, after having

touched the maximum value of 103.6 in December 2000 (1995 = 100), was estimated at 97.5 in October 2001.

Attempts by the industrial sector to reduce their labour input, often by avoiding straightforward employment reductions, are further witnessed by the monthly reports on the hours of ordinary CIG (Cassa integrazione ordinaria). Ordinary CIG is the income compensation system for hours not worked because of conditions of temporary lay-offs (with the employee maintaining formal employment status within the firm). The hours paid out by the insurance fund increased, from October 2000 to October 2001, by 81.18%. These figures exclude the construction sector.

To conclude, given the present circumstances of the industrial sector, the positive cycle which has been experienced in the last two years, in particular the reduction in the unemployment rate, appears highly at risk of reaching a standstill. Positive trends are still being maintained in the service sectors, but the impact of a negative industrial cycle, if persistent, is likely to affect, perhaps with a lag, also the employment prospects of services.

1.4 Further breakdowns in the structural composition of employment

The quarterly Labour Force Survey provides indexes of total and dependent employment for a limited disaggregation of workers according to their professional status in employment. With the caution required by the data, it seems possible to state that, in the period October 1998 to October 2001, most employment growth was concentrated on the medium, if not lower, tiers of qualifications. The most consistent increase in the employment index is for sales and family services staff, in particular for females. Jobs in the "intermediate" professions appear on the increase, while the positions of the

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"intellectual professions" remained substantially stationary. Classifications are however affected by the registered education standards, with intermediate positions including essentially technical, but also plain clerical, work positions open to workers with an upper secondary education. More specialised research, based also on international comparisons, is needed to better understand the low incidence of higher professional skills in the composition of Italian employment. The low rate of students attaining university level education and their high concentration in the fields of human and social sciences may have had an impact on this outcome.

A positive element, underlined also in official comments, is the turn around, observed in 2001, in the composition of the additional employment between "permanent" and "temporary" job positions. The increase in jobs during 2001 appears to be due to full-time, permanent positions, while the number of term contracts decreased slightly. This finding strongly contrasts with those of previous years, when the majority of job creation was due to the "temps" and the "part-time" components. It seems that, until recently, favourable expectations have encouraged employers to move temporary staff into permanent positions.

From an optimistic point of view, this could mean that temporary contracts (apprenticeship, training and work contracts etc.) have correctly worked as a "first entry" for younger workers. Now the worry is that a weakening of growth expectations might stop, or reverse, this result. Another possible interpretation - suggested by the still wide gaps, in numbers and shares, which exists with respect to other EU countries - is that insufficient incentives and regulations are checking the potential expansion of

the market which may be covered by part-time and contingent workers. This interpretation is partially reflected in the views expressed by the Government in the "White Book on the Italian Labour Market", which is referred to below.

1.5 Trends in new business creation and confidence indicators

The Union of Chambers of Commerce (Unioncamere) is the official body responsible for updating the Register of Enterprises, from which trends on business start-ups and closures may be inferred. Looking at the number of births and deaths of individual and corporate firms from 1993 to 2001 it is surprising to note the net balance between firm start-ups and closures has always been a surplus, even in the depression years of the early 1990s. This finding raises doubts on the reliability of these data for cyclical assessments. However, the sharp increase in the positive balance between entries and exits during the high growth years 1999 and 2000 is to be highlighted. Data for 2001 would confirm a slowdown in the vitality climate of the business initiatives. One positive detail of note in recent years is the fact that in all the eight regions of Southern Italy the ratio of the net balance of variation to initial stock was higher than the national average. In 2001, about 62% of new start-ups (and 75.7% of closures) were individual businesses. This may be a sign of the persistent vitality of self-employment, but it could also imply a continuing trend towards the "downsizing" and the low dimension of the Italian industrial structure.

ISAE (Institute of Economic Analysis) updated (to the start of December) its business survey that includes a sample of about 4000

manufacturing enterprises, from which a synthetic "business confidence index" is drawn (see Table 3). The raw index of confidence climate (1995 = 100), after a slight recovery in October fell back in November to the value of 83, the same recorded in September and representing the minimum level since the beginning of the survey.

A worsening record for the level of order book (the difference indicator, i.e., the balance of positive and negative replies over 100 dropped in November to -27 from -24 in the previous month) was wholly responsible for the marginal fall in the index. The enterprises interviewed also signalled increasing stocks of finished products. However, the results of the December survey, released on 25 January, reveal improving expectations. The confidence index recovers to 88; actual levels of productive activity are still reported as weak (the difference indicator is -19), but stock levels are decreasing and expectations on the trends in orders within a three-four month horizon report a positive value for the difference indicator.

ISAE updated its consumer confidence indicators interviewing a sample of 2,000 persons in mid-December 2001 and in early January 2002. Consumer confidence appears to strengthen the inversion of tendency from the minimal values touched in September, with the overall index rising from 119.2 in November to 122.2 in December, and finally to 123.5 in January 2002.

2. Sectoral impact

The following information appeared in newspapers, economic magazines and Internet sites after 30 November 2001.

Tourism. According to the Italian Exchange Rate Office

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(Ufficio Italiano Cambi), expenditure by foreign tourists in September 2001 fell by 6.6% with respect to September 2000 and in October 2001 by 18.2% with respect to October 2000. In the first eight months of 2001 the same expenditure increased instead by 1.2% with respect to the same period in 2000. According to the Italian Hotel Association (Federalberghi), turnover in the tourism sector in 2001 decreased by 4% with respect to 2000 and hotels' turnover fell by 5%. The same Association forecasts an increase by around 0.4% in the number of tourists in 2002, as a result of a 1.9% decrease in foreign tourists and an increase in the Italian ones. That number should decrease by around 1.2% in the first semester and increase by around 1.5% in the second semester. The main foreign tour operators suspended the buying of packages in Italy until March and the Italian Tour Operator Association - Astoi - announced at the beginning of January a fall in demand above 60% between September and December 2001. Employment is expected to fall next year by 200,000 units. The Association of Travel Agencies (Fiavet) announced at the beginning of January that 2,000 jobs had been lost in the sector in the last months. In the face of the local crisis (150 jobs lost between October and November), the Liguria Region introduced in December 2001 a package of measures in favour of travel agencies (2,500 employees). These included tax reductions, creation of a special fund guaranteeing loans and funds for personnel training.

Technical industrial equipment. In the quarter October to December 2001 orders fell by 20.8% with respect to the same period of 2000 (a year of extraordinary expansion), as compared with -32.5% in

the third and -39.3% in the second. Production increased by 1.1%, nine percentage points below forecasts; employment fell by 1.5%.

Mechanics. According to Anima (the Italian association of mechanical firms), the value of production increased in 2001 by 2.5% with respect to the previous year, especially due to a +3.4% in the foreign demand. Turnover at constant prices increased by 1.7% (+2.0% in export and +1.4% in the domestic market) and is expected to go up by 1.2% in 2002.

Paper industry. Production fell in 2001 by 3% with respect to the record year 2000, whereas exports fell only by 1.7%.

Furniture industry. Production in the industry (100,000 firms and 400,000 employees) increased by 8% in 2000, but only by 2.3% in 2001, particularly due to a fall in domestic demand. Turnover went up by 2% and exports by 4.6%.

Textiles. Sales started to fall in the summer, after six months of rapid growth that pushed up annual turnover to +1.7%.

Clothing. For the first time since 1996, sales decreased in 2001 (-0.9% in real terms). The decrease in demand started in the summer and accelerated after 11 September. Turnover for the whole textiles and clothing sector increased by 1.7% (compared with 5.7% in 2000). The forecast for 2002 for the sector, by Sistema Moda Italia, is for turnover and exports to increase by +1.1%.

Automotive. Car sales increased by 0.1% in 2001, thanks to a final rush of 7.3% in October, 3.7% in November and 7% in December (with respect to the same months of 2000) which eliminated the worries produced by the events of 11 September (in this month sales fell by 10.9%). Sales are however expected to fall by 7% in 2002

according to the Centro Studi Promotor.

Machinery for ceramics. The industry (190 firms and 7,000 employees), experienced an increase in turnover equal to 21.8% in 2000, whereas 2001 should register a 2-3% fall. Acimac, the association of producers expects a 15% crash in 2002 due to the fall in foreign orders.

3. Policy Responses

The Centre-Right coalition Government, in office from June 2001, has recently released the "White Book on the Italian Labour Market. Proposals for an active society and a work of quality" (Libro bianco sul mercato del lavoro in Italia. Proposte per una società attiva e per un lavoro di qualità). It outlines government guidelines for labour market and welfare policies and broadly addresses the recommendations and criticisms advanced by the European Union bodies on the structural weaknesses and shortcomings of the Italian policy.

From the point of view of policy developments (and the social climate) the government is attempting to implement some of the recommendations in the White Book immediately. This is achieved through the inclusion, in the form of a Related Law (Legge collegata) to the Budget Law for 2002, of a Delegated Law (Legge delega al Governo in materia di mercato del lavoro) approved by the Council of Ministers on 15 November 2001. The instrument of the Legge delega allows the Government to enact, within twelve months, a series of decrees, according to the orientations and scope specified in the Legge delega itself. This procedure de facto bypasses a full discussion at parliamentary sessions (the decrees need only the approval by the specialised parliamentary Commission) and a preven-

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Table 1: GDP and Demand Seasonally adjusted data (billions of lire 1995)*

	GDP	Imports (fob)	Final domestic consumption			Gross Investment				Changes in invent.	Exports (fob)
			Total	Household expendit.	Public expend.	Total	Machin.	Means of transport	Costruct.		
2000											
I	487266	133372	378304	292617	85687	99034	47639	11391	40004	4005	139295
II	489159	139854	380696	294928	85768	100240	48464	11642	40135	5674	142402
III	491054	142807	382320	296149	86171	101504	49298	11701	40505	-3773	153811
IV	495171	142365	383872	297527	86344	100868	48820	11604	40444	-2421	155218
2001											
I	499546	144350	383960	297418	86543	101655	49007	11257	41391	1031	157250
II	499441	142609	385537	298972	86565	101285	48758	11050	41477	1010	154218
III	500216	138731	385602	298914	86688	101376	48995	10974	41407	3238	148730
% change compared to previous period											
2000											
I	0.9	-0.3	1.1	1.3	0.6	1.6	1.4	4.4	1.0	---	-0.4
II	0.4	4.9	0.6	0.8	0.1	1.2	1.7	2.2	0.3	---	2.2
III	0.4	2.1	0.4	0.4	0.5	1.3	1.7	0.5	0.9	---	8.0
IV	0.8	-0.3	0.4	0.5	0.2	-0.6	-1.0	-0.8	-0.2	---	0.9
2001											
I	0.9	1.4	0.0	0.0	0.2	0.8	0.4	-3.0	2.3	---	1.3
II	0.0	-1.2	0.4	0.5	0.0	-0.4	-0.5	-1.8	0.2	---	-1.9
III	0.2	-2.7	0.0	0.0	0.1	0.1	0.5	-0.7	-0.2	---	-3.6
% change compared to correspond. period of the previous year											
2000											
I	3.4	5.0	2.2	2.3	2.0	7.3	8.6	10.1	5.0	---	7.5
II	3.1	9.8	2.9	3.2	1.7	7.3	9.5	11.9	3.5	---	8.3
III	2.6	12.0	2.7	3.0	1.7	6.6	7.5	11.4	4.1	---	14.0
IV	2.5	6.4	2.6	3.0	1.4	3.5	3.9	6.3	2.1	---	10.9
2001											
I	2.5	8.2	1.5	1.6	1.0	2.6	2.9	-1.2	3.5	---	12.9
II	2.1	2.0	1.3	1.4	0.9	1.0	0.6	-5.1	3.3	---	8.3
III	1.9	-2.9	0.9	0.9	0.6	-0.1	-0.6	-6.2	2.2	---	-3.3

tive agreement with the social partners (the so-called concertazione).

The more relevant items put forward include:

a) the reform of incentives to hiring; with particular emphasis on further extensions of part-time work

arrangements for older and younger workers, and encouraged as an alternative to redundancies;

b) a comprehensive revision of the safety net (ammortizzatori sociali), i.e., of unemployment insurance;

c) the reorganisation of the national and regional agencies in charge of monitoring and evaluating policies;

d) enhanced co-ordination and specialisation of norms and incentives for the so-called "entry-con-

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tracts" (apprenticeship, "training and work" programmes, etc.);

e) the pursuit of more flexibility for individual working arrangements, also beyond the standards set in collective agreements with the unions, for example in working hours and their flexibility for part-time workers;

f) a trial period of four years, where current Employment Protection Legislation (in particular, the application of art. 18 of the Law 300/1970, establishing the right of the worker to be re-employed in the same job following a sentence by a Labour Court acknowledging an "unfair" dismissal) would be suspended in three cases: firms transforming temporary into permanent work contracts; "regularising" work positions within schemes for the "surfacing" of irregular labour; firms with less than 15 operatives (for which the "art. 18" would not apply) for additional hiring beyond that limit;

Table 2: Employment and Unemployment

	Employed		Unemployed	
	Absolute values (000)	%change compared to correspond. period of the previous year	absolute values (000)	%change compared to correspond. period of the previous year
2000				
January	20617	1.1	2647	-3.8
April	20930	1.5	2545	-6.7
July	21322	2	2404	-7.4
October	21450	2.8	2383	-8.3
2001				
January	21273	3.2	2379	-10.1
April	21373	2.1	2271	-10.8
July	21713	1.8	2193	-8.8
October	21698	1.2	2225	-6.6

g) incentive schemes favouring the use of arbitration in the case of labour disputes to reduce the workload of Labour Courts. Among proposed powers arbitrators would be able to propose pecuniary compensation.

Government action to use the Legge delega, and in particular the norms relaxing employment

protection in the event of "unfair" individual dismissals, have led to confrontations with trade unions. Following to principles put forward in the White Book, and for the first time since 1993, the Government has not followed the practice of concertazione. This means no compromise was sought with the social partners before undertaking important reforms in

Table 3: ISAE Business Survey

Years and months		Confidence indicator	Assessments			Forecasts	
			Order-books		Inventories of finished products	Production	Selling prices
			Total	Exports			
2001	January	100	0	2	-2	22	17
	February	94	-5	-1	2	13	11
	March	96	-7	-6	1	18	9
	April	96	-7	-9	3	20	9
	May	95	-7	-7	4	19	10
	June	92	-13	-13	3	15	9
	July	92	-13	-13	2	13	4
	August	96	-11	-13	-3	19	7
	September	83	-29	-30	2	0	4
	October	86	-24	-24	3	5	3
	November	83	-26	-24	7	1	5
	December	88	-27	-24	0	10	9

industrial relations and labour market regulation. Instead of the concertazione, the Government states it will follow the less binding practice of "Social Dialogue", according to which proposals and policies are discussed with the social partners, and their views taken into account, but they are not binding on the Government.

4. Case study: The difficult of restructuring Alitalia

The Italian air company Alitalia employs almost 23 thousand employees. In 2001 passenger levels per Km fell by 11.9% (26.8% in December), the total number of passengers by 6.6% and the average coefficient of plane filling decreased from 72.1% to 70.8%. This led to Alitalia announcing 2,500 "redundancies" and 900 "incentivised exoduses" just a month after the events of 11 September.

On 22 November, the company's Board approved a restructuring plan aiming to reduce personnel and costs. The plan is crucial to the company's future as the recapitalisation of Alitalia (worth 1.2-1.4 billion Euros) through convertible bonds is to take place by June but will only be possible if investors, including private individuals, are assured that structural cost reductions are in sight. This plan was criticised by the trade unions which, at the beginning of January, asked the Italian Government to declare a "state of crisis" in the sector and to provide

the company with financial aid, the use of Cig and special tax cuts.

In mid-January, in the face of the trade unions' decision to suspend any negotiations with Alitalia on the restructuring plan, the managing director, Francesco Mengozzi, announced the decision to unilaterally start the restructuring plan. If no agreement on alternative ways to reduce labour costs is reached within 75 days with the unions, then Alitalia will put 2,500 employees on the "list of mobility". Whereas with the use of the CIG there remains an employment relation with the firm, with mobility such a relation is interrupted and the labourer obtains only a two or three-year unemployment subsidy, according to age. It should be stressed that Alitalia has never incurred in collective firing.

The alternative means to reduce labour costs proposed by the company includes "solidarity contracts" (contratti di solidarietà), involving a general reduction of working hours and salaries. In this way Alitalia could obtain part of the resources allocated by the Budget Law 2002 in the "Fund for Employment". The pilots' union (Anapc) declared that is not willing to accept these solidarity contracts.

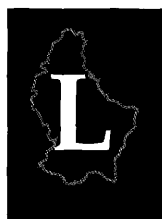
As for the 900 "incentivised exoduses", interviews have started to "convince" those who satisfy the criteria for early retirement

to take voluntary redundancy.

Following the Board's request a first agreement was reached between the Government and the trade unions on the restructuring plan on 24 January. Privatisation will not occur before 2003, and the CIG will not be used, but details on voluntary redundancies and on financial aid have not yet been provided. Currently only 119 million Euros are available for the solidarity contracts (so as to obtain less sharp cuts in wages and salaries), for which full agreement should be reached by 15 February. Unofficial sources reported by newspapers mention cuts in working hours of around 20% and in wages and salaries around 10-15% at least for 2002.

The Government does not seem willing to declare a "state of crisis", and the same is true for the tax cuts requested by the company. This is in part due to the fact that on 11 December the Treasury already provided 258.2 million Euro in anticipation of the company's capital needs (the State owns 53% of the company) which was approved in 1997, when Alitalia belonged to the public holding IRI. The Government can provide further aid only if authorised by the Commission.

G. Ciccarone



Luxembourg

Introduction

In this document we are going to lay great emphasis on the economic and labour-market context of Luxembourg in 2001. There were substantial upheavals within both these contexts, mainly in the second quarter of the year. To explore them, we shall use the findings of an excellent study carried out recently by STATEC.¹ At the time of writing, this study is the only official source for the evaluation of the past year's economic performance. Extracts from this study will be indicated by the use of quotation marks.

However, we shall see that it is very difficult to derive clear indications from these contextual assessments where possible repercussions of the September 11 attacks on Luxembourg are concerned. At this stage, the analyses still have nothing precise to say on this question. The present note will be updated next April and we shall be better able to assess any possible repercussions at that point, as many companies' reports will have been published by then, together with reports from the various ministries and the Economic and Social Council.

For this reason, we shall not tackle the question of possible responses of a political nature

Section 1: Data on the labour market and the economic situation

1.1 General Employment Statistics

1.1.1 Month-end figures for job seekers² and vacancies, 2001

	Job seekers				Unemployment rate ³	Job Vacancies ⁴	
	Men	Women	Total	Trend		Total	Trend
Jan	2828	2424	5252	+6.0%	2.8%	1220	+72.1%
Feb	2704	2392	5096	-3.0%	2.7%	1208	-1.0%
Mar	2587	2312	4899	-3.9%	2.6%	1665	+37.8%
Apr	2553	2213	4766	-2.7%	2.5%	1248	-25.0%
May	2434	2123	4557	-4.4%	2.4%	1923	+54.1%
Jun	2405	2124	4529	-0.6%	2.4%	1710	-11.1%
Jul	2450	2158	4608	+1.7%	2.4%	1624	-5.0%
Aug	2409	2242	4651	+0.9%	2.4%	1417	-12.7%
Sep	2543	2289	4832	+3.9%	2.5%	1358	-4.2%
Oct	2730	2507	5237	+8.4%	2.7%	1256	-7.5%
Nov	2853	2515	5368	+2.5%	2.7%	1341	+6.8%

Source: ADEM [Employment service]

We may make the following observations. First, the unemployment rate fell steadily from January to May 2001, before levelling out until August. A distinct rise occurred in September, and this became particularly marked in October and November (up 0.3% in two months). At the same time – from August to October – the number of job vacancies decreased quite markedly. It is not possible at the present time to attribute any role in these figures to the events of 11 September.

1.1.2 Distribution of jobseekers by sex and age in November and December 2001

	Age	-26	26-30	31-40	41-50	51-60	+60	Total	%
	Nov.	Total	1037	686	1540	1370	705	30	5368
	%	19.3	12.8	28.7	25.5	13.1	0.6	100	
Dec.	Men	493	332	849	752	434	24	2884	54.2
	Women	504	367	688	602	263	15	2439	45.8
	Total	997	699	1537	1354	697	39	5323	100
	%	18.7	13.1	28.9	25.5	13.1	0.7	100	

Source: ADEM [Employment service]

We see here something of a gender imbalance where jobseekers are concerned (54.2% men and 45.8% women). We can also see that the age groups most affected are those between 31 and 50 years.

¹ The Central Statistical Service of Luxembourg.

² Job seekers: unemployed persons, available for work and seeking appropriate employment, who are not assigned to an employment scheme, either receiving benefit or not, and who have complied with ADEM's monitoring requirements.

1.1.3 Distribution of Jobseekers by sex and level of training in November and December 2001

	Training	LL ³	ML ⁴	HL ⁵	UL ⁶	Total
Nov	Total	2617	1954	782	15	5368
	%	48.7	36.4	14.6	0.3	100
Dec	Men	1345	1095	436	8	2884
	Women	1188	892	355	4	2439
	Total	2533	1987	791	12	5323
	%	47.6	37.3	14.9	0.2	100

Source: ADEM [Employment service]

We can see an overall balance here between men and women where levels of training are concerned. We see also that job seekers are most numerous among those with least training.

1.1.4 Distribution of jobseekers by age and duration of unemployment, December 2001

	Age	Months						Total
		-1	1-3	3-6	6-9	9-12	+12	
Dec	-26	306	374	118	55	29	115	997
	26-30	147	226	133	61	44	88	699
	31-40	237	448	283	172	102	295	1537
	41-50	140	299	230	150	93	442	1354
	51-60	52	92	94	94	69	296	697
	+60	6	3	3	4	3	20	39
	Total	888	1442	861	536	340	1256	5323
	%	16.7	27.1	16.2	10.0	6.4	23.6	100

Source: ADEM [Employment service]

Jobseekers do not generally have long to wait before returning to employment, since almost 20% of them find a job within one month. By 3 months, that figure is almost 50%. However, beyond 12 months we find the opposite phenomenon, the number of jobseekers in that category amounting to almost a quarter of the total. It is in the 31-50 age-range that we find the largest numbers waiting to return to employment.

1.1.5 Distribution of Young Jobseekers by Sex and Age, December 2001

Age	-16	16	17	18	19	20	21	22	23	24	25	Total	%
M.	2	21	22	47	42	56	60	52	74	54	64	493	49.4
F.	2	8	19	34	57	65	61	52	69	69	68	504	50.6
Tot.	4	29	41	81	99	121	121	103	143	123	132	997	100
%	0.4	2.9	4.1	8.1	9.9	12.2	12.2	10.3	14.4	12.3	13.2	100	

Source: ADEM [Employment service]

The highest percentages of young jobseekers among both males and females are found in the 18-25 age range.

which might have been made to the repercussions of the September 2001 attacks.

We shall close with a few remarks on those flagships of the Luxembourg economy, the iron-and-steel and financial sectors.

1.2 Cross-border workers within the regional employment market constituted by Luxembourg

We cannot discuss the labour market in Luxembourg without mentioning the phenomenon of cross-border workers. Worker mobility is a historical reality in Luxembourg and in the overall region, which includes the Belgian province of Luxembourg, the French region of Lorraine, the German Länder of the Saarland and Rhineland-Palatinate and the Grand Duchy of Luxembourg itself. Workers flow in and out of this region in great numbers. Alongside the daily commuting of these workers, mainly in the direction of Luxembourg, there is also a non-negligible flow of immigration into the country, which is itself responsible for population growth in Luxembourg.

In this regard, it is interesting to note the proportion of workers in Luxembourg by sector of activity and country of residence as registered at 31 March 2001.

The number of cross-border workers (37%) has recently overtaken the figure for employees who are Luxembourg nationals. Apart from the civil service and the "electricity, gas and water" sector, where 90% of workers are nationals, workers residing in

³ Source: STATEC.

⁴ Job Vacancies: vacant posts declared to the Employment Service by the employers and figuring in the files at the date when the statistics were compiled.

⁵ LL: lower level – compulsory schooling (9 years of study)

⁶ ML: mid-level – 10 to 13 years of Secondary Technical Education or of General Secondary Education.

⁷ HL: Higher level – post-secondary education.

⁸ UL: level not specified.

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Sectors of Activity	Luxembourg residents	Foreign residents	Cross-border workers	Total of employees
Agriculture, hunting, forestry	355	549	332	1236
Fishing, aquaculture	1	1	0	2
Extractive industries	105	90	113	308
Manufacturing industries	10853	6767	17013	34633
Production, distribution of electricity, water, gas	868	47	49	964
Construction	3407	12353	11582	27347
Commerce, repair of automobiles and domestic appliances	10782	9103	14390	34275
Hotels and Restaurants	1146	5866	3656	10668
Transport and communications	9451	4475	8430	22356
Financial intermediation	9805	9231	13488	32524
Property, leasing and services to business	5810	9811	17858	33479
Civil Service	28204	2412	641	31257
Education	617	364	224	1205
Health and social work	6898	3427	3898	14223
Social and personal community services	2780	2,135	1808	6723
Domestic services	528	2492	305	3325
Extra-territorial activities	76	431	264	771
Indeterminate	345	523	710	1578
TOTAL	92031	70082	94761	256874

Source: IGSS (General Inspectorate of Social Security)

Luxembourg and cross-border workers are in the majority – sometimes very substantially – in the other sub-sectors of the economy.

Many foreign nationals (27%), mainly from the countries of the European Union, work and reside in Luxembourg. There is a substantial representation of foreign workers in the area of “domestic services” (75%), “hotels” (55%) and “construction” (45%, most of them Portuguese).

Labour mobility may be a daily matter, as in the case of cross-border workers, or it may be long-term or even permanent, as it is for the many European Union nationals who settle in Luxembourg. The situation of Luxembourg is exceptional within the Union. To the 94,761 cross-border workers registered at 31 March 2001 must be added a fur-

ther 70,082 resident foreign workers. Flows in the opposite direction are not seen so much and are not very large: about a hundred Luxembourgish work in Germany, almost 300 in Belgium and nearly 200 in France.

New vacancies continue to be filled largely by cross-border workers. In 2001 75% of new jobs were taken by cross-border workers. Within the overall region there are approximately 500,000 unemployed.

1.3 Employment Growth in 2001

“Throughout 2001 the growth of domestic employment has continued in spite of the slowdown in economic activity. The pace of growth of domestic employment has remained at 5.3%, which represents practically an unchanged level

since 1999. We must, however, note that the pace of job creation slackened during the year, falling from 6.8% at the beginning to 5% at the end. This slowdown was occasioned by the general cyclical economic downturn that occurred during the year. Some sectors, such as industry and financial services, saw falls in recruitment levels in 2001. By contrast, in other sectors, such as construction, hotels and commerce more jobs were created than in 2000.

The economic slowdown was not as marked in Luxembourg as it was elsewhere in the European Union. We may, nonetheless, ask ourselves why employment creation did not slow down more when signs of a downturn in growth are visible.

An actual slowdown in economic activity did not really occur in Luxembourg until the second half of 2001. The statistical data for this half-year period are not yet fully known. Since there is a natural lag in the impact of economic activity on employment, the slowdown would not normally show up until the fourth quarter – as seems confirmed by the rise in unemployment in October 2001.

The job market in Luxembourg has in recent years been very tight. Given this situation, employers ought to be reluctant to let staff go on account of the high transaction costs represented by possible layoffs, redundancy programmes, the training of new staff when an economic upturn occurs etc. This explanation is all the more valid where employers see the slowdown as short-term and transitory, which was probably the case until the September 11 attacks.

The rate of employment has continued to increase. It reached 63.7% in 2001, as opposed to 62.7% in 2000. The new rise in the

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employment rate is probably attributable to two factors. Being a procyclical variable, the general economic situation in 2001 probably pushed it up. STATEC also estimates that female employment has further increased.

The number of jobseekers registered with the Employment Service (ADEM) failing to find work can be seen to have fallen by 1.5% in 2001 and in that same year the unemployment rate fell by 0.1%. However, at the end of 2001, we can see a marked rise in the numbers seeking work. In the first half of the year, the number of jobseekers failing to find work fell by 4.9%, but it increased by 3.7% in the second half.

The cause of this trend is clearly attributable to the general economic context, since the increase in the unemployment figures is a product of a rather marked fall-off of recruitment by companies, particularly in the financial and industrial sectors. The downturn cannot be attributed either to mass redundancies or to bankruptcies."

1.4 Some general performance indicators

1.4.1. GDP

"Between 1995 and 2000, Luxembourg benefited from the exceptional state of the global economic situation, since average growth of GDP was 6.4% in the period 1995-2000, as opposed to 5.5% between 1985 and 1995.

Unfortunately, 2001 marked the end of expansion at the global level and, as a result, GDP growth in Luxembourg slowed to 5%. However, this does represent twice the average level of growth in the countries of the European Union.

We find that the pace of growth of GDP correlates closely with export growth. The halving of export growth in 2001 in relation to

the preceding years can be seen, then, to have been the main cause of the decline of GDP.

The year 2000 represented the peak of the cycle of expansion which began in 1995. GDP growth came close to 9% in 1997 on account of some exceptional phenomena, such as the very high increase in investment in machinery, equipment and vehicles, as well as slow growth in the importation of services. After stabilising around 6% in 1998 and 1999, GDP growth reached approximately 7.5% in 2000, as a result of the sound global economic situation.

In 2001, most monthly performance indicators, which so far cover the first three quarters of the year, are still showing rises, but these are generally lower than those recorded in 2000. The indicators relating to industry and construction seem to confirm that the fourth quarter of 2001 will not see any rises by comparison with the other quarters. Hence the first estimates of national accounts put GDP growth in 2001 at around 5%."

1.4.2 Exports and Imports

"Exports and imports of goods and services have developed at a distinctly slower rate than in preceding years on account of the marked slowdown in the global economy. For example, exports of goods and services have increased by 8.5%, whereas the increase was 16.4% in 2000 and 15.4% on average between 1995 and 2000. Where imports are concerned, the rise is 8.6% in 2001, as opposed to 13.8% in 2000 and 14.5% on average between 1995 and 2000. This slowdown first made itself felt in relation to goods; where services were concerned, there was no perceptible slowdown until the third quarter of the year.

The export of goods from Luxembourg is broadly a function

of foreign demand for products made in Luxembourg. In 2001, according once again to STATEC estimates, the export of goods from Luxembourg increased by 4.5%, whereas the demand indicator was up by 1.5%. Luxembourg's exports were greatly stimulated in 2001 by the international trade in mobile telephones.

Service exports slowed down largely as a result of slower growth in the exports of financial services since the beginning of the year. From the third quarter onwards, exports of other services also seem to have ceased to grow if we eliminate seasonal variations. On the basis of balance of payments figures, exports of financial services would seem to have fallen by 5.6% measured year-on-year, over the first three quarters, with other exports still growing by 16%."

1.4.3 Inflation

"Retail price inflation settled at around 3% in 2000 and 2001, which represents a slight increase over earlier years, but remains within the bounds of the average rates recorded since 1985.

During 2000 and 2001, inflation measured by the implicit private consumption deflator has remained moderate in the Grand Duchy of Luxembourg, standing at 2.8%. This is close to the average rate of inflation observed since 1985.

The acceleration of inflation in 2000 and 2001 has its origins in the turnaround in the factors which had led to virtual price stability between 1994 and 1999: petrol prices rose sharply, peaking at the end of 2000; economic activity has developed at a pace unequalled since the beginning of the nineties; and, since its launch in 1999, the euro has fallen steadily. Moreover, the BSE crisis produced meat price rises that arrested the fall in inflation which followed the drop in petrol prices.

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Hence, at the end of 2001, the RPI of Luxembourg fell below 2%, as against the more than 3% figure at which it still stood in the second quarter of the year.

In 2000 and 2001, inflation as measured by consumer price indexes was higher in Luxembourg than in neighbouring countries. The higher inflation was due in part to the country's particular petrol price structure. The rapid acceleration of inflation following the petrol price rise seems to have engendered an inflationary spiral accentuated by the mechanism of automatic indexing."

Section 2: data relative to the impact of the attacks of 11 September 2001 on certain economic sectors.

It is still very difficult at this point to measure the real impact of the attacks of 11 September 2001 on certain sectors of activity in Luxembourg. These events are still quite recent and their effects have not yet necessarily made themselves felt at the time of writing (January 2002). Moreover, much of the statistical data which would enable us to assess these effects has not yet been published. Many institutions or companies have not yet produced their reports. We shall

focus our attention essentially on the banking sector which, as everyone knows, is one of the flagship sectors of Luxembourg's national economy, even if we shall ultimately have to conclude that it is not really possible to observe any effect of 11 September 2001 on this sector.

2.1 Financial services

"Financial services suffered in 2001 from the fall in stock market prices, as we shall see below. First, that fall affected profits from those services. However, most banks will be able to fall back on substantial provisions made over the preceding years. There has been less activity in the 'private banking' market, given that economic operators have not been investing at the frenzied pace of preceding years, thereby generating less commission. Since commissions are often proportional to the value of stocks and shares acquired, a fall in the income received by the banks has ensued. Moving from the banking results recorded by the Control and Monitoring Commission for the Financial Sector to the national accounts drawn up by STATEC would seem to be a delicate matter. STATEC estimates, for example, that growth in nominal Gross Value Added has been mildly positive,

rising by 1.2%, whereas this same indicator expressed in volume terms shows a rise of 4.4%, which is considerable, though slightly down on previous years (when it was on average 7%). This differential development can be explained by a fall in implicit prices, linked in part to the levels of the stock exchange indexes."

We shall now compare recruitment figures for Luxembourg's financial sector in general, month by month, in 1999, 2000 and 2001.

As will be seen from this table, 2001 was distinctly worse than 2000 where recruitment was concerned. We cannot, however, deduce any real impact of the attacks of 11 September. In 1999, 2000 and 2001, the month of September always had the highest recruitment figures.

From the end of 2000, the financial and stock markets began to experience problems. The financial sector in Luxembourg immediately felt the effect of this on account of its dependence on external factors. This sector has, however, succeeded in cushioning the impact by comparison with similar sectors in other countries as a result of the diversification of activity in Luxembourg's financial and stock-market centres.

Where recruitment is concerned, banks began to reduce their intake from the beginning of 2001.

After the tragic events of September 11, a kind of terrorist hunt occurred within the banking sector in Luxembourg. Various measures were imposed on this sector, such as increased controls, a very sustained effort to detect money laundering, etc. These measures were promulgated in the form of directives from the Commission for the Control and Monitoring of the Financial Sector. As a result, it

Recruitment in the Financial Sector

	1999	2000	2001
Jan	707	573	515
Feb	507	491	328
Mar	524	458	360
Apr	578	596	461
May	459	546	373
Jun	432	563	461
Jul	488	596	499
Aug	378	605	446
Sep	782	989	693
Oct	511	762	722
Nov	262	545	537
Dec	150	424	304

Source: ABBL (Luxembourg Association of Banks and Bankers)

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has proved necessary to increase human resources to some extent. However, since business is not in general very good, the banks will probably find it difficult to provide jobs on a sustained basis for these additional staff.

2.2. “Manufacturing industry experienced a third consecutive year of strong growth in 2001, recording a 4.1% rise in Gross Value Added, as against an average of 7% in 1999 and 2000. It also benefited from the strong global economic situation in 2000 to achieve an excellent first quarter of 2001. Since that point, industrial production has fallen steadily. It was – 2.5% in the second quarter and – 0.8% in the third quarter, in the wake of the downturn in world trade.

2.3. For its part, **construction** seems to have plateau-ed at a high level. It grew by 5% on average between 1995 and 2000. In 2001, the pace of growth began to falter. The rise in interest rates throughout 2000 certainly slowed the pace of residential building, whilst, in civil engineering, there have been no new large-scale projects, even though the volume achieved remains high.

2.4. In **commerce**, the picture is more mixed. On the one hand, retail trade and car sales have benefited from the strong demand from households, whereas wholesale trade has slowed with the global downturn. We must note, however, that retail turnover has experienced the greatest expansion in three years. In the **hotel and catering** sector, real activity seems to have regressed again in 2001. This finding is corroborated by an appreciable fall of 3.6% in the number of nights spent by foreign tourists in Luxembourg in the first eight months of 2001.

2.5. Business Services included

under NACE classification 70-74 and **transports and communications** (NACE 60-64) have contributed to consolidating economic performance in 2001. Business services have benefited from what has still been, overall, a favourable situation, while transports and communications have seen growth which is more of a structural order, even if they are not shielded from the fluctuations of the global economic cycle, as can be seen from the trend in turnover figures in the first nine months of 2001. During that period, there was in fact a rise of 10.7%, as opposed to an annual average of 14% between 1995 and 2000.

2.6. So far as the **exporting sectors** of the economy were concerned – manufacturing industry, transport and communications, and financial services – their contribution to Gross Value Added amounted to 43.7% in 2001. They did, however, generate 45.6% of the total growth of Gross Value Added, this latter figure still being lower, though, than the long-term average which, since 1995, stands at 51.7%.

The contribution to Gross Value Added of the domestic sectors – construction, commerce, hotels and catering, commercial services to businesses and individuals – was 44.9% in 2001, and they generated 46.1% of the total growth of Gross Value Added. The contribution to growth in 2001 was appreciably higher than the average figure for the period since 1995 (40.8%).

From all these figures, STATEC is able to deduce that the growth of the Luxembourg economy in 2001 was driven more by the domestic than the exporting sectors. It is also very likely that the first phase of tax reform implemented in Luxembourg on 1 January 2001, which boosted disposable household income by around 2.5%, probably generated an excess of growth

in domestic industry, as can be seen from the retail sector in particular.”

Section 3: Case Studies

Two sectors in particular set the tone of the Luxembourg economy: iron and steel and the financial sector. If Luxembourg is chiefly known today for the latter, this has not always been the case.

Luxembourg’s role as a financial centre is of relatively recent origin, and it followed upon almost a century of the economy being dominated by a thriving iron-and-steel industry. Indeed, in the 1960s iron-and-steel accounted for a quarter of Luxembourg’s GNP.

The situation deteriorated in the 1970s, as it did in the neighbouring countries, and in the major recession of 1974-5 almost 27,000 jobs were lost in the sector. This figure corresponds to the current number of jobs in the financial sector, which now represents more than one third of Luxembourg’s GNP.

If there were, overall, fewer jobs created in 2001, it was mainly the financial and industrial sectors which suffered.

3.1. Iron and Steel – ARBED

ARBED, which is very much a flagship company within Luxembourg’s iron-and-steel industry, was formed from a merger between Luxembourg’s three largest iron-and-steel producers in 1911. The company is an industrial holding company comprising ACERALIA, SIDMAR, ProfilARBED, TradeARBED, Belgo-Mineira and TrefilARBED. With 7,600 employees at 1 January 2001, the ARBED group is still the largest private employer in Luxembourg.

However, the number of employees has been falling steadily for many years.

Lacking room for manoeuvre in a limited national and European

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context, the ARBED group, as part of a globalisation of its activities, signed a Memorandum of Understanding with its European partners ACERALIA and USINOR expressing the intention to unite the whole of their industrial, commercial and human resources within a new company. The three groups, ACERALIA, ARBED and USINOR have based their agreement on an industrial plan built on four sectors of activity: flat carbon steels, long carbon steel products, stainless steels and distribution, and trading and processing.

Underlying this rapprochement is the strategic aim of forming the leading global iron-and-steel group, drawing on geographical and product-range complementarity between the three partners, and making savings by annual cost reductions (reaching 700 million euros by 2006) and investment savings.

On 21 November 2001, the European Commission gave its approval to the merger by which ARCELOR, which has its headquarters in Luxembourg, was created.

3.2. The financial sector

Luxembourg has successfully converted its mono-industrial economy by responding to the demand for the internationalisation of capital markets and financial flows.

The financial sector is made up of three sub-sectors: banks, investment institutions and other professionals (e.g. asset managers, brokers etc.).

The banking sector has been in excellent shape for many years: the number of banks has risen from 37 in 1970 to 197 in July 2001. Most of these focus their activities on the international markets. They are essentially European in origin.

This spectacular increase should not be allowed to conceal a steady fall in the number of banks since 1996, a fall which is, however, due to merger activity, since, at the same time, the balance sheets of the banks have constantly grown to the point of reaching almost 690 billion euros at the end of 2001 (as opposed to 466 billion 5 years earlier). The number of employees has grown in parallel with this, even though that growth has slowed since the year 2000.

In these two sectors, it is currently very difficult to assess the impact of the events of 11 September 2001. We should, however, note that, on the one hand, employment in iron-and-steel has continued on the steady decline which has been going on for more than a quarter of a century, and, on the other, the downturn in employment growth within the banking sector began well before that date.

Conclusion

We can only reiterate here the point made at the beginning of this report. In the current state of our knowledge, it is practically impossible to draw any conclusions regarding the possible repercussions of the attacks of 11 September 2001 on the economy and labour market of Luxembourg.

We must simply note, at the moment, that Luxembourg has not escaped the general recession in Europe and throughout the world. Even if Luxembourg has been able to cushion the impact of such blows by comparison with other European states, it has also experienced upheavals – mainly in the second quarter of 2001 – both in its economy and on the labour market.

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Netherlands

SHORT TERM LABOUR MARKET TRENDS

THE NETHERLANDS AFTER SEPTEMBER 11, 2001

Introduction

Around the end of the first half of last year consumer confidence was falling, consequently consumer spending was down and producer confidence followed. With this turnaround in the business cycle only savings accounts were doing well. The US economy was unable to sustain its growth performance at the start of 2001 and countries linked to the American economy were affected as well. For the Netherlands the immediate response of an American growth slowdown was only partly reflected in pressures on export performance, of greater impact were the risks associated with a general lack of confidence in economic prospects. Against this background the economic effects of the terrible September 11 attacks in the US resembled that of a virus infecting a patient already with weak resistance. This paper presents an overview of recent economic and labour market developments, in which the attacks 'only' seem to have accelerated the trough of the recession that was about to come. However, short term threats for the Netherlands can be identified as well.

Economic background

GDP growth in recent quarters

According to the most recent Statistics Netherlands press release (PR02-11) in the third quarter of 2001 Netherlands' economic growth was up 0.8% compared with the same quarter of 2000. This growth rate has been upwardly adjusted from the first estimate of 0.4% in November. In the course of 2001 economic growth fell steadily; especially growth in export which fell sharply. The GDP price increase was slowing down somewhat, now reaching 4.7%.

In the third quarter of 2001 GDP volume was the same as the second quarter. The figure, adjusted for seasonal and calendar effects, is also upwardly adjusted from the first estimate of -0.4% in November. The 0.8% economic growth rate of the third quarter of 2001 is the lowest since 1993. The upward adjustments are mainly based on better than expected production in agriculture, mining and quarrying and construction. Agricultural harvests and meat production turned out to be better than expected. In the construction sector the estimate was increased for investments in major infrastructure projects, and more gas was produced and exported than originally estimated. The volume increases in both exports and imports of goods and services have been falling sharply. After the high growth rate of 9.5% and 9.4% respectively in 2000 it has been lower during each quarter of 2001. In the third quarter the volume

increase in imports fell to 1.4% compared with the same quarter last year. Exports fell even more reaching a growth rate of 0.4%. Dutch exporters are increasingly suffering the consequences of the deterioration in the worldwide economic climate.

Modest consumption growth

Dutch private consumption in the third quarter increased by 1.6% which is far less than in 2000. The slowdown in 2001 was greatest in expenditure on consumer durables. The sales of new cars, however, developed less negatively in the third quarter than during the first two quarters. Consumption growth in commercial services slowed down substantially, due to less expenditure on hotels and restaurants and on banking and insurance services. Consumers actually spent less on food and beverages as well.

Investments in the third quarter fell by 1.2%. Investments in construction were higher than in 2000 thanks to the major increase in investments in infrastructure. The slowdown was mainly in investments in machinery and airplanes. No major new projects were finished during this quarter, such as energy plants, which has its repercussions on machinery sales. When major projects are not taken into account, the investments were virtually the same as in 2000.

Industrial production down

In line with the fall in exports, Dutch manufacturing industry shows the

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Table 1: Producer value added (gross, basic prices), 2000, 2001;

Producers of:	2000	2001			
		QI	QII	QIII	QI-III
Goods	3.3	- 0.2	0.2	- 0.5	- 0.1
Agriculture & fisheries	0.9	- 6.4	- 3.1	- 0.7	- 3.1
Manufacturing & energy	3.8	0.8	1.0	- 1.2	0.2
Construction	2.7	- 1.1	- 0.9	2.5	0.0
Commercial services	4.5	2.3	1.8	1.0	1.7
Trade, hotels/rest's, transport	5.1	2.8	1.7	1.0	1.8
Financial & business services	4.1	1.9	1.9	1.0	1.6
Non-commercial services	1.3	2.8	2.8	2.6	2.7
Total Gross Domestic Product	3.5	1.4	1.4	0.8	1.2

Source: Statistics Netherlands PB02-011

greatest changes. Industrial production fell in the third quarter by more than 2% compared with a year ago. There is also a sharp downturn in the growth rate of commercial services. This is true in trade, hotels and restaurants and transport as well as in financial and business services. Aviation is also falling as a result of the terrorist attacks. In agriculture production in the sectors hit by the foot and mouth disease is still lower than before the outbreak. Production in construction in the third quarter grew almost at the same rate as in 2000, mainly due to the growth in infrastructure. The situation is clearly more positive in the non-commercial services such as the care and government sectors, which grew twice as fast as last year. Table 1 summarizes these sectoral developments.

Employment and unemployment rates

Key data for employment rates are lagging behind. The latest figures only refer to the second quarter of 2001, and still promise year on year growth rates of about 2.5% of jobs. The volume development, counted in full time equivalents, would be around 1.75%. So far monthly

unemployment figures stress this relatively satisfying performance. Statistics Netherlands calculates the official unemployment rate on a three months average base. Figures for October up to and including December 2001 still show low and stable rates: for more than half a year now figures are revolving around 140,000 to 135,000 persons, hardly 2% of the Dutch labour force. Unemployment for 2001 as a whole averaged 146,000, down 42,000 on 2000. The decrease in 2001 was slightly larger than in 2000, but smaller than in 1999. The reduction has been spread very fairly between men and women. However, registered unemployment rates among women remain higher than among men (2.4 % compared with 1.8 %). This might underestimate the actual differences, since women who are looking for work are often not registered at the labour exchange offices. Beyond that, the rates are based on a rather constrained definition, requiring registration and immediate ability and willingness to work for at least 12 hours a week. The concept of unemployment used by the Dutch National Bureau for Economic Policy Research (NBEPR), for instance, showed up about 80,000 higher in 2000. In previous years the

differences reached 60-70,000 persons. Survey results, just asking people if they would like a 12-hour job or more, more than double NBEPR figures.

Trends in vacancies

Number of vacancies down

The number of vacancies fell for the first time in seven years. Statistics Netherlands reports 171,000 unfilled vacancies on 30 September, down 13,000 on a year ago. The number of vacancies per thousand jobs fell from 25 to 23. Since the third quarter of 1994 the number of vacancies increased on the previous year in every single quarter. The sharp drop in economic growth early in 2001 stabilized the number of vacancies. Although the record highs of 2000 continued for another six months, the third quarter of 2001 finally showed the decrease expected.

Vacancies down in transport and communication but up in care and small business

The largest drop in the number of vacancies was in manufacturing industry, trade, and the transport and communications sector: down 5,000 on the September 2000 level in each. A drop was observed as early as the first two quarters of 2001. Transport and communication had the greatest decrease, with the number of vacancies falling by 36%. Institutions with increasing vacancies were mainly in non-commercial services e.g. in 'care' they increased by 4,000. The number of vacancies was also up in enterprises with less than 10 employees, with 6,000 more vacancies than the previous year.

Job market still tight but less dynamic

The tightness of the job market is reflected in the number of vacancies per thousand jobs. Despite a slight decrease in vacancies (from 25 to 23 vacancies per thousand jobs) the job

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market is still tight. The construction industry was tightest with 33 vacancies per thousand jobs. The number of observed vacancies is calculated by looking at new vacancies and those filled within a certain period. These flow figures better indicate labour market dynamics. In this respect the trend is negative: the number of new vacancies fell significantly in the third quarter of 2001. There were 21,000 less than the year before, almost a 10% decrease. The number of vacancies filled fell by 9,000, which is just a little less substantial. The slight decrease in the number of filled vacancies is in line with the robust albeit slightly lower job increases.

Temporary employment and redundancies

Activity in the temporary employment sector

As is well known aggregated data of temporary work agencies (twa), on turnover or employees, usually provide indicators of labour market performance. However, gathering these data is not a straightforward matter and the timelag in official registrations nullifies their prospective value. Beyond that, the Dutch figures available suffer from the impact of the recent 'Flexibility & Security' law, roughly implying for persons hired uninterruptedly for at least 2 years on subsequent temporary contracts should be offered an unrestricted contract by the twa. At the moment there are doubts whether this law can cope with an economic slowdown. At least the years 1999 and 2000 showed that the total number of hours worked by temporary workers fell by about 13% annually. For the total share of temporary work - fixed term contracts in general or hired out via twa's - expectations are that it will remain at a constant level of about 10 to 14% of the labour force,

depending on the definition used.

Trends in Redundancies

Recent data on redundancies are interesting markers of sectors possibly in trouble. At the start of this year Dutch institutional reorganisations implied, among other things, that the five bodies responsible for unemployment benefit allowances (in the first period after job loss) have been clustered into one so-called delivery body. The first tangible result is a short delay in the provision of monthly figures for new claimants and those coming off the register. However, the October 2001 figures provide some trends.

During October 2001 nearly 20,300 new benefits were provided, somewhat more than the same month a year before: almost 19,750. For the whole 10 month period in 2001 there was a reduction of nearly 9% (from 226,500 to 206,450). The figures for the end of October show about 162,700 people on benefits, 12% less than the year before. Rates for both men and women have fallen, but the rates for the younger and older age groups are slowing down substantially. In terms of new benefit claimants the service sector is responsible for above average levels of redundancies.

Confidence indicators

Consumer confidence remains the same

According to the latest figures by Statistics Netherlands, Dutch consumer confidence was -1 in January, up 6 points on December. This level of increase is not unusual for the time of year, so the seasonally corrected consumer confidence figure remains virtually the same. Consumer confidence was recovering in December from a steep decline that mainly took place in the first six months of 2001.

Less willingness to purchase hampers recovery of consumer confidence

The two aspects of the consumer confidence index move in opposite directions. Optimism about the economic climate is increasing among consumers, while willingness to purchase is falling. The latter is because consumers do not find this a good time for major purchases.

This in turn hampers the recovery of consumer confidence. The decrease in willingness to purchase may have incidental causes. The consumer survey took place within the first ten working days of the month and the fact that consumers were less willing to purchase then may be related to the introduction of the euro. The way consumers feel about their own financial situation remains positive.

Consumers far less pessimistic about the economic future

In January Dutch consumers were clearly less pessimistic about the economic climate, especially about developments in the next twelve months. This was also the case in December. The number of pessimists in January was only slightly higher than the number of optimists. Consumers are also slightly more positive about unemployment and inflation. The number of consumers foreseeing an improvement of their financial situation is greater than the number who predict that it will get worse.

Sectoral Impact

Trends in bankruptcies and new business creation

Just as state unemployment figures or vacancies heavily underestimate the flow of persons entering and leaving unemployment or the number of vacancies available and filled, the same holds for the number of enterprises. There is always a certain 'refreshment' of enterprises,

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implying that lots of jobs are lost and others created. These dynamics are only partly reflected in the balance figure for numbers of enterprises, measured for instance at the end of the year. Again, statistical insight has a time lag of about half a year. The most recent figures for the first half of 2001 show the expected slowdown in business dynamics.

New businesses can result from the creation of new business affiliates, spin-offs, or completely new start up initiatives. The available figures reveal 17,748 new entries in the second quarter of 2001, down 2% on the same 2000 quarter (18,106). Business closures amount to less than half: 8,340, an additional 2.4% compared with the figure a year before (8,147). Among the new entries about 2/3 relate to new start-ups and one third to spin-offs. The number of spin-offs continued to rise in the period concerned but the quantitatively more important start-ups fell by 5%. So whereas the second quarter of 2000 added roughly 4,500 to the number of companies, the same quarter a year after added only 3,700. This refreshment rate is not as bad as it would imply a rise in the total number of enterprises of about 3% percent for the year as a whole (starting with almost 475,000 enterprises at the end of 2000).

Industrial sectors with important changes in the number of start-ups are construction and transport (both about 100 more than a year before), insurance companies (100 less) and business services (about 700 less than the, traditionally large numbers like, 4,600 in the second quarter of 2000). The number of closures has risen most sharply in insurance, transport, construction and brokerage. A closure is not the same as a bankruptcy, as the latter imply a legally forced failure. Generally bankruptcies account for less than 10% of total closures. However, more recent figures show that bank-

ruptcies for the first ten months of 2001 already outstrip the level for the full year of 1995. After years of steady decline the number of bankruptcies again increases from 1999 onwards. During the January to October 2001 the number of business failures was almost 30% higher than a year before. The increase is in most sectors, specifically commercial services (plus 50%) and construction (plus 40%). Four out of ten bankrupt companies did not survive for more than five years.

Economic sectors most severely affected

Aviation

Recent assessments have been made by the Netherlands Bureau for Economic Policy Analysis (NBEP, in Dutch: CPB) for the two sectors most directly affected by the fallout from the terrorist attacks in the United States: the air transport and the hotel and catering industries. The NBEP states that international aviation in general was already coping with excess capacity. Now that all flights have been resumed the average number of passengers has dropped, notably in the profitable business segment. In order to regain travelers' confidence some specific security measures have been taken at airports and on airplanes. Expectations are that ticket prices will rise about 5%, implying a structural loss of fare demand of about 3%. For the year 2001 the number of flown passenger kilometers is likely to turn into a fall by 4.5% and for 2002 another 1.75% drop is foreseen. The NBEP calculates a loss of employment for Dutch aviation companies of about 2% in the next two years, due to cost efficiency measures. There will be a squeeze on profitability and services linked to aviation will feel the effects. Conversely there will be some gains for security businesses.

Hotel and catering

Hotel and catering is not expected to be affected very much towards the end of the year, since the attacks happened well after the holiday season. In order to compensate for the drop in American travelers, usually booking for the relatively expensive kinds of accommodation, price reductions at the top end of the market are expected. Although part of the loss in American visitors will be compensated for by Dutch and European travelers choosing holiday destinations closer to home, the negative results will dominate next year. On balance the adverse effect of the terrorist attacks on this sector will probably amount to 0.5 to 1% of output in 2002. A press release from the Hotel and Catering Branch at the start of this year was more positive. The last quarter of 2001 showed visitor numbers almost unchanged, with the exception of four and five star hotels and very exclusive restaurants, and conference facilities, particularly in Amsterdam. Lower revenues were mainly attributed to the weaker economic climate in the Netherlands itself than the terrorist attacks.

Telecommunications

The former state owned telecom company KPN announced in October a cut of about 4,800 jobs. After negotiations this meant about 2,800 compulsory redundancies and 2,000 by way of natural wastage and early retirements. In order to finance the voluntary redundancies staff agreed to salary reductions. Additional job losses of 1,300 were later announced threatening employer and union/employee confidence just built up. Of course, the KPN problems can hardly be attributed to the consequences of the September attacks solely, it is just a typical case where this external shock hastened the business slowdown. Perhaps the attacks only forced more radical actions than would have been taken otherwise. In

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that respect the resulting resoluteness might prove to be a blessing in disguise in the longer run.

Other telecom companies face some of the same problems. Getronics, for instance, will lose 1,000 of its 30,000 jobs worldwide, of which 300 will be in The Netherlands, but these will be voluntary redundancies. Indirect victims of KPN include the cable company Meijssen, which had to cut its workforce of 750 by 210 before the end of last year in order to secure the remaining jobs.

Banking and insurance

The ING Group, as an example of a Dutch banking and insurance company, faces some consequences of the US attacks and the depression in the financial markets. Net profits in the third quarter of the year have been down almost 8 % compared with the same 2000 period. The profit loss attributed to the September 11 terrorist attacks is calculated as 100 million Euro. However, US subsidiary ReliaStar, a reinsurance company, has prepared for a 600 million Euro claim. In ING's banking department profits were under pressure because of falling commissions and revenues from shareholders in a depressed stock market. For the first nine months of this year net profits were still gradually on the rise anyway. For companies with less direct interests in the US, like FORTIS, the picture doesn't seem very negative at all. In general a more modest rise in profits than expected earlier has been announced. The slowdown in the world economy and the weak stock markets are mainly held responsible. Aegon could even announce a 2 % rise in turnover and 14 % rise in net profits over the third quarter with the

perspective of a 12 % profit increase for 2001 as a whole. At first no Dutch banking and/or insurance company had to warn of serious redundancy threats. By the end of the year, however, ABN/Amro announced its plans for personnel cuts at the start of the year. The policy has been to focus initially on voluntary redundancies.

Policy responses

Temporary working time reductions

According to Social Affairs Ministry information measures for temporary working time reductions have proved valuable in the present circumstances. At the beginning of December last year about 24,000 Dutch employees were involved in it: without a drop in income they had to remain at home for a few days a week. Two months later that urgency has almost fully faded away: only five companies with a handful of employees now apply the facility. The Dutch aviation company KLM started recruiting personnel again. Of course, Dutch Finance Minister Zalm's offer to compensate for most of the direct costs of the attacks on the US (immediate flight cancellations in the first days) has softened the pain. In total the government has supported Dutch aviation to the tune of 28.4 million euros.

Outflow supported by social plans

ABN/Amro seems to provide a good case study for staff downsizing. The bank planned a cut of 6,250 full-time equivalents by the end of 2003. The first step was to offer financial incentives for voluntary redundancies. The enthusiasm has surpassed expectations: nearly 6,700 employees are interested, about 1,100 are being considered for early retirement and

the others will receive an exit bonus. The number equals about 5,000 full time equivalents, which combined with the usual natural outflow reaches the target very closely without forced redundancies.

Wage freezes and reallocation efforts

KPN's target has been set at 32,000 employees in 2004, implying reduction of 4,800 staff, 2,800 of which will be forced redundancies. For the redundant KPN personnel there will be opportunities to work in the Dutch government and the railway company (NS) as well as openings as police officers, teachers, maintenance personnel and guards. KPN personnel with higher vocational or scientific qualifications will be sought after by schools for basic and vocational education - in the next few years the Dutch education sector will need thousands of extra teachers. KPN's agreement on a complete wage freeze for the years 2002 and 2003 has helped preserved 2,000 of the initial 4,800 redundancies announced.

Case study: Turning vacancies into jobs

Turning vacancies into jobs and the reallocation of redundant personnel

There is some stagnation in the Dutch economy and this is the time when employability of the labour force is challenged, especially for those who need to be 'reallocated'. Some of the examples above show how Dutch workers can change to new jobs.

Although the number of job vacancies¹ has declined significantly there are still 170,000 which exceeds the registered unemployment level. To support adaptation of the labour

¹ Source: Statistics Netherlands PR02-10

² The abbreviation is RWI, because council translates 'Raad' in Dutch, as distinct from the CWI, meaning 'Central Organisation for Work and Income' or 'Center for Work and Income'.

Trends

market a new policy measure has been launched recently. The measure has been developed and is carried out by the recently established Council for Work and Income (RWI²). The RWI is one of the new organisations that has come out of the restructuring of the Dutch Work and Income related institutions. Its members include delegates from the social partners and the municipalities, providing advice to the Minister of Social Affairs and Employment on all possible aspects concerning work and income.

The new measure is designed to stimulate vacancy fulfillment by unemployed or employees threatened by unemployment. The starting point is the demand side of the labour market, specifically the available vacancies. Employers, branches or sectors can apply for financial support (a minimum of 40 potential employees for job opportunities must be involved and support if for a maximum of 1 year). Subsidies can

include recruitment costs, and costs for retraining to gain the qualifications required for the jobs. For 2002 a total of 90 million euros has been set aside for the measure. For each person concerned the subsidy can be a maximum of 3,000 euros, with more in the case of unemployed persons more 'distant' from the labour market. Co-operation with municipalities will be rewarded as well. Clearly, the measure can serve as a very useful facility to accommodate labour market (re)allocation, especially with regard to the downsizing strategies mentioned above, but the tangible results have yet to be seen.

Conclusions

The Dutch picture is not as gloomy as might have been expected. In particular the recent upward growth adjustments have relaxed the fear of a real recession. Now that the third quarter of 2001 showed up a flat performance, only the fourth quarter

is expected to show growth figures below zero. If the first quarter of this year is positive again, a real recession, implying two consecutive quarters of negative growth, is effectively avoided. In a sense the cautious optimistic assessment made in the previous note at the November end of last year (Recent Trends in Dutch Employment Performance) still prevails. Dutch labour market flexibility is assessed adequate enough to accomplish the required reallocation process, although the recent positive performance in unemployment reduction might come to an end. Beyond that, 'the usual disclaimer applies': prospects seem to be more uncertain than in the recent past. Threats are mainly related to the development of wage costs and the resulting impact on the Dutch competitive position, as has been stressed also in the OECD Economic Survey of the Netherlands 2002.

Jean Paul Vosse



Portugal

PORTUGAL: THEMATIC REPORT ON SHORT-TERM LABOUR MARKET TRENDS AND THE IMPACT OF 11 SEPTEMBER

Note: This article was written on the basis of the information available on 30 January.

1. Introduction

Since 1996, Portugal has had one of the highest employment rates in the

European Union. In 2000 the employment rate was 68.3%, compared with an average of 63.3% in the 15 EU member countries.

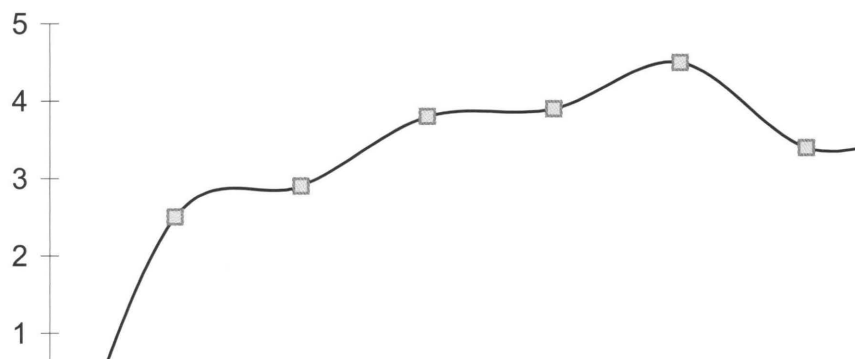
Correspondingly, the unemployment rate in 2000 was 4.2%, one of the lowest in the EU, and the first data available for 2001 suggest that unemployment is likely to remain at this relatively low level. In fact, the main indicators for the Portuguese labour market have consistently shown very positive results since 1996.

Furthermore, the last four years

of the 1990s were marked by the completion of the currency convergence process whereby Portugal became one of the founding countries of the euro. In this period Portuguese consumers and employers experienced a substantial change in their macroeconomic environment, involving a significant drop in inflation as well as in nominal and real interests rates.

These reductions were largely considered permanent in that they were associated with a new price stability regime which magnified their

Figure 1: Annual variation of GDP mp



Source: INE (National Institute of Statistics), "Contas Nacionais Anuais e Trimestrais" (Annual and Quarterly National Accounts)

Note: The value shown for 2001 is the average for the first three quarters.

effect. Domestic demand, both private and public, expanded enormously, particularly in the case of consumer durables and capital goods¹.

It was inevitable that after this period (in which domestic demand was one of the mainsprings of economic growth), a new period should begin in which overall expenditure slowed down, thus enabling the levels of indebtedness of the private sector to stabilise. This necessarily entailed a lower growth rate of GDP (Bank of Portugal, 2001).

It is in this context that we must analyse the possible repercussions of 11 September on the Portuguese economy and, more specifically, on the labour market.

2. Macroeconomic background

The Portuguese economy is currently experiencing a downturn as part of

the economic cycle which began in 1995, thus echoing the slowdown in the global economy.

In the first three quarters of 2001, GDP grew by 2.0%, 1.4%

and 1.9% respectively. In economic theory, we cannot yet speak of recession since the growth rate of GDP in the second quarter of 2001 was higher than in the first (the values being 2.8% and 1.9% respectively).

The events of 11 September aggravated the climate of low confidence which had already begun to make itself felt and which had especially negative repercussions on internal demand and external trade flows. The most recent data available suggest a slowdown in the growth of all the components of overall national expenditure.

According to data published by the Bank of Portugal, in 2001 the country's GDP will have grown in real terms by 1.5-2%, which represents a slowdown in relation to 2000 (3.4%).

As in 2000, an analysis of the composition of economic growth in

Table 1: Principal economic indicators
Variation in percentages

	2001	2000	1999
GDP growth	1.7	3.3	2.6
Employment growth	1.1	1.7	1.6
Activity rate	69.4	69.0	68.7
Employment rate	64.0	63.3	62.3
Unemployment rate	7.7	8.2	9.1

Source: Bank of Portugal

down on the growth rate in 2000 (3.4%). It should be noted however that, from the point of view of eco-

2001 is expected to show a smaller contribution of domestic demand to growth.

The evolution of domestic

¹ In international terms the gross indebtedness of the non-financial private sector in Portugal increased from relatively low levels in the first half of the 1990s to one of the two highest levels recorded in the euro zone. According to the latest estimates published by the Bank of Portugal at the end of 2001, the indebtedness of private citizens is expected to approach 93% of disposable income (compared with 88% in 2000) while the indebtedness of companies will be close to 91% of GDP (83% in 2000). (Bank of Portugal, 2001).

² Calculated as an arithmetical average of four questions concerning the expectations of consumers (financial situation in the next 12 months; general economic situation in the next 12 months; risk of unemployment in the next 12 months; and savings in the next 12 months).

demand will result from a slowdown of all its components, especially private consumption and gross fixed capital formation (GFCF).

Underlying the evolution of private consumption is a persistent deterioration of consumer confidence. The consumer confidence indicator², which is derived from an average of the responses to several qualitative questions, has tended to register consistently lower values since the first quarter of 2000. In particular, there appears to be widespread pessimism about unemployment and the economic prospects of the family unit. In 2001 this indicator showed the lowest average levels since 1996.

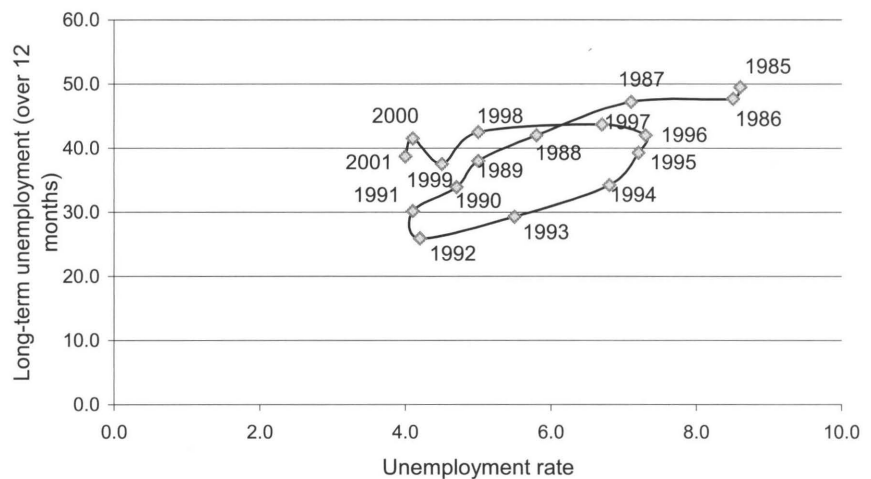
The drop in private consumption in 2001 is also expected to be sharper than the fall in real disposable income, and this will result in a further increase in the family savings ratio.

GFCF is expected to show virtually zero growth in volume in 2001, particularly as a result of prevailing trends in the demand for equipment (machinery and transport vehicles).

In 2001, sales of light commercial vehicles are expected to fall by 18.3% and sales of heavy commercial vehicles by 9.3% in comparison with 2000.

On the other hand, exports of goods and services are set to grow by 4.25-5.25% in 2001, following a growth rate of 7.9% in 2000. Imports in 2001 will increase in real terms by 1.25-3.25% in comparison with an increase of 5.5% in 2000. This slow-

Figure 2: Long-term unemployment as a percentage of overall unemployment



Source: National Institute of Statistics

Note: The value for 2001 takes into account the figures for the 3rd quarter.

down is apparent in the import of goods and to a greater extent in that of services, given that it is basically associated with a reduction in the consumption of durable goods and investment in equipment as well as a fall in the consumption of tourism services abroad by residents in Portugal.

In this context, and in support of the above forecasts, it is important to note that the combined indicator of economic activity³ continued to register a negative trend in the third quarter of 2001. The average value of this indicator in the first three quarters of 2001 was at its lowest level since 1995.

In December the consumer price index rose by 0.2% compared with the previous month and by 3.7% in relation to the same month in the previous year. The average rise in consumer prices in 2001 was 4.4%, i.e. 1.5 percentage points higher than in 2000.

3. Characterisation of the main short-term trends in the labour market

3.1 Employment⁴

The employment rate in Portugal in the third quarter of 2001 was 68.8%, i.e. up 0.2% over the previous quarter and up 0.5% over the same month in 2000.

³ This is a combined indicator of the development of economic activity in commerce, industry and construction. The individual indicators used for calculating the aggregate value are the following: an average value of the responses to questions concerning the estimated volume of sales in retail and wholesale commerce ("Inquérito mensal de Conjuntura ao Comércio" – Monthly survey of the current situation of commerce), a similar value for estimates of current production in the processing industry ("Inquérito mensal de conjuntura à indústria transformadora" – Monthly survey of the current situation of processing industries), and the sales of cement by national cement manufacturers on the domestic market.

⁴ The statistical data analysed here are those published in the "Inquérito ao Emprego" (Survey of Employment) of the National Institute of Statistics.

In the first three quarters of 2001, employment continued to grow, with the total number of people in work by the end of this period standing at 5,002,900.

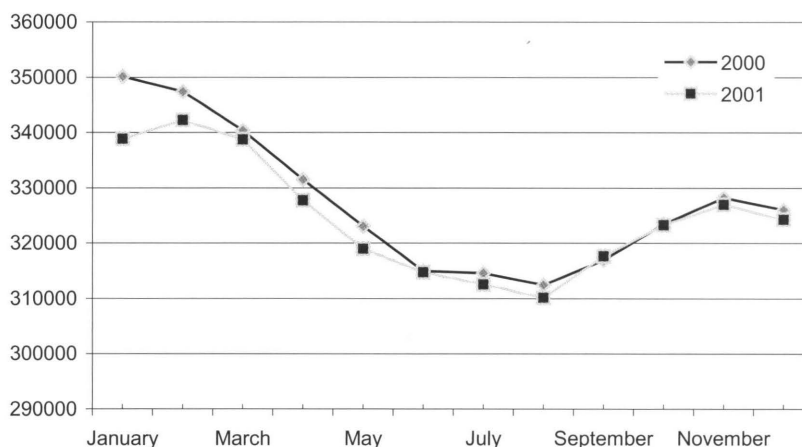
Employment rose by 1.5% compared to the same quarter in 2000 and by 0.4% compared to the previous quarter. In comparison with previous periods, this growth was mainly concentrated in the 15-24 age group, i.e. young people.

Also in comparative terms, it is apparent that in 2001 (first three quarters) the growth of employment was consistently greater among self-employed workers than among employees, the figures for the third quarter being 8.2% and 1.4% respectively. This constitutes a reversal of the trend observed in the previous year. Furthermore, this tallies with the expectations of employers in industry, construction and commerce, who had generally forecast a less favourable development of employment in their sectors in the second half of 2001. The opinions expressed in the December surveys confirm this less optimistic outlook as regards the prospects of employment for those workers who are not self-employed.

Additionally temporary employment contracts increased by 5.3% in comparison with the previous quarter, whereas permanent contracts decreased by -0.4%. This is an expected development in view of the fact that Portugal is the descendent phase of the economic cycle.

Both the primary sector (1.1%) and the service sector (2.5%) showed a significant increase in employment compared with the third quarter of 2000. In industry as a whole, including construction, energy and water, employment increased by 0.2%. However, a fall (-4.2%) was experi-

Figure 3: Unemployment registered at official employment centres



Source: *Institute of Employment and Vocational Training*

enced in the construction sector when considered in isolation. As regards this sector it should be noted that the construction of homes dropped in 2001, largely as a result of falling demand for homes among families. On the other hand, growth was recorded in the construction of public works in 2001. In the sector as a whole, insufficient demand and a lack of qualified personnel were considered the main obstacles to development (“Direcção Geral de Estudos e Prospectiva” – General Directorate for Economic Studies and Planning, 2002).

3.2 Unemployment⁵

The unemployment rate in Portugal in the third quarter of 2001 was 4%, i.e. 0.1% higher than in the previous quarter and identical to that for the first quarter in 2000. It is among young people (aged 15 to 24) that unemployment is most widespread (8.8% in the third quarter), and this has been a consistent tendency since

1998. The region (NUT I) with the highest unemployment rate is *Alentejo* (6.4%).

Between the second and third quarters of 2001, the number of unemployed rose to 208,900, a 1% variation in relation to the same period in the previous year and a 2.7% variation on a quarterly basis.

Among the unemployed, the proportion of first time job seekers increased. In the third quarter of 2001 there were 36,700 people looking for first time employment, in comparison with 30,600 in the third quarter of 2000. Significantly, about 14,000 of these had secondary or higher education qualifications.

The number of job seekers as a whole decreased from 188,000 in the first quarter of 2001 to 172,200 in the third quarter, in comparison with 176,400 people in the corresponding quarter of 2000.

Long-term unemployment has tended to fall consistently in absolute

⁵ The statistical data analysed here are those published in the “Inquérito ao Emprego” (Survey of Employment) of the National Institute of Statistics.

terms since the first quarter of 2000, from 94,400 people down to the present figure of 80,800. However, the proportion of long-term unemployed in relation to overall unemployment is still relatively high (38.7% in the third quarter of 2001).

3.3 Registered unemployment⁶

In 2001 registered unemployment decreased between February and August, grew towards the end of September and fell again in December. A similar pattern was recorded for unemployment the previous year.

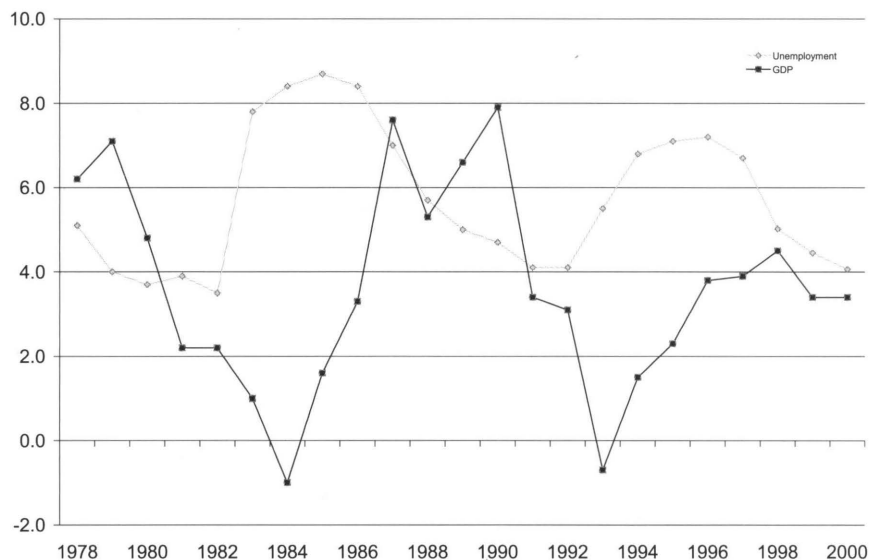
Thus the increase in unemployment recorded between September and November was not directly related to the events of 11 September. Rather it was due mainly to the seasonal change in this variable in the Portuguese labour market.

The average number of registered unemployed in 2001 was 324,600, compared with 327,400 in 2000. These figures correspond to a monthly average of 2,749 unemployed. However, although the monthly average decreased overall, registered unemployment was higher in September and October in comparison with the same two months in the previous year.

At the end of December 2001, 324,200 people were registered as unemployed at the Employment Centres of the Employment Public Service (i.e. -0.5% less than in the previous year). Of this figure, 60.8% were women, 17% were under 25 years of age and 40% had been registered for longer than one year.

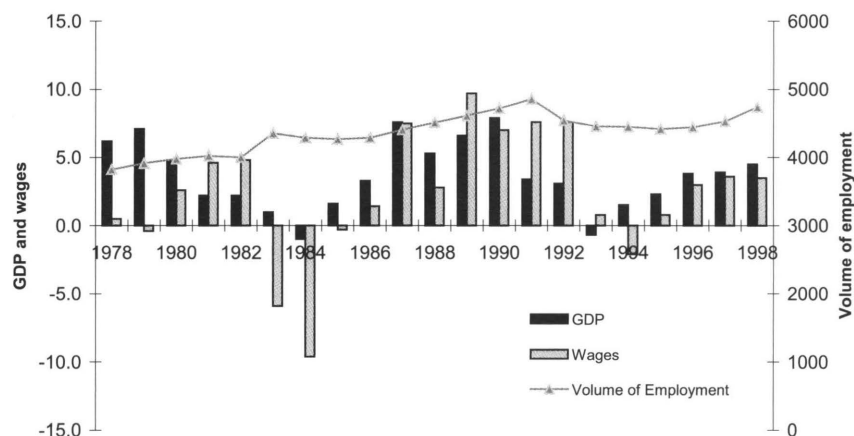
As regards their level of education, in 70% of cases this was equal to or lower than compulsory school-

Figure 4: Unemployment rate compared with annual variation of GDP mp (1990 constant prices)



Source: National Institute of Statistics and Bank of Portugal

Figure 5: Volume of employment compared with variations in the growth rates of GDP mp and wages (1990 constant prices)



Source: National Institute of Statistics and Bank of Portugal

ing (i.e. nine years); barely 7% had a higher level of education.

In comparison with the situation

observed a year ago, the regional breakdown (NUT I) shows higher unemployment levels in the northern

⁶ The statistical data analysed here were published by the Institute of Employment and Vocational Training (Public Employment Service).

region (+1.5%) as well as in the Lisbon and Vale do Tejo regions (+0.6%) and the Algarve (+10.0%).

The available job offers in all the employment centres throughout the country at the end of the year totalled 8,707, including 8,102 in continental Portugal and 605 in the autonomous regions of the Azores and Madeira. These figures are lower than those recorded for the same month in 2000.

It should also be noted that in 2001 the average number of job offers was 12,220, compared with 15,141 in 2000. The number of job applications also decreased on average compared with the previous year, from 366,883 to 363,922.

It is important to consider the data of a recently published OECD study on the public employment services in Greece, Ireland and Portugal. According to this study, national employment services have the lowest levels of workforce employability in Europe (1.4%), and workers seeking employment by this method had the lowest chances of success (1.5%).

In Portugal, the employment service is the most widely used method for seeking employment: approximately 26% of job-seekers choose this option. The second most popular method is to approach one's friends and relatives for help (24.8%), and the third is to apply directly to employers (22.3%). Overall, the method with the highest employability rate is the job-seeker's informal network of friends and relatives (7.5%).

Furthermore, the results of the study indicate that the jobs provided by employment centres are mostly temporary and relatively low-paid.

4. How did the Portuguese labour market react to economic turbulence in the past?

Since the end of the 1970s, the evolution of unemployment in Portugal has been largely determined by variations in the national product.

Since that time, fluctuations in the unemployment rate have reflected the fluctuations in the country's GDP very closely, albeit with a time lag of just over a year (Silva Lopes, J., 1996).

In fact, the unemployment rate dropped between 1978 and 1981 thanks to the economic upturn of 1976-80,

rose in 1983-85 because of the 1982-84 recession (largely determined by the oil crisis in 1979), fell again between 1986 and 1991 as a result of the expansion of GDP in that period, and increased again in 1992-94 as the growth of GDP slowed down.

According to Okun's Law, the unemployment rate is a function of the output gap between the respective growth rates of the real product and the potential product. This gap in Portugal is estimated to be around 3% annually. The estimates carried out suggest that, in Portugal, a 1% narrowing of the output gap will reduce the unemployment rate by 0.5% (Mendonça, A., 1999).

Furthermore, although the unemployment rate in Portugal has followed a similar pattern to that observed in other European countries since the beginning of the 1980s, it has consistently been at a lower level, and this difference has gradually increased over the years. The more favourable evolution of unemployment in Portugal is mainly explained by the greater flexibility⁷ of the labour market. In periods of crisis the

adjustment was carried out mainly through a reduction in real wages rather than through an increase in unemployment, and this made it possible to overcome the effects of a certain rigidity (characteristic of the Portuguese labour market) in the volume of employment (Silva Lopes, J., 1996).

As a matter of fact, Portuguese workers have traditionally preferred to trade off wage increases against the saving of jobs, and many of them even accepted and still accept⁸ jobs where wages are below the standard level *from the start*.

Inasmuch as a comparison can be drawn between past situations and current economic developments in Portugal, it should be noted that the value established through collective bargaining for updating the salaries of state employees in 2001 (which serves as a reference value for bargaining in the private sector) was set below the value of average real inflation, i.e. 3.71% compared with 4.4%. Similarly, the value that has already been established for 2002 (2.71%) is below forecast average inflation for this year.

It should be stressed that the flexibility of real wages in the past occurred against a background of relatively high inflation rates and, therefore, in the context of "monetary expectations" which were often unrealistic. With the introduction of the single currency and the ever present objective of achieving price stability, this trade off between volume of employment and development of real wages might very well come to an end (Mendonça Pinto, A., 1999).

On the other hand, we should bear in mind that the economic development model adopted by Portugal is

⁷ A concept used here from the point of view of neoclassical economic theory.

⁸ According to the "União dos Sindicatos de Lisboa" (Lisbon Trade Union Confederation), employers in the Lisbon district alone owe some 20,000 workers close to 22.7 million escudos in wage arrears and outstanding compensation claims.

based on extensive growth, that is, growth generated by an increase in the use of manpower rather than an increase in productivity (intensive growth). Indeed, Portugal has one of the highest employment rates in Europe and has already achieved the quantitative objective that was set at the Stockholm Summit for 2005 (67%). However, as far as productivity is concerned, it ranks last among the EU member countries, its productivity being only 62.4% of the EU-15 average.

No doubt this fact is related to the low level of education and training prevalent in the Portuguese workforce. Thus the problem in Portugal is not unemployment, but rather employability, and it is above all on this front that measures have been taken. It should be stressed that employers have an important role to play here. They cannot afford to continue to wait for state subsidies before undertaking a thorough reform of production processes, both in terms of investing in the development of human resources and in terms of acquiring new equipment and adopting new forms of work organisation.

5. Measures to promote employability

Portugal's national strategy for the promotion of sustainable development, implemented in conjunction with the common European strategy, is based on three closely interrelated lines of action, i.e. early, preventive and remedial action against situations resulting in social exclusion (2000 National Employment Plan).

Preventive action comprises a set of measures targeting groups of workers who are in the process of adapting to the new requirements of the labour market but who are already active in the latter (2001 National Employment Plan). Such actions include measures to facilitate the integration of young people in the

world of work and measures to promote the further training of employed personnel. One key measure in this area was the recent enactment of legislation regulating the award of the basic diploma in Information and Communication Technologies (ICT) in accordance with the 2001 National Employment Plan. In addition to being obtainable by any citizen who has the required qualifications, regardless of whether he/she gained them through formal or informal training, the diploma in ICT skills will become an integral part of the new basic education curricula as from September 2001. It should also be noted that, starting in 2002, there will be a requirement for at least 10% of the workers in every company to take part in further education activities each year.

All the various actions aimed at working with unemployed people to help them join the labour market rapidly, thus preventing long-term unemployment, are subsumed under the concept of early action (2001 National Employment Plan). A good example of this kind of measure is the wide range of training programmes for the unemployed which are currently being implemented by the Employment Service (in addition to the individual counselling and help provided for under the INSER-JOVEM and REAGE measures). In 2001 these programmes were extended to also cover the long-term unemployed.

Remedial action includes a range of measures to help groups experiencing specific difficulties to find employment and, more generally, to facilitate their social integration. One major action in this area is the CAN-TIC programme, which promotes the installation of multimedia equipment in the homes of young people who, because of a physical handicap, are unable to attend an educational establishment.

6. The sectoral impact of 11 September

In global terms, the events of 11 September mainly affected three sectors: the airline industry, insurance and tourism.

Given that the Portuguese labour market shows a certain degree of rigidity in the volume of employment, we should not expect major changes to have taken place immediately in any of those three sectors. However, the international events did influence the expectations of the national economic actors and, from this point of view, it is possible to suggest certain future trends.

TAP (the Portuguese airline) showed positive results in September, although it did experience a 10-15% drop in air traffic in September and October. Even so, this fall was smaller than that faced by its European counterparts since TAP is not very active on the North American market. More recent data, however, indicate that TAP suffered losses in excess of \square 54.6 million as reported in the company's recovery plan submitted in Brussels.

In the insurance sector, it is clear that since 11 September it has become more difficult to obtain insurance cover for large buildings and public events. The clauses concerning the provision of cover for terrorist attacks have been reviewed. Portuguese journalists reporting on events in the Middle East have been finding it difficult to obtain life insurance covering the risk of war. Furthermore, Portuguese insurance companies are planning to increase insurance premiums in 2002 and to reduce by half the amount of insurance paid, given that the European reinsurance companies have already announced an increase in prices and have laid down more stringent conditions for accepting risks.

Of the three above-mentioned sectors, tourism is the most important

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for the country, as is apparent from the fact that the gross value added (GVA) from tourism accounts for approximately 8% of the national GDP and that tourism makes a significant contribution to job creation (about 10% of the national workforce is employed in this sector).

According to the (provisional) figures published by the General Directorate for Tourism, some 22,029,600 foreigners visited the country in the period from January to September 2001. This represents a rise of 1.5% in comparison with the same period in 2000.

The average occupation rate of hotel rooms for the national hotel industry as a whole in October 2001 was 67.3%, i.e. just 1.1% below the value for the same period in the previous year (68.4%).

The city of Lisbon, which has been experiencing a fall in the monthly room occupation rates since February 2001, showed the highest rate for the year in the month of October (85.7% compared with 87.2% in October 2000), thus even exceeding the value recorded for the year of the EXPO 98 (79.3% in October 1998).

In October 2001 the Algarve region experienced a loss of three percentage points in the average room occupation rate (68.5% compared with 71.5% in 2000).

It would seem, therefore, that the effects of 11 September have not been very significant to date. As a matter of fact, in agreement with the Vice-President of the World Travel and Tourism Council, Portugal is set to welcome a greater number of tourists in 2002, due to the expected

redistribution of global demand in favour of locations which are closer to the country of origin of tourists.

It should be noted, however, that consumers currently show some reluctance to book tickets well in advance and tend to postpone the decision to travel to a time closer to the date of departure. If this tendency persists in the medium term, negative repercussions may eventually be felt on employment in this sector.

7. Conclusions

Clearly, the immediate economic impact of the attacks perpetrated in the United States was a loss of confidence by the economic actors. Faced with those events, consumers showed a tendency to postpone or even cancel their planned expenditure. In Portugal this effect was aggravated by the need – experienced by companies and families alike – to contain costs.

On the other hand, the national labour market shows certain structural characteristics which make it difficult to assess the impact of 11 September, at least in the short term. In fact, a degree of rigidity is apparent in the volume of employment in Portugal. In the past this was offset by wage flexibility since traditionally, in periods of economic turbulence, workers showed willingness to trade off wage increases against the protection of jobs.

However, this observation cannot be dissociated from the Portuguese model of economic development, which is mainly based on a more extensive use of manpower.

In future, in a macroeconomic

context characterised by price stability, this trade-off may cease to occur, at least in such an obvious form. Such a development would undoubtedly pose a major challenge for the country in coming years.

Helena Miranda, António Caetano

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Spain

SHORT TERM LABOUR MARKET TRENDS AND THE IMPACT OF THE SEPTEMBER 2001 EVENTS - THE VIEW FROM SPAIN

1. Introduction

The 'golden' economic growth enjoyed in Europe since 1995 seems to have come to an end in 2001, and world economic growth has led to a sort of slowdown, or even a recession, in some countries. The events of September 11, the consequences of which go far beyond the economic dimension, may have at least accelerated the effects of the existing recession. Certainly, national economies have reacted differently to this new situation with some countries declaring a recession whilst others refer to a slowdown.

A short-term analysis seems necessary to assess and evaluate this new situation in the economy as a whole and at a sectoral level, and to examine the impacts on employment and the responses of public authorities and enterprises.

2. Economic background

2.1. GDP growth and confidence

Economic slowdown is not as marked in Spain as in other EU countries¹, but there has been an important reduction in economic growth over the last three quarters. In annual terms, whereas economic growth in 2000 reached 4.1%, GDP p.m. growth in 2001 has been estimated at 2.9%, on a decreasing trend set at 3.2%, 2.9% and 2.6% in the first three quarters² of 2001. This trend reflects a progressive loss in the dynamism of domestic demand, due to the weaker growth of most of its components, especially of gross fixed capital formation in equipment and the deterioration of the contribution of external demand. On the positive side, household and public consumption have registered moderate growth rates in 2001 of 2.6% and 3.5% respectively. This reflects a slight downward trend in household consumption which is being compensated by a similar small recovery in public spending.

Using the provisional data for economic growth in 2001, it is worth noting that the Spanish economy will have grown above the EU average for the seventh

consecutive year. Moreover, the forecasts by several national and international organisations for year 2002 point to this trend continuing.

Private spending indicators for the fourth quarter of 2001 show a continuing decreasing trend with respect to previous months. The Consumer Confidence Index decreased further by 8% (3 percentage points) in November and December each month to reach its lowest annual level in December. This more pessimistic view of the economic situation by households is explained to a great extent by developments in the labour market. Likewise, the Retail Confidence Index decreased by 6% in November (3 percentage points) and further 1% in December, to reach its lowest annual level in December. The Industrial Production Index³ registered a monthly increase of 3% in October, after the sharp drop that followed the events of 11 September, but decreased again significantly in November to 4.7%. Finally, the Industrial Confidence Indicator has experienced an important downturn as well in 2001; the deteriorating downward trend became even

¹ Annual growth rate in the third quarter of 2001 has been 2.8% for Spain and 1.4% for Euro-zone and EU-countries. Source: Eurostat.

² Annual percentage change, trend-cycle. Source: Banco de España³ Source, INE, National Statistics Institute

³ Source, INE, National Statistics Institute

more acute over the last three months of the year.

In conclusion, the economic situation in Spain has deteriorated with economic growth progressively slowing down to 2.6% in the third quarter 2001, the effects of which are being felt by consumers and enterprises. However, whilst other European countries have been declared to be in recession this is not the case with the Spanish economy where both the social partners and the government agree on a slowdown of economic growth. The events of 11 September cannot be blamed for this diminishing pace of growth but they might have accelerated it.

2.2. Short-term labour market outcomes

2.2.1. Employment

Quarterly data provided by Spanish Labour Force Survey (EPA), show that Spain's employment growth rate is still above EU average. However, the data also show a notable reduction in employment growth in 2001 compared with the previous year: from 4.7% annual growth rate in 2000 to an estimated 2.1%⁴ in 2001. Moreover, the situation has progressively deteriorated from a ratio of 2.8% in the first quarter to 1.8% in the third. In contrast, the employment rate has experienced a notable increase over the first three-quarters of 2001, from 56.6% to 57.6% of the working age population, due to a slight reduction in the working age population.

In terms of contributions to the Social Security System from the employed, for which monthly data are available, the number of contributors registered in December 2001 increased by 3.4% with

respect to the same month in 2000. However, the annual average growth rate in 2001 with respect to 2000 amounts to 3.9%, pointing thus again at a significant reduction of the growth rhythm from July 2001 on, and confirming the decreasing trend announced by LFS data. It is important in this context to point out that one third of this annual growth has been due to the non-EU immigrant population.

Another indicator that reflects employment and activity is the number of annual contracts. In 2001 the number of total registered contracts increased only by 1.65%, as opposed to 4.5% in the previous year. However, there has been an important difference between open-ended contracts (whose growth rate amounted to 7.9%) and fixed term contracts (with an annual growth rate of 1.05%). This lower growth rate of total contracts may be partly explained by a substitution effect whereby several temporary contracts are replaced by one stable one.

A feature of the Spanish labour market is that the share of employees working on fixed term contracts accounts, in LFS terms, for about 32% of all employees; additionally the share of fixed term contracts is about 90% of the total number of contracts. This means that flexibility in the Spanish labour market comes from the fact that labour adjustments can be made through non-renewal or freezing of fixed-term hiring, instead of redundancies. It also comes from employment policy measures designed to increase stability in the Spanish labour market, such as reductions in social security contributions or minimal costs for terminating temporary con-

tracts.

Comparing monthly figures for the number of contracts in 2000 and 2001 reveals that there have been three instances in 2001 where the number of registered contracts has been below the figures for 2000. These were in March, September and December 2001; conversely, July and October registered higher levels of contracts. These reductions could be explained, in part, by the news in spring 2001 about a probable recession in the United States. This may have temporarily contracted the demand for work, and so the number of contracts in March 2001 decreased notably. Subsequently, it seems that the events of September the 11 produced a momentary freeze on hiring in September which then recovered in the following two months. The situation got worse in December, compared with 2000, reflecting a drop in business and consumer confidence.

2.2.1. Unemployment

Data from the LFS, for the three first quarters of 2001, show that the number of unemployed has decreased by some 87,000 persons (-7.5% estimated for 2001). This reduction, together with a slight increase in the size of the active population, has led to a new reduction in the rate of unemployment to 12.8% during the third quarter 2001 (equal to 0.2 percentage points). However, the falls in unemployment are slowing down with the drop in the first quarter of -9.7% and -6.2% in the third.

These figures do not show the situation in the last quarter of the year. However, monthly data provided by the Public Employment Service (INEM) show that although there was a decrease in the number

⁴ Provisional data for 2001

of registered unemployed up to July 2001, from August 2001 the trend was reversed and deteriorated over the following months. This resulted in the number of registered unemployed in December 2001 reaching 18,462 more (1.2%) than in December 2000.

There are notable differences between rates of unemployment between women and men. In LFS quarterly terms, the three first quarter of year 2001 have shown for the first time female unemployment decreasing more rapidly than the rate men for men, albeit at a decreasing pace.

The slight increase in registered unemployment at the end of the year can be almost entirely attributed to men. As a consequence, whereas the rate for male registered unemployment increased by 0.4 percentage points over the last three months of 2001 to 6.3% in December, the rate for females decreased by 0.2 points to 13.6%. The gender gap has therefore been reduced to "only" 7.3 points.

This increase has been due exclusively to the increase in adult⁵ unemployment (1.45% from December 2001 to December 2000). Youth unemployment has seen an ever-decreasing trend in female youth unemployment, and a rather rapidly increasing growth in male youth unemployment. In annual terms, female unemployment has decreased by 6.5% in December 2001 compared with December 2000 and male unemployment has increased by 11.4%.

2.2.3. Redundancies

Figures showing the total number of notified and authorised labour force adjustment plans (LFAP) and

affected workers include October, so that the initial effects of September 11 are included. From January to October 2001, the number of workers affected by these plans reached 83,585, approximately 67% more than in the same period in 2000. This percentage is mostly due to the significant number of workers affected by such measures in October 2001, about 16,500, 344% more than in October 2000.

The greatest share of these workers (62.5%) has been affected by temporary employment suspension measures, which have been used this year much more frequently than in previous years (they have increased by 130%). The most common reasons that have been put forward by enterprises are Organisational or Production Needs, rather than in previous years where Enforcement of Economic Measures was the usual reason given.

About one third of workers have been affected by definitive destruction of their jobs, through redundancy or early retirement, where the justification has lain mainly in Enforcement of Economic Measures, rather than Organisational or Production Needs. Finally, the reduction of working time, which has been quite limited in previous years (2.5% of workers affected in 2000), has been practically non-existent in 2001 (only 0.5% of total workers affected).

3. Economic crisis - some sectors affected more than others

The effects of the economic slowdown or recession, in some countries, have had different impacts on

different sectors and this in turn has led to changes in employment for the different segments of the population mentioned in section 2. Clearly across Europe there are common sectors that have been hit severely including tourism, the air industry, banking, insurance and telecommunications. This section deals firstly with the consequences of the recession at a sectoral level, before looking at the activities most affected in Spain.

3.1. Main aggregate sectoral data

In sectoral terms, output growth has progressively fallen during 2001 in manufacturing and energy, with the largest decreases in the third quarter (from growth rates of about 4% in 2000 to around 1% in the third quarter 2001). Construction and services are the most dynamic sectors and have experienced a slight slowdown of their added value growth rates over the three quarters of 2001. However annual growth rate estimates for 2001 remain as high as 5.5% and 3.4% for construction and services respectively.

Looking at output growth, the above mentioned falling levels of growth in employment (LFS terms) affects all three non-agriculture sectors, though employment in building and construction still experienced, in the third quarter of 2001, annual growth rates of 5.8%, much higher than employment growth in services (1.9%) or industry (1.1%).

However, in annual terms, registered unemployment has increased in all three non-agriculture sectors - services, construction and industry - with construction being the most severely affected, especially during the second half of

⁶ As for end January 2002, data referred to workers affected in October 2001 by labour force adjustment plans specifying the activity sector have not yet been made available. It will be very interesting to analyse the new data and its effects as soon as they are available.

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the year (annual increase rate of 4.9%). High levels of temporary employment and rotation rates lie behind this apparent contradiction.

Actually, the sector most severely hit by labour adjustment plans in enterprises has been industry, which during the period January to September 2001 saw 68% more plans than in 2000⁶. Conversely, the number of workers affected in the construction sector has decreased markedly (-30%) whilst the number affected in the service sector has risen by 18%.

3.2. Detailed approach to most affected sectors

Since September 11 the airline industry and tourism companies have experienced a decrease in activity. Other sectors have been affected as well, not as a direct consequence of the September events but rather by other, underlying and already apparent, economic factors as in the case of the telecommunications or other industrial sectors.

Airline industry and tourism: together through good and bad times

The day the American Airlines planes crashed into the Twin Towers, all airline companies in the world began to make adjustments to their annual growth forecasts for the rest of the year. Spanish companies were no exception, and the reduction in international air traffic by 6% in 2001 compared with 2000 is mainly due to the sharp falls in the months after the September events. Consequently, airline companies have been forced take measures, most of which involve employment adjustments.

The economic uncertainty seems to have had an impact on tourism. Business travel has fallen considerably, especially in the aftermath of the terrorist attacks; at the time this affected mostly city hotels,

in particular in Madrid and Barcelona. Also it is noticeable that foreign and national tourism have been affected differently. While national tourism increased in September, and in a more significant way in October and November of 2001, foreign tourism has fallen since September. National tourism decreased in December 2001 by 3% compared with the previous year, and in the same period foreign tourism fell by 5.86%. Clearly the rise in national tourism after September 11 does not fully compensate for the fall in foreign tourism, but it helps to swell visitor numbers and benefits the sector.

The number of holiday bookings by foreigners is down (the Federation of Catalonian Hotels reported reservations in the Balears down by 32% in December 2001 compared with 2000). The main reason seems to be closely tied to the economic slowdown in their own countries, a situation that produces a certain degree of uncertainty in the labour markets and therefore affects consumer behaviour. There are differences among foreign visitors depending on their country of origin. Tourists coming from Germany and the United States are the most affected, with a considerable decrease in the number of visitors, due to the economic recession in these countries. On the other hand, British tourism grew in November 2001.

The World Tourism Organisation predicts that the sector will recover in the second half of 2002. The Spanish Institute of Tourism has asserted that the sector does not perceive a crisis, and that consumers will recover trust. Amadeus, a company that deals with 96% of tourist reservations in Spain, predicts a growth of 2% to 3% in reservations for the next few months of 2002.

An important factor in the

recovery of foreign tourism will be maintaining the competitive prices that have attracted mass tourism from northern Europe. European tour operators are concerned about restrictions on mass tourism, e.g. the eco-tax in the Balears that could prompt a fall in demand in favour of more competitive destinations, like northern Africa. In addition the effects on the sector of some European airlines cancelling flights have yet to be felt.

Telecommunications: lights and shadows

The effects of the economic slowdown in the telecommunications sector were already being felt in 2001, with some of the main Spanish telecommunications companies announcing employment adjustments. More specifically the slowdown has affected companies within the mobile telephone market as it has reached a high level of maturity. Also the procedure of liberalisation applied to the sector, through the selling of UTMS licences, has not yet contributed to the consolidation in the market of alternative operators to Telefónica, the previous monopoly.

As a response to the present immobility of the fixed digital telephony market, the National Commission on Telecommunications, the institution responsible for the regulation of the sector, has already decided to accelerate the opening of the local network belonging to the Spanish phone operator Telefónica. A proposal, including measures to open the local loop market, has been formulated by the National Commission and submitted to companies in the sector for discussion.

On the other hand, other activities within the same sector have benefited from the decrease in business travel. Enterprises have made use of telecommunications tech-

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nologies, such as videoconferences, a practice that reduces costs. Visolutions, a Spanish enterprise specialising in business communications, has increased its profits by 25% compared with 2000 and is confident about the growth in the use of new technologies by enterprises. The economic slowdown could be, in this case, the occasion to accelerate a process of creation of demand of new technology by enterprises that would occur anyway, but at a slower pace.

4. Reactions to the economic slowdown

The direct impacts of the events of the 11 of September on the Spanish labour market include disruptions to specific sectors, notably the airline industry and related services, tourism and telecommunications. The banking sector has been affected by the Argentinean crisis with falling profits, but to-date there do not seem to have been direct impacts on Spanish jobs. Both the government and the social partners have reacted to the events, but in different ways and to a different timetable. Meanwhile, enterprises have used varied measures to counterbalance the effects of the economic downturn.

4.1. Government and social partners: a convenient compromise

The Spanish Government has reacted to the aftermath of the September events by giving signs of confidence about the favourable growth of the economy. This approach has received intense criticism from social partners, who wanted measures to support the foreseen slowdown in employment creation in the National Budget for 2002. The government has continued to develop and implement policies designed before the 11 of September. The Ministry of Economy has asserted that there is no advantage or need to

apply short-term measures, a political position that is reflected in the national budget for 2002.

However, as a result of an ECOFIN decision, specific measures have been adopted to help alleviate the difficulties faced by insurance companies from terrorism. Also enterprises taxes have been reformed, favouring company profits in certain cases, in line with the need to liberalise the Spanish economy.

Additionally there is an increase of 5.7% in the 2002 budget for active employment policies compared with the previous year. Passive policies have received the greatest increase of 8.1%, due in part to the negative rotation effect of temporary working which produces a continuous in-and-out movement of the labour market. Enterprises seem to be taking on a considerable role in creating employment, as no other governmental employment plans have been developed to alleviate the effects of the redundancies in the sectors worst affected by the economic downturn.

In the context of the economic slowdown, in autumn 2001, the government unilaterally launched a legal reform of the Workers' Statute in collective bargaining. The rationale behind the reform is to transfer collective bargaining to enterprise level, but the reform was launched without the agreement of the social partners.

The social partners considered the proposal unacceptable and inconvenient as collective bargaining at enterprise level could lead to increases in inflation and more social conflicts. In order to participate in the process of collective bargaining reform, they agreed with the government to accept pay moderations for 2002, as a necessary measure to stimulate growth.

In a sort of political compro-

mise, the social partners agreed on the National Multi-industry Framework Agreement for 2002, where it was outlined that social dialogue for 2002 shall be made in the international context of an economic crisis that Spain is facing. It is relevant to note that since 1984 employers and unions have not agreed national collective bargaining conditions, declaring usually their objectives separately.

Furthermore, the social partners intend, with the implementation of the agreement, to use collective bargaining as an instrument for preventing employment regulations, incorporating flexibility measures in collective agreements, adjusted to the needs and productivity of each sector. The Agreement is considering obligations for both parties, but as they are very general there is a danger of the measures being too general and ineffective.

To this end there is an emphasis on the use of open-ended contracts and proper use of fixed-term employment contracts. Recent research by the Spanish Labour Ministry has revealed that the high levels of temporary employment in the Spanish labour market, reaching 31%, are partly as a result of the inappropriate use of temporary contracts.

The reaction to the agreement of the social partners on wage moderations for 2002 has not been very noticeable, especially in the media. The fact that both employers and trade unions have re-established the social dialogue, broken in April of 2001, will help create a better platform for collective bargaining in 2002.

4.2. Enterprises: employment adjustment plans and what else?

After the events of 11 September, and confronted with the magnitude of the first effects which made the financial world markets sink,

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Spanish enterprises reacted cautiously, cancelling business trips or reducing supplies.

Above all, the most immediate reaction has been to adjust employment particularly in airlines and related industries. The telecommunications sector has suffered a high number of employment adjustments, but due to other causes (see above). In some cases, like construction, a sector with a very high temporary work rate, contracts have not been renewed, so employers do not need to regulate employment.

Enterprises have taken different approaches to reduce staff numbers. Early retirement has been used particularly for workers in the age range 52-55 years old and has been used to reduce staff in the airline and related sector and the banking sector. Using early retirement does seem controversial at a time when policies and regulations are set up to prolonging working life.

Apart from early retirement, companies have used other measures such as the redeployment of human resources, including geographical redeployment and also temporary suspension of contracts. Temporary suspension of this kind has been used widely in the industrial sector, more specifically in the car industry, throughout 2001, due to circumstances of the sector, and

restructuring production to incorporate new models.

Another measure that has been in demand by Spanish enterprises is outplacement. This system provides enterprises with a service geared to those workers (mainly over 45) who have been made redundant and who will experience difficulties finding new jobs. The outplacement service, offered by the company to a worker or a group of workers, is a programme designed to help them find new jobs.

In 2001 outplacement enterprises have increased their profits by 20% compared with the previous year, showing that the economic slowdown already observed in the first semester of 2001 has made enterprises resort to outplacement, usually as a negotiating tool in the restructuring process. As yet there are no plans to bring the Spanish system into line with the Netherlands where outplacement is a legally regulated process with no additional costs to the company. However, outplacement is not such an efficient mechanism given the concentration of workers from the same industry that have to be re-employed.

Employment adjustment in its different forms has been used widely to address the immediate effects of the economic downturn, but Spanish enterprises have also

resorted to reducing executive pay, with an expected 3% pay increase for 2002 compared with 4.71% for 2001. The wage moderation agreed by the social partners for 2002 will also affect executives.

Main findings and conclusions

Main economic outcomes point at a progressive deterioration of the Spanish economy over 2001, as far as GDP growth, employment and unemployment, consumer and production indexes are concerned. However, in Spain, a slowdown in economic growth is reported rather than a recession. All in all, Spanish GDP growth has doubled the European Union average during the three first quarters of 2001.

Similar to other EU countries, the airline and related industries, tourism and telecommunications markets are being particularly affected by this world-wide economic slowdown, if not recession.

In this context, no special economic policy measures have been implemented to face the effects of the slowdown. There is trust in existing mechanisms and in the capacity of enterprises to create employment. Enterprises are resorting to early retirement and temporary suspension of work to address the effects of the economic downturn.

Elvira González Gago, María Avello Martínez



Sweden

1. ECONOMIC BACKGROUND

1.1 The Swedish economy at the beginning of 2002.

In January 2002, the National Institute of Economic Research estimated that the Swedish Economy grew at 1% during 2001 and that in 2002 growth will be less than 1.5%. Figure 1 shows that since mid 2000, GDP has been below the nine-year trend.

A downturn in the international business cycle impacts first on the Swedish manufacturing sector. Figure 2 shows that business confidence in manufacturing started to decline in early to mid 2000 and has fallen steeply since the summer. However, by the fourth quarter of 2001 there were already some signs of a recovery. The outcome of the fourth quarter was better than firms had expected and production levels were at roughly the same level as the previous quarter, with capacity utilisation at 83%. The most expansive industry, chemicals (which includes the pharmaceutical industry), continued to expand production and to increase employment. Excessive stocks were most pronounced in the telecommunication industry. This was almost entirely attributable to severe problems at LM Ericsson, which also announced major redundancies in 2000. Sales prices fell in the paper, steel and telecommunication equipment industries. The proportion of firms expecting redundancies was markedly lower than in the

previous three months but most sectors still expected some more in the near future. Manufacturing firms were "cautiously optimistic".

In services, the outcome for the fourth quarter was well in line with

expectations. The retail trade reported strong growth in both non-durable and durable goods. However, trade in motor vehicles continued to decline, while wholesale trade remained unchanged. Following a very weak third quarter, there was some recovery.

Figure 1: GDP in Sweden 1993-2000.

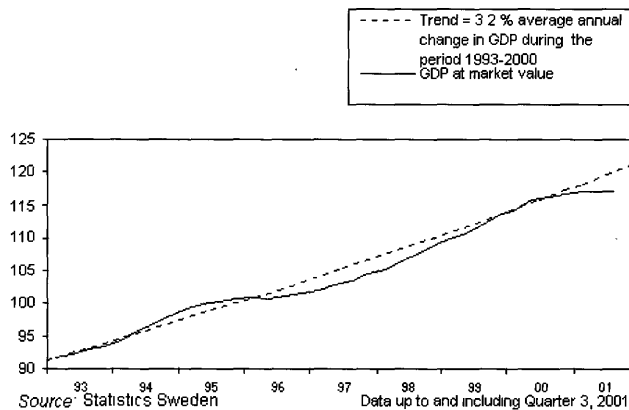
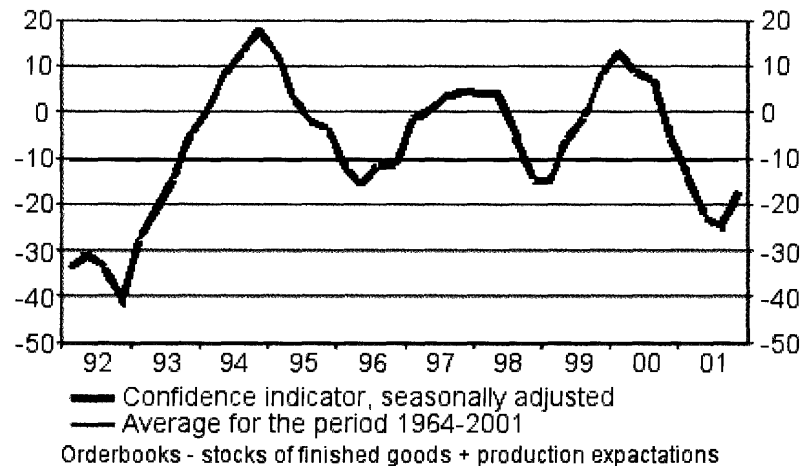


Figure 2: Confidence Indicator, Manufacturing



Source: ABBL (Luxembourg Association of Banks and Bankers)

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Figure 3: Employment per month 1999-2001

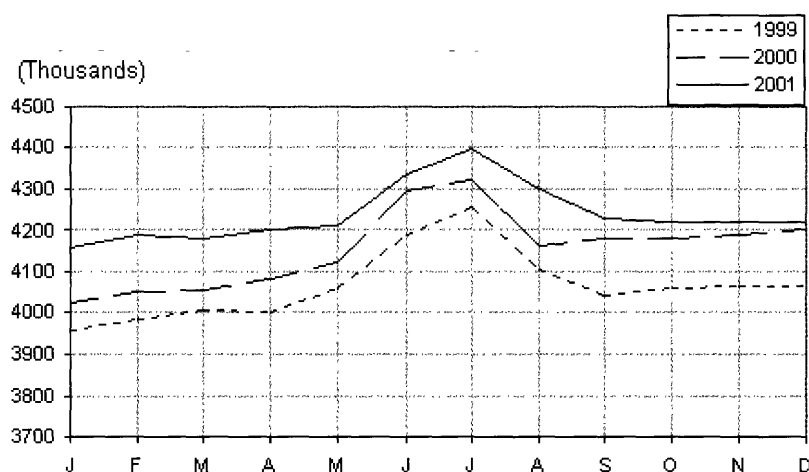


Table 1: Employment by Economic Sector November 2000 to November 2001

Nace	Sector	2000M11	2001M08	2001M09	2001M10	2001M11	Increase	
							1 year	4 months
A+B	Agriculture, forestry etc	898	900	883	936	877	-21	-23
C	Mining	77	54	60	50	71	-6	17
D	Manufacturing	6870	5443	6478	6671	6850	-20	1407
E	Electricity, water & gas	308	221	180	257	288	-20	67
F	Construction	2079	1790	2234	2233	2094	15	304
G	Trade	4799	4001	4704	4709	4646	-153	645
I	Transport, storage & com.	2512	2023	2470	2537	2439	-73	416
H+O+P	Personal & cultural services	3003	2600	2919	2877	2938	-65	338
J+Kexcl73	Financial & business services	5319	4537	5411	5526	5655	336	1118
L+Q	Public administration & int. Org.	1982	1467	2024	2190	2126	144	659
M+73	Research & education	3237	2475	3615	3529	3385	148	910
N	Health services	6519	5343	6680	6455	6713	194	1370
O	Unknown	50	27	102	87	43	-7	16
A-Q	Total	37651	30880	37763	38055	38126	475	7246

Source: Labour Force Survey.

ery in computer consulting firms and other business services. Expectations were relatively optimistic. Retail sales were expected to continue their modest expansion. Sales in the motor vehicles trade were expected to stabilise after having been in decline for more than a year. The wholesale trade was cautiously optimistic and computer consulting firms and other business services anticipated continued modest growth.

As regards a sustained recovery, it should be emphasised that the Swedish economy is possibly the most open of all EU economies and very dependent upon the US business cycle. Any prognosis of the Swedish economy is highly dependent on developments in the US.

1.2 The labour market

Since 1996 the Swedish labour market has performed very well with rapid employment growth and a sig-

nificant decline in unemployment. While most indicators reveal better performance in 2001 compared to a year earlier, all show that, some time in late spring, the positive picture changed.

1.2.1 Employment and unemployment

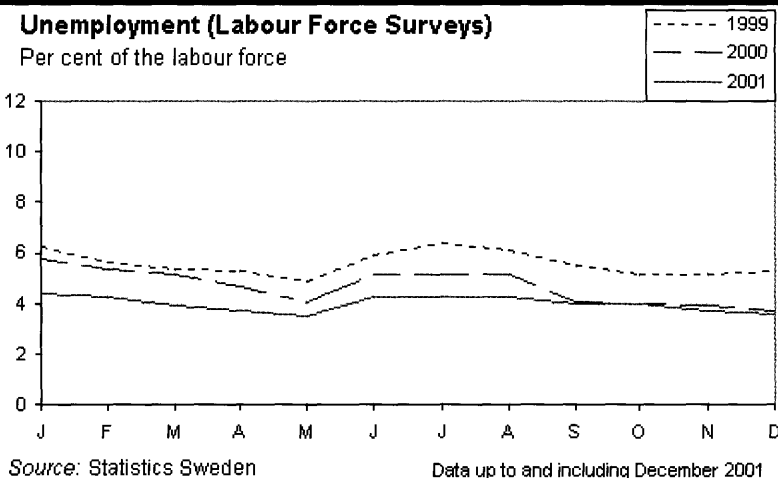
Employment has increased in the last three years (see Figure 3) and employment in December 2001 was higher than in the same month a year previously. One can clearly note, however, a narrowing of the gap between 2000 and 2001, particularly in the last months of the year. The employment rate of 74.8 % in December 2001 was exactly the same as 12 months previously. In the same period working hours, adjusted for holidays, increased by 0.3%.

We can observe, from Table 1, that only the primary sector has seen a decrease in employment in the last four months. The two digit NACE levels (not reported in the table) also confirm the widespread trend of employment growth in the last four months. Compared to a year ago, November 2000, we can observe from Table 1 net job losses in Trade, Transport etc which includes travel agencies, and personal and cultural services. The major part of the decline in the trade sector is due to a decrease in the trade of motor vehicles (both retail and wholesale – NACE 50 & 51). Within manufacturing a few sectors have lower levels of employment compared to November 2000. The largest absolute decline is in the manufacture of motor vehicles (Volvo and SAAB).

Unemployment hovered around or under 4% in 2001 and was lower for every month in 2001 compared with a year earlier. However, the gap to 2000 has narrowed continually during the course of 2001. The seasonally adjusted unemployment rate in December 2001 was 3.6%, which is the same level as a year earlier.

Registered unemployment plus

Figure 4: Unemployment per month 1999 to 2001.



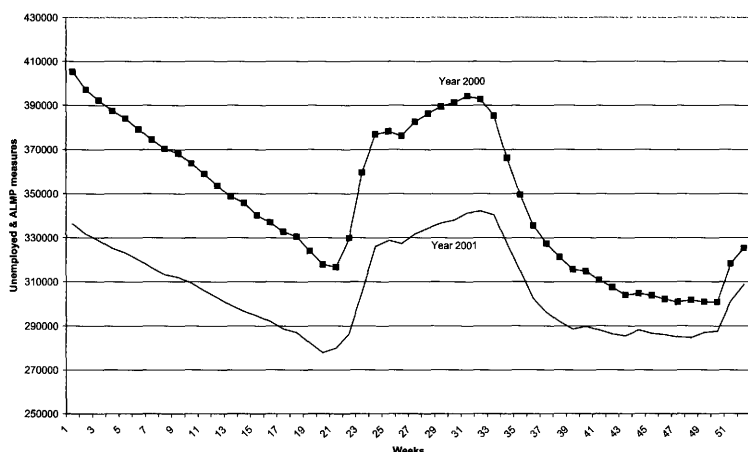
those in active labour market policies was also lower in 2001 compared to every month in 2000 (see Figure 5). However, throughout 2001 the gap has narrowed. On average, 193,000 people were registered as unemployed (a reduction of 38,000), and 111,000 people (or 2.5% of the labour force) participated in labour market policy programmes.

As regards youth unemployment (18-25) registered unemployment was lower in 2001 compared to each month of 2000 until week 21. After week 34 youth unemployment has been clearly higher than in 2000. It should however be underlined that youth unemployment is at its lowest level since 1991.

In January 2001 long-term registered unemployment was appreciably lower than a year earlier. However, by the end of the year the 2001 figure was slightly higher than the 2000 figure.

To summarise employment and unemployment figures, **the labour force** in December 2001 amounted to 4,381,000 ($\pm 30,000$) which accounts for 77.6% (± 0.5) of the population of working age (16-64). This is at the same level as a year previously (4,361,000 or 77.7%).

Figure 5: The number unemployed and in active labour market policies (2000 and 2001)

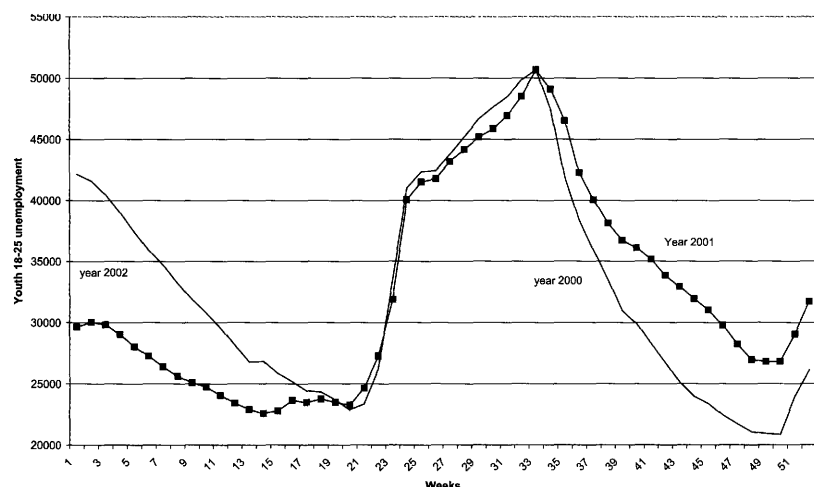


1.2.2. Redundancies and vacancies

We turn now to the more volatile flow labour market indicators, the number of lay-offs and vacancies. Figure 7 presents the monthly data on notified redundancies for 2000 and 2001. In every month of 2001 the total number of notified lay-offs was greater in 2001 than in 2000. In all there were 40,434 more notified redundancies in 2001. There has been a trend increase throughout 2001¹.

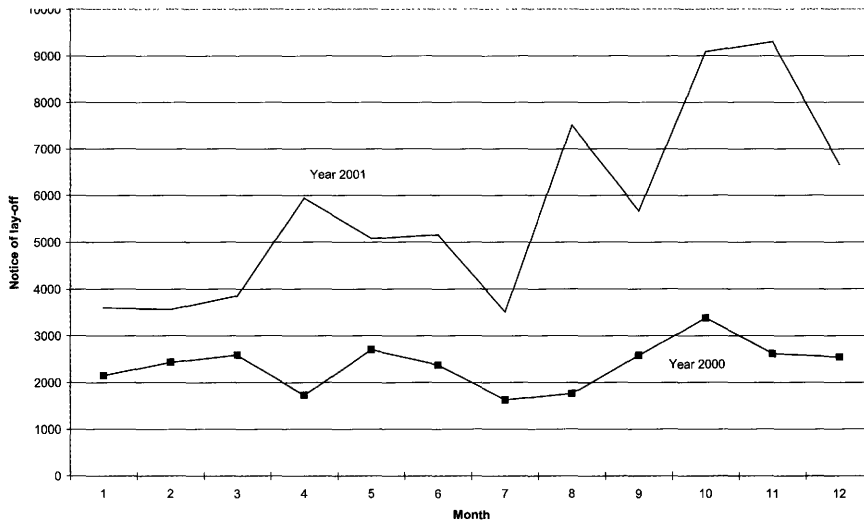
In January 2002 the number receiving notice was 5,600 which is roughly

Figure 6: Youth unemployment (2000 and 2001)



¹ We note, however, that the difference narrowed in December, and in January 2002 there were 2000 more lay-offs compared to a year earlier.

Figure 7: Notified lay-offs 2000 and 2001



2,000 more than in January 2001.

Table 2 presents the change in the number of notified lay-offs in Sweden in 2001 compared to the same month in 2000, by broad economic sector.

Table 2 shows that over half of the increase in redundancies occurred in manufacturing and roughly a quarter in producer services. More than a quarter of the notified layoffs in manufacturing can be attributed to the

electronics industry including telecommunications where the problems at LM-Ericsson have been of decisive importance.

Figure 8 presents data on the number of vacancies reported to the National Labour Market Board every month in 2000, 2001 and January 2002.

Compared with a year ago the major decline is in manufacturing (electronics) and trade. While the vacancy figures do show some deteri-

oration, they have held up rather well and indicate no widespread fall in employers' propensity to hire. A closer analysis of the January 2002 figures reveals an increase in vacancies in health, care and educational sectors.

2. Sectoral Impact

It should have been clear from the previous section that signs of a downturn in the Swedish economy were apparent before the 11th September. The specific effects of that event were limited to a few sectors namely aviation and tourism and appear to be temporary. The European Commission was particularly interested in information related to the effects of changing circumstances on four sectors:

2.1 Aviation

The main air carrier in Sweden (and in Scandinavia) is SAS. Like several other national carriers the company has experienced problems for several years. 2001 was one of the worst years in the company's history. In February 2002, the annual report

Table 2: Absolute change in notified lay-offs per month (between 2001 and 2000)

	Month												Total
	1	2	3	4	5	6	7	8	9	10	11	12	
Agriculture, forestry etc	-24	-50	6	-11	-11	6	-14	47	0	-34	0	0	-85
Mining	200	0	0	-12	-9	0	0	28	-9	-90	0	-35	73
Manufacturing	311	724	1199	3105	1516	1899	1147	3494	2060	2409	2598	2753	23215
Electricity, gas & water	25	60	0	18	-22	0	0	0	7	-49	0	0	39
Construction	90	48	19	10	55	368	4	124	197	414	304	296	1929
Trade	59	174	125	161	99	-22	106	444	-8	333	51	344	1866
Restaurant & hotel	-48	2	-183	-1	9	15	-187	128	126	214	56	58	189
Transport, post & telecom	282	-123	-287	-52	-321	39	-10	155	-307	270	376	261	283
Producer services	531	518	589	729	738	518	660	891	873	1877	2671	434	11029
Public services	82	-29	-177	207	6	-202	46	45	82	141	578	238	1017
Private services	-59	-196	-24	66	313	159	130	390	65	222	45	-232	879
Total	1449	1128	1267	4220	2373	2780	1882	5746	3086	5707	6679	4117	40434

showed one of the largest losses ever. It was involved in a price fixing scandal (the "Maersk affair") and suffered from a tragic crash in Milan, the most serious in the company's history. SAS has announced major cut-backs in staffing levels. These are estimated to amount to between 2,500 and 3,600 jobs. The other major carrier, Malmö Aviation, is also experiencing problems partly as a result of competition from Ryan Air. While the aviation sector is very sensitive to developments in the world economy, analysts of the sector see the World Trade Centre events as having a major negative impact.

2.2 Tourism

On November 30th 2001, the Swedish tourism sector organisation held a hearing on the impact of the 11th September. The hearing underlined that signs of a decreased demand for tourist services could be observed for air transport, travel agencies and some hotels, and have resulted in some redundancies. However, other sectors such as ferries, coach and railway transport and hotels outside the main metropolitan areas have seen a positive development. The view within the sector appears to be that the impact will be limited and temporary.

2.3 Banking and insurance

During the first three quarters of 2001 employment increased in the *banking sector* by 4000 from the level of 64,000 a year before, while employment levels in *insurance* remained at the same level. These sectors are currently undergoing considerable structural changes, a development that may lead to a fall in employment in 2002. The sector was not specifically affected by the World Trade Centre attack.

2.4 Telecommunications

The Swedish *telecommunications* sector has had a very bad 2001. The branch is dominated by LM Ericsson. A dramatic fall in demand occurred in the latter half of the year and companies, including sub-contractors, have shed much labour. More than a quarter of the notified layoffs in manufacturing are accounted for by the electronics industry which includes telecommunications.

2.5 Construction

Despite experiencing some growth in recent years, the *construction* sector is now very cautious about future developments and since June 2001 the number of redundancies has increased noticeably compared to 2000 (see Table 2). Unemployment among building workers, however, continues to

decline, from 10.2 to 8.4 percent in the last year. It remains high in the north of the country at 20%. A number of major infrastructure projects are expected to result in an increase in employment in construction in 2002.

3 Policy Response

There has been no specific public policy response to the downturn since the spring of 2001. The macroeconomic stance appears to be to "wait and see" the development of the business cycle. As regards labour market policy, the National Labour Market Board has not introduced any special measures but follows the traditional Swedish Model of largely labour market retraining programmes².

As the downturn has primarily hit manufacturing, we examine the response of the 20 largest manufacturing companies in Sweden (Table 4).

These companies employ 603,400 workers of which 29% are in Sweden. They are obviously very sensitive to the international business cycle. The first companies to experience difficulties were in the electronics sector (mainly Ericsson) and trucks (Volvo and SAAB-Scania). Roughly two thirds of the big 20 companies are currently working with rationalisation plans. These primarily involve focusing on core activities and selling off more periphery activities. The main part of the job loss is to be found in plants outside Sweden.

While a third of the big 20 have served notice of lay-offs, the only major lay-offs in Sweden have occurred in Ericsson (and the associated company Flextronics), which has during 2001 shed 5,000 employees and served notice on a further 8,000. As the total figure being served notice is appreciably greater, one may infer that they have occurred in smaller firms many of which supply the big 20.

The limited impact on the big 20 is a new phenomenon. The brunt of the

Figure 8: Vacancies per week 2000-2001 and January 2002.

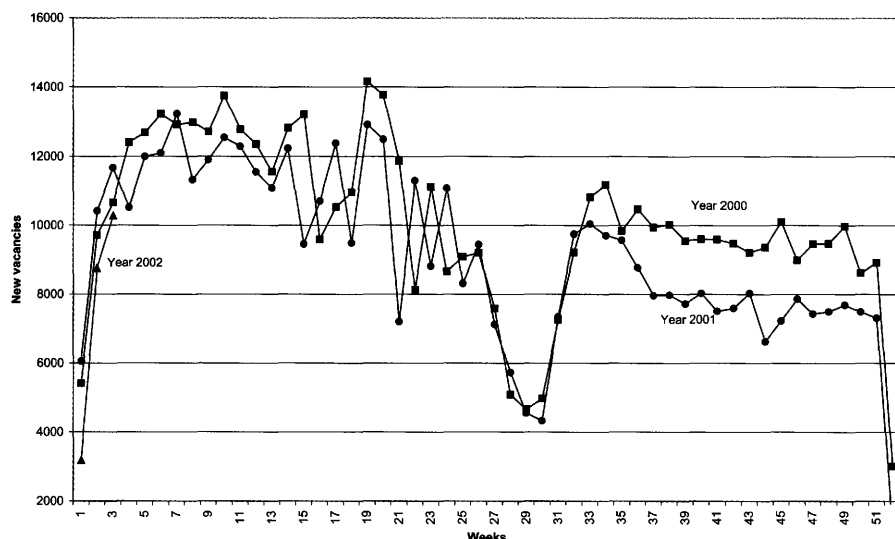


Table 4: Recent employment measures of the 20 largest manufacturing companies 2001³

Sector	Firm	Employees Sweden	Measures taken
Mining	LKAB	2900	Currently cost saving program. Recruitment freeze but no redundancies
Mining	Boliden	2500	Plant closure in Laisvall (190 persons). Selling off foreign sections
Steel industry	SSAB	9100	No notice served. Employment has increased.
Steel Industry	Avesta Polarit	3200	Announced intention to move some activities to Sheffield plant within 3 years. 375 jobs to be lost.
Steel Industry	Sandvik	9700	No lay-offs but plan to restructure speciality steel and tooling (1500 jobs)
Steel Industry	Ovako	2000	No notice. SKF intend to sell company
Machine industry	Atlas Copco	2400	Closure in Östersund (120 jobs) partly matched by increase in Fagersta
Machine industry	SKF	5200	No blue-collar lay-offs, no recruitment
Machine industry	Alfa Laval	2000	Stable
Machine industry	Tetra Laval – De Laval	1000	55 served notice of redundancy
Machine industry	Tetra Laval – Tetra Pak	4000	Very high capacity, no lay-offs
Electrical engineering	ABB	19000	12,000 jobs to go, 800 have already gone. Much outsourcing
Electrical engineering	Electrolux	8200	Stable in Sweden
Telecom	Ericsson	37900	8,000 served notice. 5,000 have gone so far this year.
Telecom	Flextronics	4500	1,500 served notice during 2001
Trucks	Scania	12100	1,200 to leave firm in 2001 through sale of divisions.
Trucks	Volvo AB	24900	400 notice served in Volvo Aero. No notice served in other divisions.
Cars	SAAB Automobile	8300	Stable employment levels - no notice served.
Cars	Volvo Cars	19000	250 served notice in Autonova. Plans for hiring in main Gothenburg plant
Defence Industry	SAAB	13000	Sale of Kockums Industries.

downturn is now more than ever placed on temporary work agency employees, other temporary contracts and sub-contractors. The outsourcing strategy is best exemplified by Ericsson but also SKF has recently engaged in outsourcing. This trend is expected to continue.

As mentioned above, by far the largest redundancy during 2001 was at Ericsson. The firm did not provide any significant program for the redundant workers.

4. The Politics of Plant Closures: The Case of Gislaved Tyre Plant.

The most prominent negative feature in the Swedish labour market since September 2001 is the large number of plant closures and redundancies. Up to 1990s major redundancies

were customarily met by extraordinary labour market and industrial policy packages. There have been no such policy responses to the recent spate of plant closures. However, a notable and novel feature of the political response to plant closures in the last five years in Sweden has been the pursuit of *ad hoc* policy initiatives from prominent politicians.

This is epitomised by the aftermath of the announced closure of the tire manufacture plant in Gislaved involving 800 jobs, which is owned by the German company, Continental. As by all accounts the plant was making a profit, the local unions and politicians were outraged by the decision and it has figured almost daily in the national media

ever since the decision to close was taken in December 2001. Moreover, the closure was also strongly criticised by the Minister of Industry, Björn Rosengren, who questioned the rationale of the closure.

The issue has a European dimension. Minister Rosengren has stated that the costs for a company to close in Sweden are appreciably lower than in other countries and that Sweden should re-consider its plant closure legislation in this light. The issue also became related to the structural funds as it has been claimed that funds were allocated to Continental's plant in Lousade in Portugal and that this was a factor in the decision to close in Gislaved. In response to questions in the European Parliament, the

² During the 1990s relief work almost disappeared as an active labour market policy measure.

³ This table is based on an investigation carried out by the Metalworkers trade union.

Commission have undertaken to investigate the matter.

One should of course be rather wary of political posturing in an election year. And there have been voices within the Labour Movement that have not been as concerned as the Social Democratic Minister. It may appear paradoxical but the most prominent of these other voices have been leading trade unionists. For example, P-O Edin the current chairman of the National Labour Market Board and long-serving chief economist of LO (the blue-collar federation of trade unions) views the closure as necessary and, in the long term “good for Sweden” as low skilled low pay jobs have no future in the economy.

As this article is submitted, government action is being led by a senior figure in the ruling Social Democratic party (Tage G. Petterson). It appears that a Swedish industrialist is prepared to buy the plant and continue production. Negotiations with the owner Continental continue. Continental are firm in maintaining their decision to close and have announced that they

will provide a social plan. No details have yet been presented.

This hands-on ad hoc means of responding to redundancy was also illustrated by the Prime Minister’s involvement in an announced SAAB-Scania plant closure in his previous local government constituency of Katrineholm. According to Dagens Industri, the major business daily, the Prime Minister contacted Chancellor Schröder, who in turn contacted VW boss Ferdinand Piëch who was able to guarantee that in fact no jobs would be lost. VW is a major owner of the company.

5. Summary and current outlook for the labour market

It is indisputable that the business cycle has turned down since the spring of 2001 and that all labour market indicators have deteriorated. By far the most dramatic deterioration is in business confidence. However, the drop in confidence shows signs of recovering and has not been matched by an equally dramatic fall in actual labour market develop-

ments. The most negative development is the rapid increase in notified redundancies.⁴ While the long-term trend of improving unemployment and employment was broken during 2001, the annual average figures were still better than the previous year. Moreover, vacancies, which are a good measure of current labour demand, remained close to previous levels. The National Labour Market Board expects a modest increase in employment (12,000) and an increase in unemployment from 4.0% to 4.3% in 2002. The negative impact of the events of the 11th September were confined to the aviation and tourist sectors and are viewed a temporary and limited. There has been very limited specific policy response to the downturn in the labour market. The short-term future of the Swedish economy is highly dependent upon the US business cycle.

Donald Storrie

⁴ Note, however, that these are only planned redundancies and not all may in fact be implemented.



United Kingdom

UK SHORT TERM LABOUR MARKET TRENDS

1. Economic background and prospects

1.1 GDP and Inflation

The rate of GDP growth has continued to fall from its peak in the second quarter of 2000, even though National Accounts revisions suggest that the economy has been growing faster than previously estimated. Growth (basic prices, quarter on previous quarter) in the third and fourth quarter were 0.8 and 0.5 per cent, respectively. In the first quarter of 2001, a growth rate of 0.7 per cent was recorded, after which the downturn settled in unambiguously with growth in the second and third quarter amounting to 0.4 and 0.3 per cent, respectively. Provisional figures from the fourth quarter show of further decline in growth to below 0.2 per cent. Overall, GDP grew by 2.3 per cent between the second quarter of 2000 and 2001, i.e. approximately at the trend rate and inflation has stayed close to the target of 2.5 per cent. Growth to the fourth quarter 2001 from a year ago was about 2 per cent.

1.2 The Impact of September 11th

The impact of the terrorist attacks on September 11th has been to exacerbate an already deteriorating world economic scenario. Many commentators,

despite recognising that the onset of a recession had been under way, still gloss over this fact in analysing economic performance. This is particularly the case in dating changes back to September 11th which were actually in train well before then. Those effects which were genuinely attributable to the terrorist attacks were short-lived, even in the case of US demand. The need to keep in perspective the performance of the world economy over the last six months or so applies not only to the analysis of the macro-economy and general business confidence but also to assessments of the fortunes of those sectors which were likely to be affected more specifically (see section 2), especially air travel, the business services associated with it, and a broader range of manufacturing and service industries concerned with air transport and aircraft production and maintenance. There were also uncertainties about the course of military operations and their impacts on business and consumer confidence, but ultimately, this can be seen to have had only minor significance for short-term growth and employment, both in the US and the EU.

The CBI/Deloitte & Touche survey in August had already identified a sharp fall in business and professional services activity and this was amplified in surveys after September 11th. As regards travel and tourism US visitors were down by 7 per cent in the first half of 2001 compared with a year earlier even before September

11th, attributed by most industry commentators to a combination of the unappealing images of Britain with foot and mouth disease and the decline in US consumer spending generally. Foreign visitors as a whole were down in late 2001 compared with a year ago; UK visitors abroad were up by 10 per cent as the advantages of already cheap flights from the UK were reinforced by further cuts in the prices of air travel and foreign holiday packages made by the travel industry in order to maintain volume.

1.3 Prospects for 2002

The stance of UK monetary and fiscal policy had been significantly relaxed in the months up to September 11th and was further eased thereafter. This has held up activity, especially through sustaining private consumption and the state of the housing market. On the other hand, ultimately, the UK economy cannot insulate itself from the recessionary experiences of the rest of the world, notably, in the US, Japan and Germany. The short-run forecast is for a further decline in GDP growth for late 2001 and well into 2002 as service output growth moderates.

Most forecasts for the UK economy envisage a weakening of consumer demand, only partly compensated for by higher public spending and an end to the reduction in inventories, before stronger investment growth and a turn round in the world economy leads to more rapid growth. GDP growth is expected to move above trend by the end of 2002.²

¹ This commentary uses sources available up to mid-March 2002.

² See HM Treasury (2002).

1.4 enterprise 'Demography'³

Employment depends on the fortunes of employing organisations: their creation, survival, growth and decline. Many new enterprises generate few jobs and policy has gradually become less pre-occupied with new firm formation *per se* and more concerned with the sustainability and growth of existing enterprises. Given the short-term perspective of this article, however, the only comprehensive data that capture recent changes in enterprise demography relate to the operation of the VAT system and to insolvency proceedings. VAT-based data do not correspond directly to the births and deaths of firms but to the numbers registering and de-registering for the purposes of paying and claiming back VAT. However, the trends in net registrations are a good indication of the overall change in business stock which experienced a five year growth up to 2000. Net registrations were 6000 in each of 1999 and 2000 but this represented a large fall from the 30 000 recorded in 1998 and 18 000 in 1997. Bankruptcies cover only some of the firms that cease trading, since many do so without becoming insolvent. There were almost 4 000 insolvencies in the fourth quarter of 2001 which was roughly 2 per cent above the previous quarter and 2 ½ per cent above the same period a year ago. This represents an edging up from the low point of about 3 ½ thousand in mid-1997, compared with 6000 in 1993. About 1 per cent of active companies became insolvent in the fourth

quarter of 2001, as was the case in the same quarter of 2000. Overall, both limited company liquidations and business bankruptcies have flattened out in 1999-2001 at roughly 16,500 and 24,000 respectively.

According to Barclays Bank and NatWest sources, the number of start-ups in the third quarter of 2001 was about 10 per cent below the figure for the second quarter and approaching 30 per cent below the same period a year ago. This represents the lowest level recorded since 1992. Closure rates among small firms are, however, at a relatively low level, though they have exceeded start-ups for the last four quarters up to the third quarter of 2001.

Another perspective on changes in enterprise demography is that of the financial and business services associated with mergers, acquisitions and flotations on the one hand and restructuring and insolvency on the other. Recent months have seen a contraction of work relating to the former and expansion in the latter areas.

1.5 Employment and Unemployment⁴

According to the Labour Force Survey (seasonally adjusted), employment has continued to grow through 2001, reaching 28.23 million in the fourth quarter. ILO unemployment, however, reached a low point in spring 2001 of 1.48 million and rose to 1.55 million in the fourth quarter. Taking the 12 months to the fourth quarter, employment rose by 230 thousand and unemployment fell by 15 thousand. So vir-

tually all of the employment gain drew on an increase in labour force participation rather than a reduction in unemployment.

Total hours worked per week which peaked in the second and third quarter were 919 million in the fourth quarter, 4 million below the level in the third quarter but little changed from one year ago.

The UK working age employment rate peaked at 74.8 per cent in January-June 2001, falling by 0.2 percentage points by the fourth quarter as the ILO unemployment rate edged up from about 5.1 per cent in the first half of the year to 5.3 per cent in the final quarter.

Employment status

Self-employment, which has been falling since 1997, turned around in the autumn 2000 and, with some fluctuation, has since risen by about 53 thousand; in the fourth quarter 2001 it stood at 2 per cent higher than a year ago. **Employees** rose throughout the year, ending 186 000 (0.8 per cent) higher than a year before. The two other components of total employment, however, both decline. **Unpaid family workers** dropped by 8 000 (8 per cent) over the year to the third quarter, largely because of the crisis in agriculture, but then recovered, ending 2001 slightly above the level on a year ago. Those in **government supported training and employment programmes** who are classified as being in employment dropped sharply from the recent peak of 151 thousand in the first quarter by

³ This section draws on Bank of England (2002), Department of Trade and Industry (DTI) (2002) and National Statistics (2002).

⁴ This section depends largely on the Labour Force Survey. Given the size of sampling errors, care must be taken especially when seeking evidence of changes over time for disaggregated features. This explains why some changes are not reported. However, many of those that are reported should be taken as being only broadly indicative of what has been happening in recent quarters.

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28 000 (19 per cent) and then levelled out in the fourth quarter at about 10 000 down on a year ago.

As regards the distinction between full-time and part-time employment, **full-time employees** have risen steadily throughout the year to the fourth quarter 2001 (by 1.0 per cent); the **full-time self-employed** have also risen over all (1.6 per cent); **part-time employees** actually peaked in the second quarter and fell by about 54 thousand to the third quarter, after which it rose, ending the year barely higher than it started; and the **part-time self-employed**, following a temporary dip in the second quarter, rose by 2 per cent during the year to fourth quarter.

The recent decline in part-time work should be seen against the strong rising long-term trend. Moreover, the proportion of such workers who would prefer a full-time job (subject to the heavy caveats attached to the interpretation of responses to the question used in the LFS) has fallen from 14 per cent in 1995 to 9.6 per cent in the fourth quarter of 2000, continuing to fall during 2001, reaching 8.4 per cent in fourth quarter.

In terms of job security, temporary employment rose quite markedly from about 6.2 per cent of employees in 1993 to 7.7 per cent in 1997, after which it fell back in two periods: 1997–99 and during the latter part of 2001, reaching 6.6 per cent in the final quarter. More significant is that the proportion of temporary workers who would prefer permanent posts has fallen since the mid-1990s from 42 per cent to 25 per cent in the third quarter of 2001. Any slackening of the labour market may lead to a rise in both the incidence of temporary work and the proportion who are involuntarily employed on that basis, and this happened to a small degree in the final quarter of 2001. Such changes were particularly marked in the first half of the 1990s, but medium-term forecasts

suggests that a recession on that scale is not in prospect.

Men and women

During the year to August-October, total employment for women and men grew by 125 000 and 106 000, respectively, i.e. about 1 per cent. However, the patterns of employment change differed with women gaining more from the growth in employees (1.2 against 0.3 per cent for men), but recording falling self employment (1.6 against a *rise* of 2.8 per cent for men), gaining slightly from unpaid family work whereas men did not, but losing more than men (13 as against 4 per cent, respectively) from the large decline in those on government programmes. The rise in women employees comprised a 2.6 per cent increase in full-time employment and a decrease in part-time employment of 0.5 per cent. In contrast, for male employees, the increase in part-time work was 2.6 per cent as against negligible change for full-timers.

Redundancies

Although the recession in the UK is turning out to be relatively mild, it has been accompanied by a significant increase in redundancies in those sectors mentioned earlier in the context of declines in output or marked slow downs in business development: total redundancies rose from 157 000 to 179 000 between summer 2000 and 2001 (the latest figures available), whereas figures were all below the corresponding levels for the same periods a year ago. Autumn 2001 saw a further increase to 193 000. The industries most affected were manufacturing (rising from 50 000 to 70 000 'summer to summer'), transport (from 12 000 to 17 000), and banking, finance and insurance (27 000 to 36 000); those with falling redundancies were, as might be expected from the sustained growth in consumer spending and the still buoyant housing market, distribution, hotels and restaurants (falling from 36 000 to

29 000) and construction (from 19 000 to 11 000). Redundancies in the autumn compared with the summer saw similar levels in manufacturing and distribution, a rise in construction to 15 000, and a decline in transport to 11 000; layoffs in banking, finance and insurance continued to rise, reaching 44 000. More recent reports of redundancies include the telecommunications sector where major re-structuring has got under way, notable in February. This reflected, especially, the saturation of the mobile telephone market, the impacts on corporate finances of what turned out to be very excessive bids for 'third generation licences' governing mobile phone access to the wider internet, and the failure of the related markets to materialise as hoped⁵.

Unemployment by age, sex and duration

Although unemployment has increased as noted above, this has not yet led to an upturn in long-term unemployment (over 12 or 24 months duration) for men and only slightly so for women. There have, however, been significant changes in age-sex composition. As the year progressed, unemployment bottomed-out first for the 16-17 year olds in the spring and then for each successive older age group so that by the fourth quarter of 2001, unemployment was rising for all ages. However, only for 18-24 year olds was it much higher (4 per cent) than a year ago and for those aged 50 and over, it was actually 16 per cent lower.

Allowing for gender, the rise in unemployment among 18-24 year olds was 8 per cent for men with little change for women. For those aged 50 and over, male unemployment fell by 20 per cent and female unemployment fell by 10 per cent. Thus the burden of rising unemployment has been concentrated on men aged 18-24. This has not altered very much the gender-age pattern of unemployment *rates* but it is worth noting that the rate for

⁵ The statistical basis for the above measurements derives from the application of labour legislation.

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women aged 16-17 has risen by 2 percentage points since its low of 15 ½ per cent in the spring 2001.

1.6. More Recent Indicators⁶

The above review takes account of labour market changes since 2000 to the third and final quarter of 2001. In order to assess more recent developments, it is necessary to turn to indicators which are derived from official administrative systems which collect data on a monthly basis (or more frequently) or to cruder methods of data collection which generate statistics which have only limited scope for disaggregation but which are capable of being produced more quickly. The first group relate largely to the social security system and record changes in the numbers of people on benefits, including Job-Seekers Allowance. The second group consists of special surveys or consultations about business conditions usually mounted by professional organisations or corporate intermediaries (e.g. recruitment agencies); their samples are small, non-random and vary in coverage and cannot usually sustain disaggregation by, say, employment sector and status.

Announcements of lay-offs

Manufacturing lay-offs were apparently still rising in mid-February 2002 and redundancies and recruitment freezes were evident in the financial and business services and the travel-related industries. However, redundancies capture only one part of employment adjustment and, typically, give an exaggerated picture of the employment scene, all the more so when attention is

confined to the headline redundancies dwelt upon by the media. Indications about recent movements since August are available from Deutsche Banks' compilation from Reuters Business Briefing; this shows that the total number of layoffs announced has increased steadily from mid-year with large rises in September and October.

Job losses tend to be concentrated in large firms whereas job gains are found mainly in small firms. Layoffs among the former are larger in absolute terms and easier to report and thus attract more dramatic media attention than those among the latter.

Short-term employment expectations

The employment expectations indicators (BCC, CBI and Manpower, as applicable) collectively show that public sector employment intentions were strong during 2001 with a slight weakening in the fourth quarter; those for the private service sector have weakened throughout the year but are still at about or somewhat above the average recorded for the series in question; the manufacturing indicators give a rather confusing picture, though the majority position is clearly one of continuing very substantial decline.

Skill shortages and skills deficiencies

Despite the fact that the labour market has slackened and employment has fallen in recent months, recruitment difficulties in both manufacturing and services have not abated significantly, construction and transport remain

areas of reported shortages, although there is evidenced that those manufacturing companies wanting to recruit have gradually found this less problematic as they have moved through 2001.

The above sources offer little scope for a more discriminating commentary. Unfortunately, publication of the more detailed official vacancy data was abandoned after April 2001 because of the distortionary effects of introducing Employer Direct which transferred the vacancy-taking process from local offices of the public Employment Service (ES) (which will merge with the Benefits Agency in April 2002, to form 'Jobcentre Plus') to regional centres.

Unemployment

As reported above, the quarterly ILO unemployment measure started to rise in the spring of 2001. However, the monthly unemployment claimant count continued to fall until September, after which monthly rises amounting to 5 per cent overall have been recorded to the end of the year. The claimant count increased for both men and women by means of a recent upturn in inflows to unemployment after a marked decline whereas the less volatile outflows have levelled off after a gradual rise.

Sectoral Employment⁷

The 'workforce jobs' data have been substantially revised. They now show that employment was about 240-50 000 higher in the first half of 2001 than previously reported. The increas-

⁶ Note that, in contrast to the case of investment intentions/expectations, where survey data have been systematically related to investment outcomes, there appears to be no published work of a corresponding kind dealing with equivalent data for employment (including lay-offs). This is probably partly because of the usually poorer quality of the latter surveys, compared with those available for investment, and partly because of the less structured business processes typically governing employment decisions to which survey responses can be related. Due caution, therefore, should be exercised in the interpretation of the information given in this sub-section. In some cases, broad statements are made that seek to sum up both movements in the short-run indicators available and more qualitative information about business conditions and confidence derived from consultations among enterprises or professional bodies.

⁷ The first paragraph takes into account the aggregate data released for December 2001. The remainder of this section includes sectoral information up to September only.

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es apply from March 1999, starting at 66 000 and then rising. So the year-on-year employment growth, as captured by this measure, has been revised upwards considerably. Workforce jobs now peak in June at 29.5 million and fell by 22 000 by September and then recovered slightly to end the year 16 000 down on the peak and 53 000 (0.2 per cent) up on a year ago. This tells a somewhat different aggregate story from the LFS data reported above which imply continuing growth to date.

Since the 'workforce jobs' data source is the most reliable guide to sectoral changes, the latter have also been revised. The main areas of job gain during the last half of 2001 have been in construction (64 000 – a 4 per cent increase), public administration, education and health (50 000 – 0.7 per cent), and 'other services' (21 000 – 0.8 per cent); the main areas of job loss have been in manufacturing (77 000 – 2 per cent). Changes in the three main private service industry groups amount to negligible movement for distribution, and losses for transport etc. (30 000) and finance etc. (46 000). Agriculture etc. ended a disastrous year, in which employment had fallen by 50 000 (10 per cent) up to September, in a recovery of about 15 000 jobs.

The recent picture is that of a continuing decline in manufacturing being reinforced by the onset of declines in the most important market services, leaving construction and the public sector as the main areas of employment growth. The latest sectoral *projections* for 2002 (Cambridge Econometrics, January 2002, forecast release) suggest that the weakness in market services will continue, that employment gains in construction will be less than for 2001 but so will the losses in manufacturing; with further expansion of non-market services, this produces a projected economy-wide decline of about 60 000 for 2001/02, followed by recovery on about the same scale for 2003, leaving average

employment in 2003 roughly at the same level as in 2001..

2. Policy responses

The UK Government has put in place a policy framework designed to make the labour market adaptable. Whilst, ministerial responses to major redundancies often seem to imply that *new* and *special* assistance will be given to the companies and workers concerned, in fact the Government usually acts through existing administrative and financial capacity whether at national, regional or local levels. This is partly because recent structural changes, with the exception of the situation in agriculture after BSE and foot and mouth disease, do not amount to large shocks on the scale previously experienced and partly because they are not taking place against a background of major recession in the UK economy as a whole. Special pleading by the airlines relating to September 11th is unlikely to produce extra state aids simply because of the lack of competition and over capacity in the industry existing before the event. High technology producers involved in the aerospace industry have a better case on the grounds of the importance of maintaining R&D efforts and keeping very skilled groups of labour together so as to avoid the long-term loss of research and development capacity – but such support must conform to the relevant EU regulatory and financial provisions and cannot be said to be new *policy* responses as opposed to the triggering of conditions that justify intervention.

3. Case study of a redundancy situation - Rolls-Royce

In summer 2001, Rolls-Royce plc. employed about 43 000 people in total, including those overseas, of whom about 14 000 were in Derby in the East Midlands. The company is an advanced engineering operation, concentrating on aero-engines and defence contracting. It is very vulnerable to down-turns in aero-engine business because over 50 per cent of

its revenue is earned in that market. The aftermath of September 11th provoked a major review and the £150 million re-structuring plan announced in August 2000 was eclipsed by plans for redundancies of 5000, of which 3800 would be in the UK; half of the latter being in Derby where the UK civil engine production is located. It was planned that 1455 jobs would go initially and the remainder of the 1900 reduction largely achieved by the end of the first quarter of 2002, the job losses occurring mainly in the aerospace businesses, which currently employs 28,000. This is more or less what has happened, except that about 500 of the 1900 redundancies will actually take place over the rest of the year.

The trade and industry secretary, Patricia Hewitt, committed the Government to assisting with retraining. But, from the 'new' labour market policy point of view, this and other announcements of redundancies have reinforced the trade union insistence that the government should introduce the EU Directive on information and consultation because of the lack of consultation with staff representatives and the unions. The tendency for companies to talk to the press first rather than their employees has bred further distrust and suspicion that the terrorist attacks were being used as an excuse for excessive workforce reductions.

However, the Government offered a £250m loan to support the development of an engine range for the Airbus A380 superjumbo. This has been accepted as a legitimate state aid by the European Commission on the grounds that it is for research and capital spending and will be repaid by the company.

Concern is not just for the Rolls-Royce workers but also for those employed by about 200 aerospace suppliers in the region. The Department of Trade and Industry has

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been working with the East Midlands Development Agency (EMDA), Derby City Council and Rolls Royce to ease the impact. A task force led by the chief executive of East Midlands Development Agency, had obtained £1m by early December and was expecting to take that up to £2m in the New Year. It also requested £3m from the Government's Rapid Response Fund, which was designed to provide help in such situations. So far £727k has been allocated, though there are doubts over whether more will be provided. It is hoped that this will be part of a £5m package, with the other £2m coming from the Learning and Skills Council (which will also take responsibility for administering the Rapid Response funding) and the Employment Service. The package will support the placement in jobs and/or the funding of training and development for about 1000 people made redundant by Rolls-Royce suppliers in the East Midlands and around the UK. It is also supposed to fund the development of new industrial sites.

The £5m package is thought to be sufficient partly because of the relatively buoyant state of the rest of the East Midlands economy and evidence from the Development Agency of enquiries from companies with strong interests in recruiting from among the skilled people employed by the company and its contractors. Nonetheless, the taskforce have made a case to the DTI for special support for the small aerospace suppliers. Roughly speaking, job losses amongst direct suppliers are estimated as likely to be in the ratio 1:1 relative to Rolls Royce redundancies. EMDA has decided to kick-start this process by allocating £220k of its own resources to support a number of initiatives, including the setting up of the Midlands Aerospace Alliance.

Overall, the above case study exemplifies the use of existing policy

structures to deal with a major redundancy situation affecting a strategically important industry. A special effort is made in *co-ordination* but the different policy areas are drawn upon in line mainly with established arrangements for delivery at national, regional and local levels. The case study also shows how much the trade unions are quite marginalised through the lack of strong social partnership by which they might have played a more significant role.

Conclusions

The UK government's recent experience of economic developments and their impact on the labour market has not led it to re-assess either its macro-economic stance or its micro-management of labour market change. This response is probably broadly correct. However, the two main medium-term problems of UK performance remain: dynamic deficiency⁸ in the economy and lack of social welfare gains commensurate with the growth that is taking place. This is worrying because of the continuing difficulties facing the public services: education, health and social care, and law enforcement are all facing major problems of staff morale, recruitment, and retention and of their consequences for the level and quality of service. Indeed, the public services embody their own forms of dynamic deficiency that seems to afflict the private sector. Solving these problems undoubtedly depends not only on generating more resources for the public services through greater overall economic growth but also adopting coherent public sector labour market policies to promote innovation and efficiency that ensure that the greatest social benefits materialise. Government handling of both the 'business' and 'social' economies has yet to acquire the sureness of touch evident in its handling of monetary and macro-economic affairs.

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⁸ See Lindley (2001) in the previous issue of this journal.

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